بنك بوبيان

Boubyan Bank

Annual Report **2016**

Towards perfection

In the Name of Allah, Most Gracious, Most Merciful

"Verily, Allah is the All-Provider,
Possessor of Power, The Mighty"

Allah the Almighty speaks the truth

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Number One Bank in Customer Service in Kuwait

H.H. Sheikh
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Emir of the State of Kuwait

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Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince

H.H. Sheikh
Jaber Al-Mubarak Al-Hamad Al-Sabah
Prime Minister

Board of Directors

Mahmoud Yousef Al-Fulaij
Chairman

Abdulaziz Abdullah Al-Shaya
Board Member

Adnan Abdullah Al-Othman
Board Member

Ahmad Khalid Al-Humaizi
Board Member

Farid Soud Al-Fozan
Board Member

Adel Abdul Wahab Al-Majed
Vice-Chairman & Chief Executive Officer

Hazim Ali Al-Mutairi
Board Member

Nasser Abdulaziz Al-Jallal
Board Member

Waleed Mishari Al-Hamad
Board Member

Progressive Journey of Growth and Success

Executive Management

Adel Abdul Wahab Al-Majed	Vice-Chairman & Chief Executive Officer
Abdulla Al-Najran Al-Tuwaijri	Deputy Chief Executive Officer
Abdul-Salam Mohammed Al-Saleh	Deputy Chief Executive Officer
Waleed Khalid Al-Yaqout	General Manager - Administration Group
Adel Abdullah Al Hammad	General Manager - Human Resources Group
Dr. Waleed Eisa Al-Hasawi	General Manager - Information Technology Group
Ashraf Abdallah Sewilam	General Manager - Corporate Banking Group
Abdul Rahman Hamza Mansour	General Manager - Internal Audit
Mohamed Ibrahim Ismail	General Manager - Financial Control Group
Rajeev Kale	General Manager - Banking Operations Group
Mukkulam Jamal Jaffar	Deputy General Manager - Treasury Services
Saleh Ahmad Al-Ateeqi	Chief Executive Officer - Boubyan Capital

Fatwa & Shari'a Supervisory Board

Sheikh Dr. Abdulaziz Khalifa Al-Qasar	Chairman
Sheikh Dr. Esame Khalaf Al-Enezi	Member and Reporter
Sheikh Dr. Mohammed Awad Al-Fuzaie	Member
Sheikh Dr. Ali Ibrahim Al-Rashid	Member

Leadership and Innovation of Distinguished
Products and Customer Service

Achievement of Outstanding Growth Rates in 2016

Chairman's Message

By the Grace of Allah, the Almighty, Boubyan Bank managed to perform well and to achieve profitable financial results during 2016 in line with the business plans and the strategic vision of the bank despite the tight competition in the banking industry.

For myself, and on behalf of the Board members, and the executive management of the Bank, I am pleased to present the 2016 Annual Report to you which includes the financial statements of the Bank and a summary of the bank's activities during the said year, highlighting the Bank's achievements and successes at all levels.

Continuing Our Journey of Growth and Success

Boubyan Bank has continued its growing profits at the end of 2016, reaching a growth rate of 17%. The bank's net profits amount to KD 41.1 million compared with KD 35.2 million in 2015, while the earning per share amounts to 17.8 fils compared with 16.3 fils for 2015.

It is worth mentioning that this growth in the bank's profitability is mainly attributed to the success bestowed by Allah, the Almighty, upon us as well as shareholders' and customers' confidence in the bank, and the efforts exerted by all the bank staff and their unwavering dedication and keenness on delivering the highest service levels to customers coupled with innovation and creativity, which have been adopted by the bank since the launch of the first 5-year strategy in 2010, and continued accordingly as a part of the second 5-year strategy of 2020.

All the bank's indicators witnessed a remarkable growth during 2016 where the total assets increased to KD 3.5 billion at a growth rate of 11% while the operational revenues increased to reach KD 103.3 million with a growth rate of 13% in addition to the increase in customers' deposits by 23%, amounting to KD 2.9 billion.

The total equity of the bank increased to KD 345 million compared with KD 318 million last year and there was a remarkable increase in the financing portfolio up to KD 2.5 billion at a growth rate of 16% in line with the continuous growth of the bank's customers base.

As a result of the financial performance of the year ended 31st December 2016, the Board recommended the distribution of cash dividends of 6% per nominal share value (i.e., 6 fils per share) and 5% in bonus shares (i.e., 5 shares per each 100 shares). Further, the Board proposed a board remuneration of KD 360 thousands for 2016.

With regard to the market share, our market share in local finance increased generally to approximately 7.2% in the meantime compared with 6.5% for the past year, while the share of the retail finance increased specifically to approximately 10.5%.

Issuance of Capital Base Enhancement Sukuk

In line with our strategy to enhance the capital base, in May 2016, we issued a USD 250 million Tier 1 sukuk on a Mudaraba basis in accordance with Basel III. By the Grace of Allah, our efforts were concluded with a remarkable success, especially that such an issuance was the first to be made by a bank in Kuwait as well as being the first issuance of its kind for the enhancement of Tier 1 capital in USD in line with Basel III guidelines. This issuance is the first sukuk issuance in Kuwait since 2007.

The issuance of sukuk contributed to the enhancement of the capital base and the capital needs to keep up with the continuous growth of Boubyan Bank as per the 2020 strategy. This achievement further reflects the high confidence of international financial institutions in Boubyan in particular and the Kuwaiti banking sector in general.

Chairman's Message

The Best in Technology

Since creativity and innovation have been a reference in Boubyan's business model, the bank has been most keen on reinforcing such values by embodying them in the innovative digital and electronic products and services which are usually introduced by the bank for the first time in the Kuwaiti market.

The Bank is always keen on keeping pace with its customers in their pursuit for making the best use of technology and its applications where the Bank is renowned for its effective engagement with its customers via its social platforms. The Bank continuously seeks to implement the best available technologies in the field of banking services.

This strategy has crowned the bank with many achievements such as earning the "World's Best Islamic Digital Bank" award "The Global Winner" for the second year in a row in the field of e-banking "digital" services from Global Finance for the year 2016.

Speaking about Boubyan Bank's achievement in the field of e-banking services or digital services is the fruit of many years of efforts and investments injected by the bank's management which emphasized the management's foresight, and its strategy which bears fruit currently, especially since focusing on investing in technology is part of the bank's strategy which focuses on customers and considers them the main pillar of development sought by the bank as well as the pillar of any achievable success.

Leadership, Exclusiveness of Distinguished Services and Customer Service

In addition to being the leader in digital and e-banking services, the bank has a number of exclusive and outstanding banking products and services which were first introduced in the Kuwaiti market by the bank.

Our bank managed to stay as the best bank in Kuwait Banking Industry in the field of customer service evidenced by its recent accomplishments whereby the bank has received several awards from Service Hero, the international consumer-driven customer satisfaction index, such as the First Place in Customer Service atop all Islamic Banks in Kuwait for the sixth year in a row.

This kind of awards, once more, reiterates our bank's superb competitive abilities, and its ability to provide customers with the highest levels of service and the best products customers may seek, whether they are existing or potential customers targeted in the Kuwaiti market.

Being the leader in terms of customer service was perfectly timed with the geographical expansion as the number of branches reached 37 by the end of the year in line with our plan which targets the opening of 40 branches as another 5 branches were opened during 2016, and the Bank has expanded the operation of its state-of-the-art devices, (Boubyan Direct), in order to reinforce its geographical expansion.

Outstanding Corporate Services

Boubyan Bank set a goal to be "the first choice and preferred destination for customers seeking corporate banking services". Accordingly, the Corporate Banking Group maintains strong relationships with a number of national companies working in productive economic sectors, while still targeting medium and large sized companies in order to provide the best banking service.

As a part of our bank's continuous efforts to develop services and ensure customers' satisfaction in a manner that suits their banking expectations and needs, the Corporate Banking Group has launched the first service offered by a Kuwaiti bank to enable bank customers to open documentary credits and issue guarantees over the internet in addition to the ability to develop a working capital murabaha, which provides flexibility in terms of withdrawal and deposits for companies in a manner that matches their cash flows.

Boubyan Bank managed to achieve outstanding growth rates in 2016 credit portfolio, which reached 15%, while depending on attracting a number of operational companies known for their financial and economic creditworthiness in addition to maintaining the highest standards of credit quality and studying and diversifying risks.

Furthermore, the Corporate Banking Group managed in 2016 to arrange and manage syndicated loans with a number of local and regional banks for a number of companies and financial institutions where the Bank, for instance, co-financed the environmental fuel project with KD 90 million.

Our Human Resources

Boubyan Bank gives a special attention to its human resources as a part of the bank's approach being a developed and modern bank keeping up with international and regional changes through having a young management, and the Consumer Banking Group, which comprised mostly of youths, testifies to this.

The Bank is distinguished by entrusting the youths with more distinguished and leading roles, especially that all training and academic facilities and capabilities are available to provide them with a unique chance to gain professional and practical expertise that would boost their experiences despite their young age. Furthermore, Boubyan Bank has succeeded over the past years in creating many vacancies for ambitious Kuwaiti youths as a result of expanding the Bank's services provided to retail customers by opening more branches.

This made our bank an attractive choice to the Kuwaiti youths who are interested in working for the private sector in general, and the banking industry in specific, due to the environment of creativity and innovation prevalent at the bank, which unleashes the youths' energy.

This has further helped Boubyan Bank earn the award for the "Replacement and Nationalization of Manpower in Kuwait" for the third year in a row. The award is given on an annual basis by the Council for the Ministers of Labor for the best GCC institution.

Receiving this outstanding award was the fruit of ceaseless efforts throughout the past years where the bank managed to increase the levels of national manpower up to 77% in the meantime. This percentage is not only considered among the highest at the level of Kuwaiti banks, but also at the level of the Kuwaiti private sector. The bank has become a role model to follow in the field of recruiting domestic manpower and creating distinctive job opportunities region-wise.

Our Social Responsibility

The bank continued its interaction with various segments of the society, especially the youth, who received support from the bank at various levels and in different domains. There were more than 100 events and activities organized or sponsored by the bank's departments in addition to the effective role played by the bank's branches in providing services to their neighborhoods and interacting with various sectors.

Social responsibility is the cornerstone of the bank's dealings with all groups of the society in contribution to development, and to building a society which is able to keep pace with all regional and international changes. Therefore, the Bank took the lead in launching a variety of social initiatives and sponsoring many activities and events targeting various groups of the society.

The Bank's social responsibility emanates from the fact that it is a bank operating in compliance with the principles of the Noble Islamic Shari'ah, and based on the spirit of Islam that enjoins cooperation, selflessness and helping various groups of the society, especially those in need or suffering from shortage in resources needed for daily life.

Sound Governance

Boubyan Bank is committed to following a sound and effective governance framework via adopting the best sound governance and risk management standards. The Bank complies with these standards in concluding all transactions according to the principles and rulings of the Islamic Shari'ah. Boubyan Bank successfully follows in the path of updating its governance structure in a manner that meets the requirements of the Central Bank of Kuwait, and the banking industry-specific governance procedures.

Without doubt, the National Bank of Kuwait's acquisition of a significant stake in the Bank's shares back in 2009, with all its long-established expertise and deeply-rooted history, played a major role in supporting the Bank's strategy and the new launch and expansion in the Kuwaiti market without compromising the Bank's crystal-clear Islamic identity while maintaining full operational segregation between both banks in order to comply with the principles and rulings of the Noble Islamic Shari'ah and, thus, enhancing the sound governance environment at Boubyan Bank.

Thank You

Finally, for myself and on behalf of all Boubyan Bank's employees, I would like to seize the opportunity to express deepest thanks, and appreciation to His Highness, the Amir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah protect him as well as to His Highness, the Crown Prince, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah protect them all.

Moreover, I would like to express the deepest thanks to the executives of the Central Bank of Kuwait, headed by H.E., the Governor, Dr. Mohammad Al-Hashel, who spared no effort to take the actions deemed appropriate to develop and safeguard the Kuwaiti banking system.

I would also like to express deepest thanks to all the Bank's esteemed shareholders and customers who have always been the key element behind its support and who enabled it to confront the challenges. My deepest thanks are also extended to all members of the Bank's Fatwa and Shari'ah Supervisory Board, headed by Sheikh Dr. Abdulaziz Khalifa Al-Qasar, for their great efforts representing the guidelines for all the Bank's Islamic activities, services and dealings.

Finally, I would like to extend deepest appreciation to all Boubyan Bank's management and employees and thank them for their dedication as they spared no effort all through the past years, and I am pleased to express my appreciation of their constant adherence to the one-team spirit, to realize more success for our promising Bank. I hope that the coming years will be a new stage driving the Bank towards an unprecedented development leading it to more achievements and realization of objectives that place it among the leading Islamic banks in the region.

Peace be with you
Mahmoud Yousef Al-Fulaij
Chairman

Management Discussion and Analysis Report

Management Discussion and Analysis Report

Introduction

Management Discussion and Analysis report provides an overview of the economic outlook, which directly influence the performance of banking sector in general, and then presents highlights on our strategy and financial performance.

Economic Outlook

Global Economy

The world economy though slow in the first half of 2016 witnessed a stronger-than-expected pickup in growth during the second half of 2016 in most advanced economies. Global GDP growth in 2016 remained modest at 3.1% as per IMF. Activity rebounded strongly in the United States with lower unemployment rate. However in the Eurozone the output remained below potential. In the United Kingdom the domestic demand held up better than expected in the aftermath of Brexit vote. The activities in emerging and developing economies were diverse.

On the monetary policy, the Federal Reserve in the United States raised interest rates by a quarter percent in December 2016 as expected and signaled another three increases in 2017. However, in most other advanced economies interest rates remained unchanged. Inflation rates have remained broadly unchanged and generally below central bank targets in advanced economies. In emerging markets and developing economies, inflation developments have been diverse driven by exchange rate movements and idiosyncratic factors.

In its latest World Economic Outlook, the International Monetary Fund has left its global growth estimates at 3.4% and 3.6% respectively for years 2017 and 2018. The changing policy mix under the new US administration and its global ramification are one of the main assumptions of this forecast. The outlook for advanced economies improved for 2017-18. Growth prospects for emerging markets and developing countries have marginally worsened where financial conditions have been tightened. The steepening of US yield curve, the rise of equity prices and the appreciation of US dollar during the last quarter of 2016 are some of the factors that support IMF growth projections. IMF also expects a firming of oil prices in 2017 following the agreement among OPEC members and several other major oil producers to limit supply.

Regional Economy

Oil prices were at their lowest in ten years at the beginning of the year primarily on account of excess supply from North America, Russia, Iraq and Iran. Prices recovered steadily to close at around $50 per barrel in December 2016. The recovery was aided by production cuts in the OPEC nations, Venezuela and Nigeria and also renewed demand from recovering economies, mainly China and USA.

The IMF predicts an average price of $ 51 per barrel for 2017 and further moderate recovery leading up to 2021. Oil prices remain the major driver of revenues and exports in the MENA region.

The MENA region is expected to grow around the same pace as that of global economy at about 3%. Non-oil GDP in GCC is slated to be 2.6% in 2017.

Oil prices decline continue to put pressure on fiscal and current account balances of GCC economies. Analyst at Moody's estimates the GCC's aggregate fiscal deficit will narrow to 7.5% of GDP in 2017 and 4.9% in 2018, from 8.8% of GDP in 2016 and 8.7% of GDP in 2015, mainly as a result of higher oil prices, policy adjustments such as continued governmental efforts to control spending and waste, and raise revenues (fees and taxes) measures to broaden the non-oil revenue base. Debt issuance volumes will be lower in 2017 and 2018 compared to 2016, helped by the expected reduction in fiscal deficits.

Research analysts estimate the growth in GCC countries, to average about 2 percent in 2016–17, with non-oil GDP growing by 2.0 percent and oil GDP rising by 2.2 percent. They also expect non-oil GDP to grow in years 2017 and 2018. If lower oil prices continues to be persistent, GCC economies will continue to tackle subsidy reform, starting with fuel subsidies and may further rationalize spending and reduce economic inefficiencies. This should gradually reduce their fiscal deficit from 2017 onwards. GCC economies are financing these deficit by drawing down their reserves and also through international debt issuances. GCC central banks usually follow the Federal Reserve with regard to interest rates and therefore is expected to increase in 2017 following the hike in December 2016. Inflation rate is expected to be around 3%.

Fitch expects 2017 will continue to be a challenging year for GCC banks due to lower oil prices thereby putting pressure on governments and subdued economic growth which might negatively affect banks' credit profiles. Government deposits in banks have been shrinking or growing more slowly impacting liquidity. Profitability will be affected by lower economic growth with dampening transactions and lending activity. Higher funding costs will also have an effect,

Kuwait Economy

Kuwait's fiscal position remains healthy. Kuwait's economic activity has remained resilient in 2016 despite the lower oil prices.

Research analysts believe that non-oil growth is expected to maintain growth at 3.5-4% in 2017 and 2018 mainly driven by strong government led investment program. The budget deficit can be managed from large financial buffers and ample borrowing capacity. While the government has taken some initiatives to rationalize current spending, the impact on domestic economy is expected to be limited. Based on published research reports GDP growth is expected to be at 3.6% in 2016. Higher growth is estimated in non-oil GDP in years 2017 and 2018. The fiscal deficit is expected to narrow down in FY 2017/18. The government has sufficient liquid funds to finance these deficits in the medium term without raising debt. Nevertheless, the government has chosen to rely on debt issuance to finance part of the deficit in FY16/17. The government has indicated it will issue around USD 10 billion in domestic and international debt in FY16/17.

Inflation is expected to average around 3.4% in 2016 and is expected to marginally increase in 2017. The Kuwaiti Dinar has strengthened along with the stronger dollar.

Consumer sector which has long been a robust and reliable source of growth in Kuwait has shown signs of weaker sentiment following the recent hike in fuel prices and subsidy cuts in electricity and water tariffs that are expected in 2017. Households are taking a more cautious view of things although the sector continues to be supported by steady growth in employment and salaries, particularly in the government sector and among Kuwaiti households. Real estate sector remained weak with prices seeing a correction. Kuwait equities outperformed in the last quarter of 2016.

Banking Sector

The deposit portfolio of the local banks reached KD 42 billion by end of year 2016 with a compounded annual growth rate of 6% over the last five years. On the other side, the respective credit portfolio has reached KD 36 billion by end of year 2016 with a compounded annual growth rate of 6% over the last five years.

The banking sector in Kuwait has potentials for growth; however, the local market is highly competitive driven by the available resources of the banks and the entry of foreign and regional banks into the market. Hence, some of the local banks have increased their investment aboard, and may continue looking for opportunities abroad for expansion.

On the monetary front, The Central Bank of Kuwait raised its benchmark discount rate by 25 bps to 2.5 percent on 14 December 2016 to maintain the competitiveness and attractiveness of the national currency and to avoid a massive capital outflow and

Management Discussion and Analysis Report

the currency depreciation after the Federal Reserve raised rates for the second time in a decade.

Strategy Highlights

The Bank is currently implementing its second five year strategy - "Boubyan 2020" - which will focus on additional growth in Kuwait. The focus will be on introducing new products and targeting horizontal expansion in untapped banking and financing activities.

Boubyan's success is highlighted through a number of achievements:

- Steady growth in profitability and financial position since the turnaround in year 2010.
- Moody's assigned credit rating of D+ for the Bank financial strength, Baa1 for long-term deposits and a positive outlook.
- Fitch assigned Long term IDR of A+ and Viability rating of BB+.
- Fastest growing bank in Kuwait with total assets compounded annual growth rate of 20% between 2009-2016
- Non-Performing Financing ratio dropped to 0.8% in 2016 which is one of the lowest rates in the industry
- Awards from reputable organization such as Banker Middle East, Global Finance, and Service Hero on growth and services respectively
- Reaching 37 branches, with additional 6 branches in the pipeline for 2017

Financial Highlights

	2016	2015	2014
Financial performance			
Net financing income	88,531	79,342	66,208
Operating income	103,303	91,353	78,405
Net profit attributable to Equity holders of the Bank	41,071	35,235	28,239
Earnings per share – fils (restated)	17.8	16.3	13.7
Financial position			
Total assets	3,481,807	3,132,885	2,647,930
Financing receivables	2,516,760	2,171,794	1,805,115
Investments	266,684	244,805	237,955
Total depositors' accounts	2,945,076	2,398,935	2,092,028
Total shareholders' equity	344,971	318,232	296,027
Key performance ratios			
Return on average assets	1.2%	1.2%	1.2%
Return on average shareholders' equity*	11.6%	11.5%	10.1%
Cost-income ratio	42.0%	42.9%	45.2%
Non-performing financing ratio	0.8%	0.9%	1.1%
Provision coverage ratio	272%	260%	205%
Customer financing to deposit ratio	85.4%	90.5%	86.2%
Capital Ratios			
Capital Adequacy Ratio	21.4%	17.0%	18.1%
Tier 1 Ratio	20.2%	15.9%	16.9%
CET 1 Ratio	16.2%	15.9%	16.9%
Leverage ratio	10.3%	7.9%	8.3%

* Calculated after deducting profit distributed to Tier 1 Sukuk holders during 2016

For the year ended December 31, 2016, net profit attributable to Equity holders of the Bank increased by 17% to KD 41.1 Million, or 17.8 fils per share, from KD 35.2 Million, or 16.3 fils per share, in 2015.

Operating income increased by 13% in 2016 to KD 103.3 Million compared to KD 91.4 Million in the year 2015. This increase was mainly driven by the growth in the net financing income and fees and commission income which represent the core businesses of the Bank. Net financing income rose by 12% to reach KD 88.5 Million compared to KD 79.3 Million in 2015 and net fees and commission income grew by KD 2 Million; a growth of 25%. The improvement is resulting from strong balance sheet growth during 2016 which was driven by the successful implementation of Strategy.

Operating expenses increased by 11% to KD 43.4 Million, compared to KD 39.2 Million in 2015, driven primarily by the growth in business volumes and opening of new branches. However, as the growth in operating income was higher than the corresponding increase in operating expenses, the operating expenses to operating income ratio, which is the primary measure of efficiency, has been decreased to 42.0% in 2016 from 42.9% in 2015.

Provision for impairment increased by 8.6% to KD 16.4 Million as a result of conservative approach and to stabilize the bank's balance sheet. The increase in current period was on account of impairment provisions related to an associate. The non-performing financing ratio reduced to 0.82% from 0.88% in 2015, which is one of the lowest rate in the market, along with higher coverage ratio.

The Bank maintained a healthy profit margin of 2.85% (based on daily average balance) compared to 2.99% in 2015. Although marginally declined by 5%, it is still above the industry average.

Total assets grew by 11% in 2016 to reach KD 3.5 billion. The growth is mainly driven by increase in financing portfolio which grew by 16% in 2016 to reach KD 2.5 billion. Consumer and corporate finance grew by 17% and 15% respectively in 2016. Credit facilities growth was mainly from resident customers. The Bank continued to sustain asset quality of the credit growth thereby reducing NPLs.

Investments portfolio grew by 9% in 2016 to reach KD 267 Million. The growth is mainly from liquid Sukuks which the bank uses to deploy surplus funds. The liquid assets to total assets was maintained at 22% in 2016.

During 2016, customer deposits grew by 23% to reach KD 2.9 billion.

The Bank is strongly capitalized with a Capital Adequacy Ratio of 21.35%. During 2016 an additional 50 bps was added to the minimum required capital on account of D-SIB buffer.

In year 2016, the Bank successfully completed the issuance of Tier 1 Sukuk locally and internationally which was oversubscribed by more than 5 times the targeted amount USD 250 million, reaching US$ 1.3 billion, which was priced at 100% and bearing a profit rate of 6.75%. The issuance of Sukuk improved the capital adequacy ratio by 4%.

The shareholders equity increased to KD 344 Million; a growth of 8% in 2016. The Board of Directors have proposed cash dividends of 6 Fils per share and stock dividends of 5% for the year 2016 which are subject to approval at the forthcoming Annual General Assembly meeting.

Oversubscription in Boubyan Sukuk

Sukuk Boubyan

Boubyan Bank issued the first sukuk out of Kuwait since 2007

Boubyan Bank issued USD 250 million of capital boosting Tier 1 sukuk in May 2016. The landmark issuance is the first ever sukuk issued by a Kuwaiti bank and the first ever Basel III compliant Tier 1 USD denominated sukuk. The transaction, which was the first sukuk out of Kuwait since 2007, marked Boubyan's debut into international debt capital markets and was the first Tier 1 issuance in the GCC since November 2015.

Boubyan Bank met with over 40 investors on the back of a comprehensive roadshow

Boubyan Bank announced an AT1 sukuk deal roadshow and met with over 40 investors across key financial centers, including Abu Dhabi, Dubai, Hong Kong, Singapore, London, Geneva and Zurich in May 2016.

A high quality and diversified orderbook enabled Boubyan to price at a tight range

During the roadshow, the Boubyan Bank team effectively introduced the Bank's solid credit story to the fixed income investor community. Following strong feedback received from investors throughout the roadshow, the Bank announced initial pricing thoughts in the 'very low 7% area' for a USD 250 million AT1 PerpNC5 instrument during London morning. The orderbook quickly gained momentum and reached USD 800 million by London afternoon. The Bank revised its guidance to '6.875% area' and the orderbook continued to grow overnight, reaching USD 1 billion by London open the next day. On the back of a robust book, the Bank was able to release final guidance and ultimately price at 6.750%.

The transaction was very well received and the orderbook reached USD 1.4 billion from 94 accounts, representing 5.6x oversubscription. The success of this transaction is a reflection of the strong credit positioning of Boubyan Bank.

Transaction highlights

Issuer
Boubyan Tier 1 SPC Limited

Obligor
Boubyan Bank K.S.C.P.

Currency / format
USD / Fixed Rate Regulation S

Status
Subordinated Tier 1 Capital Certificates

Obligor ratings
Baa1 (Moody's) / A+ (Fitch)

Issue ratings
Unrated

Amount
USD 250 million

Pricing
10 May 2016

Issuer call date
16 May 2016

Profit rate
6.750% per annum

Price / initial credit margin
100.00 / MS + 558.8 bps

Listing
Irish Stock Exchange, NASDAQ Dubai

Governing law
English Law

Governance Report

Governance Statement

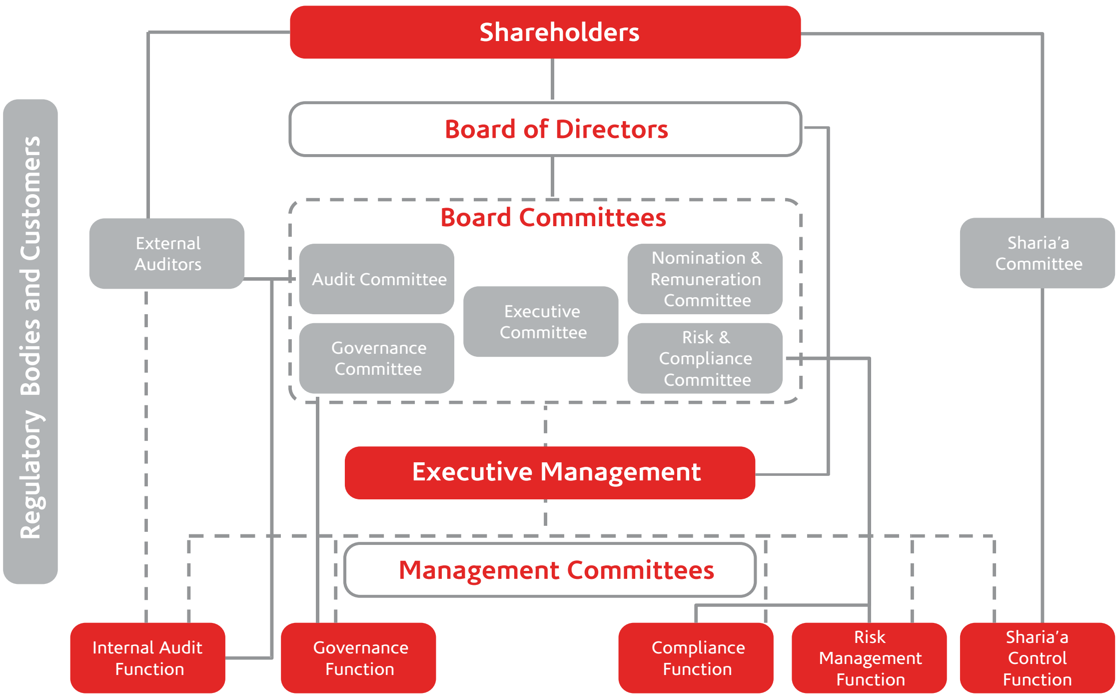
Governance is one of the key three pillars – in addition to Internal Control and Risk Management – to ensure achievement of goals and objectives of any organization. The governance is reflected in the set of processes, practices and structures, which affect the way an organization is directed, controlled, and monitored, and how its activities are reported for making proper decisions. It encompasses the Board structure, ethical values and practices, group structure, policies and procedures, internal control, risk management, transparency and disclosures, and protection of the interests of shareholders and stakeholders.

Accordingly, we are committed at Boubyan Bank to have a sound and effective governance framework, in line with our aim toward perfection, as it provides us the confidence that we are doing the right things to our shareholders and customers.

Further, we believe that the governance is an ongoing journey, which reaches milestones but continues to develop in line with the changes of control practices, business model, markets, and emerging risks. Our commitment toward sound governance commences from the top at Board level through adopting and implementing a well-developed and structured governance framework with high standards and professional practices; this is reflected across all levels of the Boubyan and its Group in line with the principles of professional responsibility and accountability.

In year 2016, Boubyan Bank ensured proper implementation of the "Governance Framework" in line with its "Governance Manual". Further, we successfully met the Corporate Governance requirements of the Central Bank of Kuwait ("CBK"). This is driven by our continuous endeavor for adopting professional practices in management and control under the prime objective of delivering the best to our shareholders and stakeholders.

Governance Framework



Governance Report

Board of Directors

Boubyan Bank is managed by a Board of Directors (the 'Board'), which consists of nine Directors elected by the shareholders under a mandate to deliver sustainable value to all stakeholders, including depositors / customers, shareholders, employees, and society.

During the Annual General Assembly held in March 2016, the shareholders re-elected the Board of Directors; and a new board director joined the Board effectively on 1 July 2016.

The Board is granted the highest authorities and overall responsibilities by the shareholders to manage the Bank. The Board operates in line with the by-laws of the Bank and its charter, where its scope of work includes but is not limited to:

- Setting the strategies and risk appetite for the Bank.
- Approving capital and operating plans presented by management for the achievement of the Bank's strategic objectives.
- Ensuring efficient application of the resources for the achievement of the objectives.
- Monitoring the performance of Executive Management.

Directors

Mahmoud Yousef Al-Fulaij

Chairman (Non-Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Fulaij is a well-known businessman in Kuwait with more than 35 years of experience; he manages two general trading and contracting companies in Kuwait. He graduated with a bachelor's degree in Business Administration from the United States of America in 1980.

Other current posts:
- Board Director – Arcadia Real Estate Company, KSCC (Kuwait)

Adel Abdul Wahab Al-Majed

Vice-Chairman & Chief Executive Officer (Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Majed joined Boubyan Bank in August 2009, and has more than 35 years of banking experience.

He worked previously for the National Bank of Kuwait (NBK) where he held leadership positions, including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a Bachelor's degree in Accounting and attended various executive management development programs at various universities, including Harvard, Wharton and Stanford.

Other current posts:
- Chairman – Bank London & Middle East (UK)

Abdulaziz Abdullah Al-Shaya

Director (Non-Executive)
Year of joining: 2009

Skills and Experience:
Mr. Al-Shaya is a well-known businessman with 40 years of experience in trading and real estate sectors; he manages a trading company in Kuwait. Mr. Al-Shaya holds a bachelor's degree in Economics from Kuwait University.

Other current posts:
- Vice Chairman – Awtad Real Estate Company, KSCC (Kuwait)
- Vice Chairman – Orient Education Services Company, KSCC (Kuwait)
- Board Director – Mabanee Company, KPSC (Kuwait)
- Vice Chairman – Al-Nemaa Real Estate Company (Oman)

Adnan Abdullah Al-Othman

Director (Non-Executive)
Year of joining: 2016

Skills and Experience:
Mr. Al-Othman is a well-known businessman with more than 38 years of experience in banking and real estate sectors; he owns a real estate company. Mr. Al-Othman holds a bachelor's degree in Industrial Engineering from Syracuse University - USA.

Other current posts:
- Member of the Trustees of the Estate of the Late Abdullah Abdulatif Al-Othman (Kuwait).
- Member of the Executive Committee for the Implementation of the Charity Projects of the Late Abdullah Abdulatif Al-Othman (Kuwait)

Ahmad Khalid Al-Homaizi
Director (Non-Executive)
Year of joining: 2012

Skills and Experience:
Mr. Al-Homaizi has a well diversified experience in banking, investment and consultancy. He is the General Manager of a consultancy company in Kuwait. Mr. Al-Homaizi obtained his bachelor's degree in Finance and Management Information System from Northeastern University in the United States of America, and his MBA from London Business School.

Other current posts:
- Board Director – Combined Group Contracting Company, KSPC (Kuwait)
- Board Director – Boubyan Capital Investment Company, KSCC (Kuwait)

Farid Soud Al-Fozan
Director (Non-Executive)
Year of joining: 2009

Skills and Experience:
Mr. Al-Fozan possesses more than 28 years of experience in various sectors such as contracting, real estate development, and industry and energy services. He manages operations of companies in Kuwait and Kingdom of Saudi Arabia. Mr. Al-Fozan graduated from Kuwait University with a bachelor's degree in Finance and Banking.

Other current posts:
- Vice Chairman – Gulf Group Holding Company, KSCC (Kuwait)
- Vice Chairman – Inovest Investment Company, BSC (Bahrain)
- Board Director – SAFCORP Holding Company, KSCC (Kuwait)
- Board Director – Gulf Real Estate Company (Saudi Arabia)

Hazim Ali Al-Mutairi
Director (Non-Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Mutairi has a diversified experience for more than 24 years in the fields of financing, investment, and treasury. He is currently the CEO of Credit One Kuwait Holding Company. He graduated from the United States of America with a bachelor's degree in Finance.

Other current posts:
- Board Director – Warba Insurance Company, KPSC (Kuwait)
- Board Director – Idafa Holding Company, KSCC (Kuwait)

Nasser Abdulaziz Al-Jallal
Director (Non-Executive)
Year of joining: 2013

Skills and Experience:
Mr. Al- Jallal is a well-known banker with more than 33 years of collective experience in banking, investment, and business; he possessed several executive positions in banking, including the General Manager-Corporate Banking and Treasury at Ahli United Bank in Kuwait. He is currently the CEO of a general trading company in Kuwait. He graduated from the United States of America with a degree in Economics.

Other current posts:
- Board Director – Al-Mustaqbal Investment Company, KSCC (Kuwait)

Waleed Mishari Al-Hamad
Director (Non-Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Hamad has more than 26 years of experience, including 11 years in banking and the remaining in the investment sector; he is the Managing Director of a holding company in Kuwait. Mr. Al-Hamad possesses a bachelor's degree in Economics, and a master's degree in Finance from the United States of America.

Other current posts:
- Chairman – Boubyan Capital Investment Company, KSCC (Kuwait)
- Managing Director – Helvetia Arab Holding Company, KSCC (Kuwait)

Governance Report

Structure and Independence

The Board possesses a collective experience from various industries and business sectors brought by all the Board Directors who are elected rather than appointed by the shareholders. Within the Board, only the Vice-Chairman & CEO is entrusted with executive role; all other Board Directors are Non-Executive Directors, who are not acting as employees and do not participate in the day-to-day business management and activities of Boubyan.

Accordingly, the Non-Executive Directors bring an independent perspective, with constructive challenges to develop proposals on strategy, scrutinize the performance of management in meeting agreed goals and objectives, and monitor the risk profile and the reporting of performance, where the decisions of the Board are not dominated by certain individuals or groups.

Further, Non-Executive Directors are independent in post and judgment as supported by the Board "Code of Conduct" and "Conflict of Interest" policies. The Board has ensured that any potential incidence of conflict of interest that may jeopardize the independence and objectivity of any Board Directors will be managed and cleared as per the adopted policies. Hence, the Bank confirms the independency of its Board Directors on their judgments and decisions.

Approach to Governance

The Board understands that sound governance framework is one of the key pillars for ensuring achievement of goals and objectives of the Bank, along with maintaining the trust with the shareholders to maintain business growth, sustainability, and profitability.

Accordingly, the Board is committed to implement proper governance practices, which meet the relevant governance regulatory requirements and extend to reflect applicable leading practices. The Board ensures the implementation of the corporate governance practices through its supervisory role without stepping onto the day-to-day activities, which are delegated to the Executive Management.

Authorities

The Board is responsible for managing the business of Boubyan Bank and, in doing so, may exercise its full authorities, subject to any relevant laws and regulations and to the Articles of Association and By-laws of the Bank. In particular, the Board may exercise the authority to obtain financing and to mortgage or charge all or any part of the undertaking, property or assets (present or future) of Boubyan Bank, and may exercise any of the authorities delegated by the shareholders in a General Assembly.

On the other hand, the Board is able to assign to Directors, Executives and/or Committees any of its powers, authorities and discretions (including the power to sub-delegate); accordingly, the Board delegated the management and day-to-day activities of the Bank to the Executive Management but retained certain authorities among of which:

1. The approval of critical matters including business plans, risk appetite and performance targets, and procedures for monitoring and controlling operations.
2. The authority or the delegation of authority to approve credit and market risk limits, acquisitions, disposals, investments, capital expenditure or realization or creation of a new venture.
3. Appointment of the Executive Management team.
4. Any changes on the accounting policies, which would have material impact on the financial position.

Reporting of Information

The Board regularly reviews the financial and management reports compared to financial budgets and business plans. Further, the Board Committees report to the Board on a quarterly basis on their activities.

The Board ensures the receipt of reliable, relevant, adequate, useful and timely information that enables them taking appropriate decisions; such information included:

- The agenda and supporting documents of Board and Committee meetings.

- Regular reports and presentations on strategy, budgets and developments in the businesses.
- Regular reports on the Group's risk appetite profile, top and emerging risks, risk management, credit exposures and the bank's finance portfolio, asset and liability management, liquidity, litigation, compliance, anti-money laundry and reputational issues.
- Reports on capital management and succession planning.

Further, all Board Directors have full access to all relevant information, and may take independent professional advice as needed; they can also contact management and employees at all levels.

Board Assessment

As per the adopted practice, Boubyan Bank will engage an external consultant once every three years to conduct a Board assessment. The previous Board assessment engagement took place in 2014.

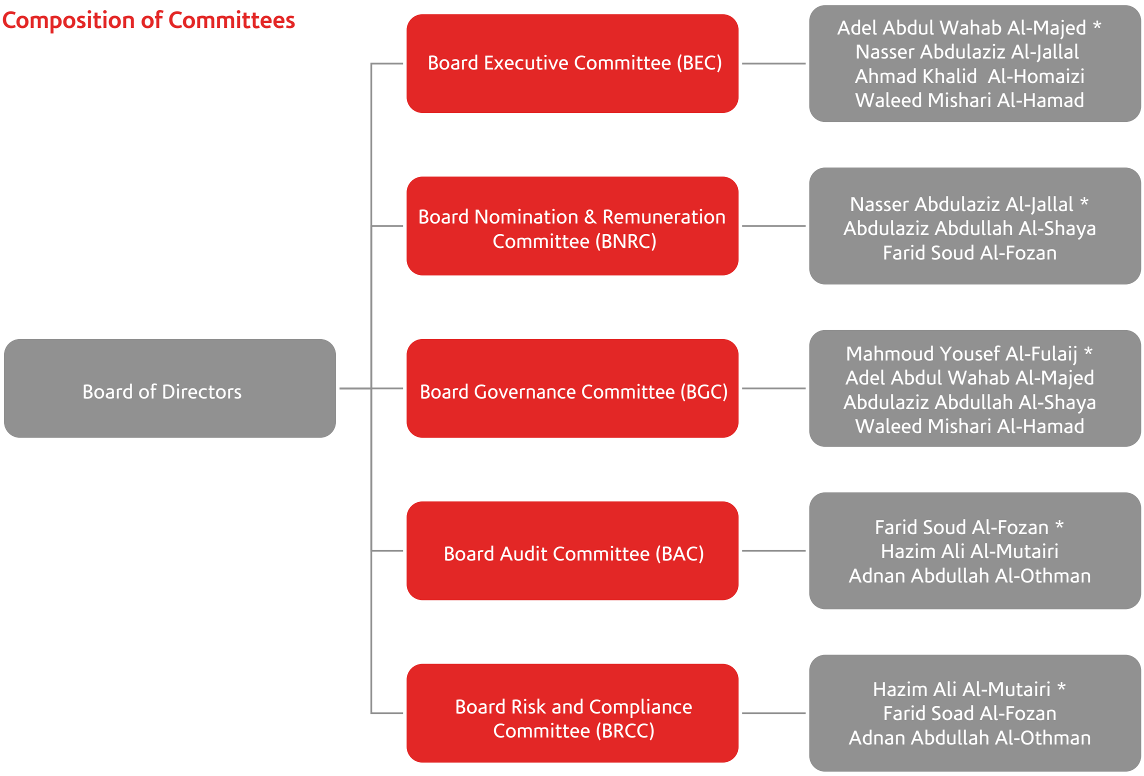
Board Committees

To assist in fulfilling its duties, the Board established five Board Committees and delegated to them responsibilities to act on its behalf. The respective committees were established in line with proper corporate governance principles and the applicable corporate governance regulatory requirements. In 2016, the Board revised the compositions of the Board Committees, considering rotation among the members when applicable.

Each Board Committee has clear role, duties, and authorities as determined by the Board and reflected within the respective charter. The chairperson of each Board Committee regularly reports to the Board on the performance of activities of the respective Board Committee.

Except for acting as the chairperson of the Board Governance Committee, the Chairman does not participate in any other Board Committee.

Composition of Committees



* Chairperson

Governance Report

Details of Committees

Board Executive Committee (BEC)

The BEC comprises of four Board Directors, and is headed by the Vice-Chairman & CEO. The members of the BEC are not members in Board Audit Committee or Board Risk and Compliance Committee; and they possess collective experience in banking, business, and credit financing.

As per the charter of the BEC, the Committee should meet at least six times a year. The main role of the BEC is to review and approve limits and transactions related to financing and investment activities as set within the authority matrices of Boubyan Bank. The BEC reviews as well as related policies such as finance policies.

Activities during the year:

During 2016, the BEC met forty-three times, which is almost on a weekly basis; the Committee performed various activities, which included but were not limited to:

- Approve financing transactions in line with the approved authority limits.
- Recommend settlement and/or legal cases of corporate customers to the Board for approval.
- Approve related party transactions and investment transactions within its authority limits.

Board Nomination and Remuneration Committee (BNRC)

The BNRC comprises of three Board Directors; the members of the BNRC have collective experience in banking, business, and Islamic Sharia'a.

As per the charter of the BNRC, the Committee should meet at least four times a year. The main role of the BNRC includes assessing the nominees for the Board based on set criteria, administering the assessment of the Board, revising the Remuneration Policy and the assessment of Executive Management performance, and ensuring the presence of proper employee succession plan.

Activities during the year:

During 2016, the BNRC met four times; the activities of the BNRC included but were not limited to:

- Review the proposed remuneration schemes and propose recommendations to the Board.
- Ensure that performance assessment was conducted for Executive Management.
- Review the employee succession plan.
- Identify training programs to the Board.
- Approve a set of policies related mainly to the HRG.

Board Governance Committee (BGC)

The BGC comprises of four Board Directors; the Chairman is the chairperson on the BGC, whose members have collective experience in banking, business, and governance.

The Committee should meet at least twice a year. The main role of the BGC includes developing and updating the Governance Manual, ensuring that the Governance Manual is adequately followed, reviewing annual governance report, and following-up on governance related recommendations/actions.

Activities during the year:

During 2016, the BGC met twice in line with the minimum requirements; the BGC covered the following activities:

- Approve the governance report.
- Discuss the governance review reports of the Corporate Governance Unit and follow up on the status of respective actions.
- Ensure that the Board and Board Committees held adequate number of meetings.
- Follow-up the actions taken based on the Board Assessment report.

Board Audit Committee (BAC)

The BAC comprises of three Board Directors, whose members have collective experience in banking, business, governance, and audit. None of the BAC members is a member of Board Executive Committee.
The BAC should meet at least on a quarterly basis; and its main role includes:

- Reviewing internal audit charter and manual, and accounting policies.
- Assessing and recommending appointment of external auditors.
- Reviewing quarterly financial statements.
- Approving internal audit plan, discussing internal audit report, and following up on audit corrective actions.

- Providing support to the Internal Audit Division to ensure fulfilling its scope of work effectively and independently.
- Approving the appointment and/or resignation of the GM – Internal Audit Division, and assessing his annual performance.

Activities during the year:

The BAC met six times during 2016, including a meeting every quarter in line with the corporate governance regulatory requirements, the activities of the BAC included but were not limited to:

- Approve internal audit plan.
- Discuss internal audit reports, management letters of external auditors, and ICR report.
- Review quarterly financial statements.
- Approve the accounting policies.
- Follow up on internal audit, management letter, ICR, and CBK observations and respective actions.

Board Risk Management and Compliance Committee (BRCC)

The BRCC comprises of three Board Directors; and none of its members is a member of Board Executive Committee.

As per its charter, the BRCC meets at least four times a year, and reports on its activities to the Board on a periodic basis. The role of the BRCC includes:

- Assessing the Risk Appetite measures, Risk Strategy, and other risk related measures, and proposing recommendations to the Board.
- Reviewing and discussing the reports of the Risk Management Division, including the Capital Adequacy Ratio, Internal Capital Adequacy Assessment Process (ICAAP), Stress Testing, and other risk assessment reports.
- Providing support to the Risk Management Division to ensure fulfilling its scope of work effectively and independently.
- Approving the appointment and/or resignation of the GM – Risk Management Division, and assessing his annual performance.

Activities during the year:

During 2016, the BRCC met seven times; and its activities included but were not limited to the following:

- Propose the Capital Management Plan for Board approval.
- Approve various policies including credit risk policy and corporate finance policy.
- Discuss quarterly Risk Profile reports.
- Review periodic ICAAP & Stress Testing reports.
- Discuss Risk Asset Review reports.
- Discuss activity reports pertaining to Compliance and AML functions.

Meetings of Board and Board Committees

Attendance Number of Meetings Minimum Required Meetings	Board 13 6	BEC 43 6	BNRC 4 4	BCGC 2 2	BAC 6 4	BRCC 7 4
Mahmoud Yousef Al-Fulaij	13			2		
Adel Abdul Wahab Al-Majed	12	39		2		
Abdulaziz Abdullah Al-Shaya	9	10 *	3	1		
Adnan Abdullah Al-Othman ***	5				4	3
Ahmad Khalid Al-Homaizi	10	27		1 *		
Farid Soud Al-Fozan	8		1		4	3
Hazim Ali Al-Mutairi	13	10 *			5	4
Nasser Abdulaziz Al-Jallal	8	31	3			
Waleed Mishari Al-Hamad	10	32		2	1 *	2 *
Ahmed Yousef Al-Sager **	7		2 *		1 *	4 *

* Previously a member of the committee
** Resigned effectively 30 June 2016
*** Joined effectively 1 July 2016

Governance Report

Executive Management

The Board of Directors delegated to the Executive Management, which is headed by the Vice-Chairman & Chief Executive Officer, the implementation of the adopted strategy and business plan.

Management Team

Boubyan Bank

Adel Abdul Wahab Al-Majed
Vice-Chairman & Chief Executive Officer

Mr. Al-Majed joined Boubyan Bank in August 2009, and has more than 35 years of banking experience. He worked previously for the National Bank of Kuwait (NBK) where he held leadership positions, including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a bachelor's degree in accounting, and attended various executive management development programs at various universities, including Harvard, Wharton and Stanford.

Abdulla Al-Najran Al-Tuwaijri
Deputy Chief Executive Officer

Mr. Al-Tuwaijri joined Boubyan Bank in December 2011 and has more than 28 years of banking experience, including 23 years at NBK. During his time with NBK, he held different leadership roles in retail banking in Kuwait and London, where his last position was the Deputy General Manager - Consumer Banking Group. Mr. Al-Tuwaijri got his bachelor's degree in Finance from Kuwait University, and attended several executive development programs at Harvard Business School, INSEAD, and other reputable institutions.

Abdul-Salam Mohammed Al-Saleh
Deputy Chief Executive Officer

Mr. Al-Saleh joined Boubyan Bank in October 2012, and has more than 29 years of banking experience. He worked for 18 years at NBK, where he gained experience in Financial Control and Corporate Banking; and his last position was the Head of Domestic Corporate Banking. Prior to joining the Bank, he worked over 7 years for National Bank of Abu Dhabi (NBAD) as the Regional Manager of its branch in Kuwait. Mr. Al-Saleh got his bachelor's degree in Finance from Kuwait University, and attended various executive management development programs over the course of his career.

Waleed Khalid Al-Yaqout
General Manager - Administration Group

Mr. Al-Yaqout joined Boubyan in February 2010, and has more than 35 years of banking experience. His previous position was General Manager – Administration and Human Resources Group at NBK. Mr. Al-Yaqout graduated with a bachelor's degree in Business Administration and Marketing from the University of Ashland in USA, and participated in various executive management development programs at Harvard, Wharton, Stanford and Columbia.

Adel Abdullah Al Hammad
General Manager - Human Resources Group

Mr. Al-Hammad joined Boubyan Bank in December 2006, and has more than 33 years of experience in Human Resources Management, out of which 23 years were at NBK, where he held several key positions, the last of which was the Head of Human Resources. Mr. Al-Hammad graduated with a bachelor's degree in Economics from Kuwait University, and attended several executive management development programs at Harvard and Stanford.

Dr. Waleed Eisa Al-Hasawi
General Manager - Information Technology Group

Dr. Al-Hasawi joined Boubyan Bank in February 2011, and has more than 39 years of experience. He held many positions in different institutions, the last of which was the Assistant General Manager for the IT Sector at Kuwait Finance House. Dr. Al-Hasawi studied at Worcester Polytechnic Institute in USA and continued his master's study at Lehigh University; and he got his PhD. from Loughborough University of Technology in UK. All his studies were in the area of Electronics and Computer Engineering.

Ashraf Abdallah Sewilam
General Manager - Corporate Banking Group

Mr. Sewilam joined Boubyan Bank in 2013, and has over 22 years of experience in banking sector. Before joining Boubyan, Mr. Sewilam was CEO of Al Rajhi Bank-Kuwait. He occupied the position of the CEO of UBCI (a subsidiary of Ahli United Bank (AUB) in Libya) and was a Deputy CEO for Corporate and Treasury at AUB in Kuwait. He worked as well for 10 years at NBK, where he progressed in several managerial positions, the last of which was Executive Manager. Mr. Sewilam holds bachelor's degree in Economics from Cairo University.

Abdul Rahman Hamza Mansour
General Manager - Internal Audit

Mr. Hamza joined the Bank in year 2006 and has more than 30 years of professional experience with financial institutions. Prior to joining Boubyan, he held a position as Audit Manager at Kuwait Investment Authority, and worked before that at Al-Ahli Bank of Kuwait. Mr. Hamza holds a bachelor's degree in Accounting, and he is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE).

Mohamed Ibrahim Ismail
General Manager - Financial Control Group

Mr. Ismail joined Boubyan Bank in 2005 and has about 21 years of banking and financial services experience. He started his career as an external auditor with Deloitte & Touche and then Ernst & Young. In the course of his career, he worked at Kuwait Finance House and Gulf Investment House. Mr. Ismail is a Certified Public Accountant (CPA) and a Certified Internal Auditor (CIA), and holds MBA in Finance from Manchester Business School.

Rajeev Kale
General Manager - Banking Operations Group

Rajeev Kale has over 31 years of banking experience. He joined Boubyan in December 2015. Before joining Boubyan Bank, Mr. Kale worked as the Group Head of Operations at National Bank of Abu Dhabi. He held senior positions with top banks in the Middle East, UK, and South East Asia, including Citibank, Deutsche Bank, and American Express. Mr. Kale holds an MBA in Finance and Systems, and a Bachelor's degree in Engineering – Electronics and Telecommunication.

Mukkulam Jamal Jaffar
Deputy General Manager - Treasury Services

Mr. Jaffar joined the Bank in March 2005 and has over 38 years of experience in banking sector, mainly in treasury services. Prior to joining Boubyan, he held the position as the Assistant Treasurer at Burgan Bank. Mr. Jaffar holds a master's degree in Physics and a diploma in Bank Management.

Boubyan Group

Saleh Ahmed Al-Ateeqi
Chief Executive Officer - Boubyan Capital

Mr. Al-Ateeqi joined Boubyan Group in 2010, and he is the CEO of Boubyan Capital – the investment management arm of Boubyan Bank. Prior to Boubyan, he held various positions in the fields of investment, real estate and management consultancy. Mr. Al-Ateeqi was a Deputy GM in charge of corporate strategy and business development at Mabanee Company, and an Engagement Manager with McKinsey & Company. He also worked as a Senior Advisor with Tony Blair & Associates. Mr. Al-Ateeqi holds an MBA in Strategic Management and Finance from The Wharton School of Business and a Bachelor's degree with honors in Accounting from Georgetown University.

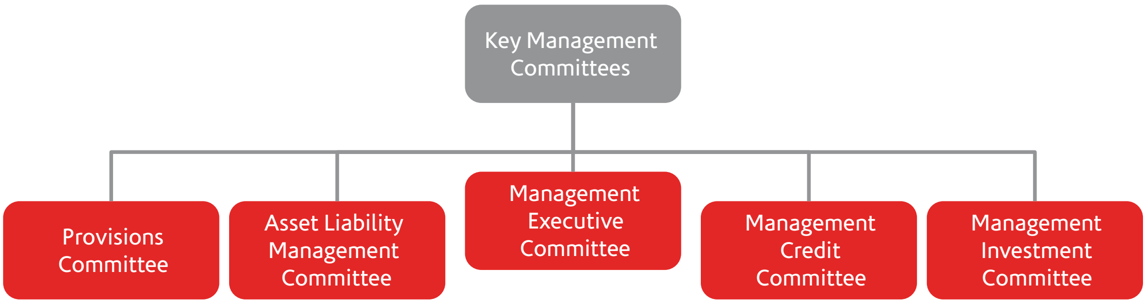
Governance Report

Management Committees

The Executive Management works in a teamwork spirit, where collective efforts and decisions would be required for ensuring effective and efficient management of integrated functions and activities. Accordingly, Boubyan Bank has a set of Management Committees to assist in fulfilling the duties and responsibilities of the Executive Management. The Management Committees derive their authorities mainly from the Vice-Chairman & CEO, and based on authorities and limits delegated by the Board of Directors.

Key Management Committees

The Key Management Committees are as follows:



Management Executive Committee (MEC)
This committee deals with all significant management level matters other than those handled by other management committees. The MEC meets almost on a weekly basis.

Assets and Liability Management Committee (ALCO)
The ALCO reviews the assets and liability composition of the bank, liquidity, market risks, trends and their impact on the Bank. The ALCO meets on a monthly basis.

Management Credit Committee (MCC)
The main objective of MCC is to discuss and make decisions within its authorized limits on financing proposals submitted by the business groups. The MCC usually meets on a weekly basis.

Management Investment Committee (MIC)
The MIC discusses and makes decisions within its authorized limits on investment proposals submitted by the concerned business groups. The MCC usually meets on a weekly basis.

Provisions Committee (PVC)
The Provisions Committee reviews and evaluates the outstanding investments and financing transactions for each customer, to determine any issues or difficulties relating to the customer position that require to classify such investments and financing transactions as irregular and hence determining the required provisions in accordance with CBK instructions and International Financial Reporting Standards. The PVC meets at least once every quarter.

Internal Control

The Board is responsible for ensuring the adequacy of the Group's internal control framework. This includes, but is not restricted to, the approval and oversight of the implementation of the strategy via policies that reflect the prudent Sharia'a compliant approach to conducting its businesses. The internal control processes include controls and limits that are embedded in all processes; risk and control reports are integral parts of the Group's daily activities. Such procedures were designed to manage and mitigate risk of failure to achieve business objectives and can only provide reasonable and rather than absolute assurance against material misstatements, errors, losses, or fraud.

In line with its duties and responsibilities toward ensuring adequate internal control systems, the Board provided all needed support and ensured fulfillment of the roles of the various functions involved in the internal control, including:

- Sharia'a Board.
- External Audit.
- Independent Internal Control Review.
- Internal Audit.
- Risk Management.
- Compliance.
- Governance.
- Group Activities.

Internal Control Review

In year 2016, Boubyan Bank engaged an external auditor in line with the CBK regulation to conduct an independent internal control review for year 2015 activities. Based on the review of the external auditor, no exceptions pertaining to governance aspects were noted. Further, the report of the external auditor conveyed that Boubyan Bank maintained in all material aspects, effective internal control system, where no high risk issues were even noted; the Internal Control Review report is attached in the next page.

Governance Report

Internal Control Review Report

BDO

Opinion letter

The Board of Directors
Boubyan Bank
P.O.Box 25507, Safat, 13116
State of Kuwait.

29 June, 2016

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 6 March, 2016, we have examined the accounting and other records and internal control systems of Boubyan Bank K.S.C.P ("the Bank") and the following subsidiaries of the bank (hereafter collectively referred to as "the group") for the year ended 31 December 2015:

- Boubyan Capital Investment Company KSC (Closed)
- Boubyan Takaful Insurance Company KSC (Closed)

We covered the following areas of the Bank:

- Corporate Governance Unit;
- Corporate Banking Group;
- Treasury Division;
- Consumer Banking Group;
- Financial Control Group;
- Banking Operations Group;
- Information Technology Group;
- Risk Management Division;
- Compliance Division;
- Anti-Money Laundry Unit;
- Human Resources Group;
- Legal Affairs Division;
- Sharia'a Authority Division;
- Internal Audit Division;
- Corporate Communication Division;
- Administration Group;
- Complaints unit;
- Confidentiality of Customers' information;
- Fraud and Embezzlement and
- Financial Securities.

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) letter dated 17 January, 2016 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, instructions relating to corporate governance issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning anti money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities of the Group and instructions regarding internal controls with respect to prevention of fraud and embezzlement cases.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in any internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

Having regard to the nature and volumes of the Group's operations, during the year ended 31 December 2015, and the materiality and risk rating of our findings, in our opinion:

a) The accounting and other records and internal control systems of the Group were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 14 November 1996 and letter issued by CBK on 17 January 2016,

b) The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Group for the year ended 31 December 2015, and

c) The actions taken by the Group to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,

Qais M. Al Nisf

License No. 38 "A"

BDO Al Nisf & Partners

Governance Report

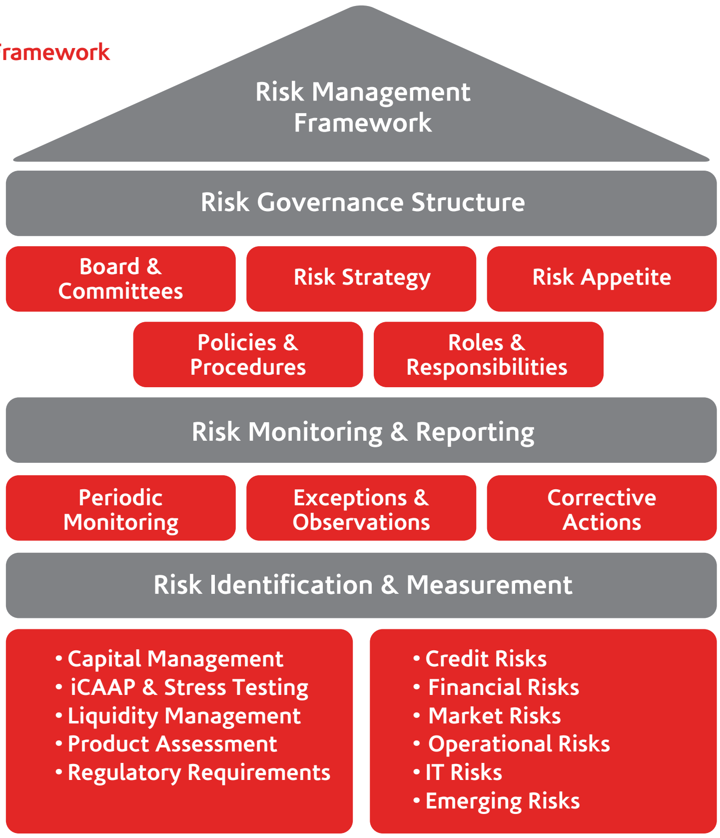
Risk Management

Risk Management Framework

Risk management is a core focus at Boubyan Bank. This is driven by the responsibility of the Board of Directors to ensure having a "fit for the purpose" Risk Management function to protect the best interests of all stakeholders, especially the depositors / customers. Boubyan Bank has a Board Risk Management and Compliance Committee (BRCC), which oversees the Risk Management function.

Boubyan Bank perceives Risk Management as an integrated function with the business activities, which is guided by a well-balanced Risk Appetite model; accordingly, we adopt the philosophy of "risk is everyone's business". Accordingly, Boubyan Bank follows a "Three-Lines of Defence" approach, and adopts an Enterprise Risk Management (ERM) model through updating and linking the risk appetite measures to an ERM index.

Boubyan Bank Risk Management Framework



Stress Testing

In line with best practices for risk management, Boubyan Bank conducts stress testing to measure the Bank's vulnerability to exceptional but plausible events. The respective stress testing is conducted on a quarterly basis, where the results are discussed at management level and presented to the Board Risk Management and Compliance Committee. Further, the results of Stress Testing are reported on a semi-annual basis to the Board and Central Bank of Kuwait.

Risk Management Division

The Risk Management Division (RMD) operates independently from the business, as it reports to the Board Risk Management and Compliance Committee and the CEO. The RMD comprises of the following functional departments:

• Financial and Market Risk Department
• Operational Risk Department
• Technology Risk Department
• Corporate Credit Risk Review Department
• Corporate Financing Risk Analytics Department
• Consumer Financing Risk Analytics Department

Remuneration Policy and Remuneration Package

Remuneration Scheme

Boubyan Bank always considers adopting a balanced "Remuneration Scheme" to be competitive enough to attract and maintain qualified and skilled employees, who are key success factors in banking sector, and, at the same time, to be reasonably linked to sustainable progressive performance, and achievement of both short and long-term targets.

The current "Employee Incentive Plan" of Boubyan Bank takes into consideration:

• Both financial and risk measures
• Link to long term targets (Strategic Objectives)
• Sensitivity to time horizons of risks
• Claw back feature

Board Remuneration

As per the by-laws and Article of Associations and in line with the Companies' Laws of the State of Kuwait, the Board of Directors may propose annual remuneration up to 10% of annual Net Profit after deducting the following appropriations:

- 10% of Net Profit as Statutory Reserves
- 10% of Net Profit as Voluntary Reserves
- 1% of Net Profit as Contribution to KFAS
- 5% of capital as preliminary dividends to the Shareholders

In any case, Remuneration to the Board should be subject to the approval of the Shareholders in the Annual General Assembly.

As current practice, the Board Directors are not entitled to attendance fees for the Board and/or Board Committees meetings, and/or any material in-kind benefits. Further, none of the Board Directors is entitled to any fixed salaries, except for the Vice-Chairman & CEO, who earns benefits as employee for his executive role.

For year 2016, the Board has proposed annual remuneration of KD 360 thousand to be allocated among the Board Directors as follows: KD 60 thousand to the Chairman, KD 45 thousand for each member of the Board Executive Committee, and KD 30 thousand for each other Board Directors. This proposal is subject to the approval of the shareholders.

Employee Remuneration

The employees of the Bank are entitled to two categories of remuneration, which are as follows:

• Fixed remuneration: such remuneration are defined in the employment agreements, and may include fixed salaries (i.e. basic salary , allowances and annual fixed pay as a percentage of basic salary) and other benefits (i.e. medical insurance, air-tickets, and schooling support),.

• Variable remuneration: such remuneration are driven mainly by performance and guided by the "Employee Incentive Plan". This could be in the form of cash bonus, deferred cash bonus and/or Employee Stock Options (ESOP). The variable remuneration are reviewed by the Board Nomination and Remuneration Committee and approved by the Board of Directors.

Governance Report

The following table details the remuneration paid to certain employee categories for year ended 31 December 2016:

Employees Categories	Number of Employees	Fixed Remuneration KD'000	Variable Remuneration KD'000		Total KD'000
			Cash Bonus	Deferred Cash	
Senior Management	35	3,943	741	741	5,425
Material Risk Takers	25	2,443	527	528	3,498
Financial and Risk Control	14	835	86	84	1,005

Categories Definitions:

- Senior Management includes all staff in the positions of Assistant General Manager and above and staff whose hiring are subject to approval of regulators.
- Material Risk Takers includes all staff whose activities and decisions have a material impact on the risk profile of the bank.
- Financial and Risk Control includes all head of divisions and head of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions.

The five senior executives who received the highest remuneration packages, plus the heads of Financial Control, Internal Audit and Risk Management groups (8 executives in total) received together as a group remuneration package of KD 2,496 thousand for the year ended 31 December 2016.

Major Shareholders

As of December 31, 2016, the major shareholders owning or controlling more than 5% of capital were as follows:

Name of Shareholder	Percentage of Ownership
National Bank of Kuwait S.A.K	58.33%
The Commercial Bank of Kuwait S.A.K	11.60%

Social Responsibility

Our Society…Our Responsibility

Social responsibility is the cornerstone of the Bank's dealings with all groups of the society in contribution to development, and to building a society which is able to keep pace with all regional and international changes. Therefore, the Bank took the lead in launching a variety of social initiatives and sponsoring many activities and events targeting various groups of the society.

During the period extending from 2010 through the end of 2016, the Bank sponsored and participated in over 700 different activities targeting different social groups with a special focus on youth and people with special needs.

Boubyan Bank's Most Prominent Social Campaigns in 2016

Steps Campaign

For the third year in a row, Boubyan Bank organized the Steps Campaign during the Holy month of Ramadan, whose revenues were allocated to sight-restoration operations in Niger, by encouraging everyone to exercise walking at Al-Hamra tower in Kuwait. The Bank donated KD 1 for every 5 laps completed by the participants.

This campaign was the most distinguished among its peers since it combined both walking during the Holy month of Ramadan, with its positive impact on the health of those who exercise it, and the humanitarian goal of the campaign represented in alleviating the suffering of the visually impaired.

The campaign succeeded to attract more than 4,000 participants from various ages over the whole month, managing by that to alleviate the pains of the visually impaired via the Bank's donations.

The Big Tree Society

For the fifth year in a row, Boubyan Bank organized the Big Tree Society Competition in collaboration with the United Nations Educational, Scientific and Cultural Organization (UNESCO) under the patronage of the former Minister of Education and Minister of Higher Education, His Excellency Dr. Bader Hamad Al-Essa. More than 400 schools participated in the competition and 250 of them reached the final stages.

The Big Tree Society is not just a competition between schools, rather, it is an integral program that aims at implanting many values pertinent to environmental protection in children's minds.

Noor Boubyan Campaign

For the first time, the Bank organized a volunteering trip outside Kuwait with the participation of a number of Kuwaiti doctors who volunteered to perform more than 1,000 sight restoration operations for kids and adults in Niger where cataract is wide-spread.

Mashrouk – Preservation of Grace Initiative

During the Holy Month of Ramadan, Boubyan organized Mashrouk campaign for the first time in order to preserve grace by collecting food surplus from hotels, houses, and various banquets, then repackage & sort out the same as per the health standards and distribute the same to the needy families that refrain (out of dignity) from asking for help.

Youths' Adventures

Due to the new various trends finding grounds among youths, Boubyan Bank organized a number of events and activities targeting the youths' segment inside and outside Kuwait. This included a number of volunteering trips to Sri Lanka, the Sultanate of Oman, and Nepal (Everest's Summit).

Encouraging Kuwaiti Youths' Projects

Boubyan Bank continued its support to the Kuwaiti youths by encouraging their private projects at various areas, and cooperating with them, as well as buying their products for the Bank's events. This contributed to boosting their marketing in addition to the Bank's help by employing its own social media channels to promote their business.

Boubyan Bank K.S.C.P. and Subsidiaries

بنك بوبيان
Boubyan Bank

Risk Management

For the year ended 31 December 2016

1. INRODUCTION AND OVERVIEW

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed Islamic banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2009 Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). The CBK Basel framework consists of three Pillars. Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach". Pillar 2 pertains to the Supervisory Review Process and emphasises the importance of Internal Capital Adequacy Assessment Process (ICAAP) performed by banks. As such, and in compliance with the aforementioned instructions, Boubyan Bank K.S.C.P (the "Bank") has developed an ICAAP and Stress Testing framework along with its underlying models, policies and procedures. Boubyan Bank continually enhances its ICAAP and Stress Testing framework to maintain its capital commensurate with the overall risks to which the Bank is exposed. Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking sector in Kuwait.

2. REGULATORY SCOPE OF CONSOLIDATION

The core activities of the Bank and its subsidiaries (collectively the "Group") are retail, corporate and, investment banking, and asset management, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board. For further details on the Group's activities, please refer to note 29 of the Group's consolidated financial statements.

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, unless otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2 and 3.1 of the Group's consolidated financial statements for the year ended 31 December 2016.

The principal subsidiaries of the Group are presented in the note 15 of the Group's consolidated financial statements.

All subsidiaries have been fully consolidated under the regulatory scope of consolidation for regulatory capital calculations.

Significant investments in banking, financial and insurance entities that are outside the scope of regulatory consolidation are required to be subject to the threshold treatment prescribed under the CBK Basel III rules and are risk-weighted and/or capital deducted.

- All the significant investments in banking and financial entities classified as associates under Note 16 of the Group's consolidated financial statements have been subject to the threshold treatment and risk-weighted as prescribed.
- Other significant investments in banking and financial entities classified as equities have been subject to the threshold treatment and risk-weighted as prescribed.

Other 'minority' investments in banking, financial and insurance entities classified as equities have been subject to the prescribed threshold treatment and risk-weighted as required.

3. CAPITAL STRUCTURE

The Group's regulatory capital comprises:

a) Common Equity Tier 1 (CET1) Capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves and retained earnings net of regulatory adjustments,

b) Additional Tier 1 (AT1) Capital which consists of eligible portion of non-controlling interests, and,

c) Tier 2 (T2) capital which consists of the allowed portions of general provisions and eligible portion of non-controlling interests.

The Bank's share capital as at 31 December 2016 comprised **2,166,414,153** issued and fully-paid up equity shares.

The regulatory capital for the Group is detailed below:

Table 1	**2016**	2015
	KD'000	KD'000
Regulatory Capital		
Common Equity Tier 1 Capital	**304,023**	259,364
Additional Tier 1 Capital	**75,725**	230
Tier 1 Capital	**379,748**	259,594
Tier 2 Capital	**20,750**	18,332
Total Regulatory Capital	**400,498**	277,926

4. CAPITAL ADEQUACY RATIOS

The Group ensures adherence to CBK's requirements by monitoring its capital adequacy. The Group's capital forecasting process ensures pro-active actions and plans are in place to ensure a sufficient capital buffer above minimum levels is in place at all times. This process takes into consideration regulatory capital requirements, stress-testing and the Bank's business plans.

The Minimum Capital Requirements (MCR) and The Capital Adequacy Ratios'(CAR) for the Group under the various levels of regulatory capital expressed as a percentage of risk-weighted assets are detailed below:

	2016		2015	
	MCR*	**CAR**	MCR*	CAR
Table 2				
Common Equity Tier 1 capital adequacy ratio	**10.00%**	**16.21%**	9.00%	15.90%
Tier 1 capital adequacy ratio	**11.50%**	**20.24%**	10.50%	15.91%
Total Regulatory capital adequacy ratio	**13.50%**	**21.35%**	12.50%	17.04%

* includes a 2.5% capital conservation buffer and 0.5% D-SIB buffer which are to be met through CET1 capital.

The countercyclical capital buffer has not been required for the year ended 31 December 2016 in the MCR.

5. PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

The Group's risk-weighted capital requirements for credit, market and operational risks are shown below.

5.1 Credit risk

The Minimum Capital requirement (MCR) in respect of credit risk as at 31 December 2016 was **KD 220,181 thousand**, (31 December 2015: KD 179,917 thousand) as detailed below:

	2016			2015		
	Gross credit exposure	**Risk weighted assets**	**Minimum capital requirement**	Gross credit exposure	Risk weighted assets	Capital charge
Table 3	**KD'000**	**KD'000**	**KD'000**	KD'000	KD'000	KD'000
Cash	**27,214**	**-**	**-**	25,598	-	-
Claims on sovereigns	**328,465**	**1,223**	**165**	165,776	353	44
Claims on international organisations	**49,281**	**-**	**-**	39,513	-	-
Claims on public sector Entities	**58,202**	**-**	**-**	6,129	-	-
Claims on MDBs	**15,777**	**-**	**-**	6,064	-	-
Claims on banks	**348,628**	**47,392**	**6,398**	533,412	76,299	9,537
Claims on corporates	**1,035,142**	**465,626**	**62,860**	931,421	405,255	50,657
Regulatory retail exposure	**1,140,980**	**682,980**	**92,202**	974,557	625,340	78,169
Past due exposure	**8,463**	**3,779**	**510**	10,666	6,219	777
Investments in real estate	**24,680**	**49,360**	**6,664**	23,397	46,794	5,849
Investments and financing to customers	**447,157**	**231,588**	**31,264**	386,268	152,554	19,069
Sukuk exposures	**20,522**	**10,261**	**1,385**	19,045	10,987	1,373
Other exposures*	**132,485**	**138,760**	**18,733**	108,998	115,537	14,442
	3,636,996	**1,630,969**	**220,181**	3,230,844	1,439,338	179,917

*"Other exposures" above includes a threshold deduction of **KD 31,058 thousand** (31 December 2015: KD 28,052 thousand) and an amount of **KD 24,353 thousand** (31 December 2015: KD 23,729 thousand) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk-Weighted Assets, which is allowed in arriving at Tier 2 Capital.

5.2 Market risk:

The total Minimum Capital requirement (MCR) in respect of market risk was **KD 10,024 thousand** arising only from foreign exchange risk, (31 December 2015: KD 5,522 thousand).

5.3 Operational Risk:

The Minimum Capital requirement (MCR) in respect of operational risk was **KD 22,172 thousand**, (31 December 2015: KD 18,489 thousand). This Minimum Capital requirement(MCR) was computed using the Basic Indicator Approach by multiplying the three-year average gross income by a pre-defined beta factor.

6. RISK MANAGEMENT

The Bank's business operations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital to derive an optimal risk/return ratio. The Bank manages its risks in a structured, systematic and transparent manner through a risk policy which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes. The Bank's Risk Management function is independent of business units; it reports directly to the Risk and Compliance Committee of the Board and takes a holistic and objective approach to assist the Board and Executive Management in managing the Bank's risks.

During 2009 the Bank augmented its overall framework for governance and capital planning and management by undertaking an Internal Capital Adequacy Assessment Process (ICAAP), which includes "scenario testing" at periodic, regular intervals. Amongst the key objectives of the ICAAP is to quantify potential risks that the Bank faces and are not covered under Pillar I.

In line with the guidelines from the Basel Committee and Central Bank of Kuwait, key principles of the Bank's ICAAP include:

- Responsibilities of the Board and Senior Management.
- Sound Capital Management.
- Comprehensive assessment of Pillar II risks, e.g., Credit (sector and name concentration), Liquidity, Legal, Reputational and Strategic Risks, etc.
- Monitoring and reporting.
- Control and review of the process.

The key features of the Bank's comprehensive Risk Management Policy are:

- The Board of Directors provides overall risk management direction and oversight.
- The Bank's risk appetite is proposed by the Management Executive Committee and approved by the Board of Directors.
- Risk management is embedded in the Bank as an intrinsic process and is a core competency of all its employees.
- The Bank manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation.
- The Bank's Internal Audit function reports to the Board Audit Committee and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the Risk Management Framework on a bank-wide basis.

The risk management function assists Executive Management in controlling and actively managing the Bank's overall risks. The function also ensures that:

- The Bank's overall business strategy is consistent with its risk appetite approved by the Board of Directors.
- Risk policies, procedures and methodologies are consistent with the Bank's risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.
- Risks and limits of the portfolio are monitored throughout the Bank.

The Bank regularly assesses the adequacy and effectiveness of its Risk Management Framework in the light of the changing risk environment.

6.1 Scope and nature of risk reporting tools

The comprehensive Risk Management Framework enables the Bank to identify, assess, limit and monitor risks using a comprehensive range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in corporate and consumer financing and other asset exposures, such as collateral coverage ratio, limit utilisation, past-due alerts, etc.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposure to losses due to extreme movements in market prices or rates.

The Bank regularly assesses the adequacy and effectiveness of its reporting tools and metrics in light of the changing risk environment.

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes

Through the comprehensive Risk Management Framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

The key risks assumed by the Bank in its daily operations are outlined below:

6.2.1 Credit risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. These risks arise in the Group's normal course of business.

6.2.2 Credit risk management strategy

The approach to credit risk is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes, combined with clear policies, limits and approval structures which guide the day-to-day initiation and management of the Bank's credit risk exposure. This approach comprises credit limits which are established for all customers after a careful assessment of their credit worthiness.

Standing procedures, outlined in the Bank's Credit Policies and Manuals, require that all credit proposals be subjected to detailed screening pending submission to the appropriate credit committee. Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Board of Directors defines the Bank's credit risk management strategy and approves credit risk policies to ensure alignment of the Bank's exposure with its Risk Appetite.

6.2.3 Credit risk management structure and governance

Senior management implements the Board of Directors' credit risk strategy and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The Bank's Credit Committee, chaired by the Bank's CEO and comprising senior executives from the business divisions, meets regularly and reviews the Bank's financing portfolios and advises the Board appropriately.

In compliance with CBK regulations, financing to individual Board Members and related parties is fully secured and monitored by the Board Executive Committee. Such transactions are made on substantially the same terms, including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board of Directors in line with the relative authorities from the Shareholders' General Assembly.

Country limits are determined based on the outlook of economic and political factors, along with the review of reports by rating agencies on the country (where available) and application of local business and market knowledge. Country limit exposures are subject to periodic approval by the Board of Directors or the Board Executive Committee.

6.2.4 Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer.
- Internal credit-rating models are regularly reviewed by the Bank risk management function in co-ordination with line management and the Management Credit Committee and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by either the Board Executive Committee or the Management Credit Committee.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.5 Key features of consumer credit risk management

- Oversight of consumer finance risk is undertaken by an independent unit directly within Bank Risk Management. Within this framework, limits and approval authorities are exercised by Consumer Banking officers with defined approval authorities.
- Consumer credit risk management functional areas are aligned with key concepts of risk management, namely, governance, control, measurement and reporting.
- Consumer credit risk is managed with three lines of defence. As the first line of defence, Consumer Banking (i.e., underwriting) is responsible for adherence to CBK regulations and guidelines, the credit policies, controls and processes. As second line of defence, the consumer credit risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline & policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures.
- All significant financing policies and amendments to policies are reviewed annually by the Management Executive Committee and approved by the Board.
- The Consumer Financing risk assessment for applicants uses risk "scorecard" customer-centric methodologies which incorporate CBK regulatory guidelines and Bank policies related to consumer financing facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from financing bureaus, particularly Kuwait Credit Bureau statistics, to assist in assessing an applicant's ability to repay and the probability of default. This model is reviewed and refined continually.

6.2.6 Bank's credit risk monitoring

The Bank's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilisation and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the internal rating process.

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Consumer credit risk reporting also includes a "dashboard" for consumer financing, classification and delinquency monitoring.

A specialised and focused team on recovery and collections handles the management and collection of problem financing facilities.

6.2.7 Bank's credit risk mitigation strategy

Portfolio diversification is the cornerstone of the Bank's credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Risk Appetite requires that the Bank limits its financing concentration per entity to specific percentage of the Bank's regulatory capital.

Credit risk mitigates such as collateral and guarantees are effective mitigating factors within the Bank's portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of syndications and risk participation arrangements with other banks are used to manage the Bank's exposures.

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.8 Management of credit collateral and valuation

The main types of collateral accepted by the Bank include:

1. Cash collateral
2. Equity shares
3. Bank guarantees
4. Real estates
5. Sovereign debt instruments
6. Bank debt instruments
7. Collective investment schemes

In accordance with the Bank's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel framework, cash collateral, quoted shares, real estates, debt instruments of sovereigns and banks and collective investment schemes are recognised as risk mitigation for capital adequacy purposes.

The custody and daily "mark to market" (revaluation) of financial collateral, inclusive of shares, are performed independent of the business units. Real estate collateral is valued on an annual basis.

The Group's credit exposures were covered by the following eligible financial collateral:

	2016		2015	
	Gross credit exposure	**Eligible Credit Risk Mitigation**	Gross credit exposure	Eligible Credit Risk Mitigation
Table 4	**KD'000**	**KD'000**	KD'000	KD'000
Cash	**27,214**	**-**	25,598	-
Claims on sovereigns	**328,465**	**-**	165,776	-
Claims on international organisations	**49,281**	**-**	39,513	-
Claims on public sector Entities	**58,202**	**-**	6,129	-
Claims on MDBs	**15,777**	**-**	6,064	-
Claims on banks	**348,628**	**-**	533,412	1,902
Claims on corporates	**1,035,142**	**339,750**	931,421	350,645
Regulatory retail exposure	**1,140,980**	**-**	974,557	-
Past due exposure	**8,463**	**1,504**	10,666	234
Investments in real estate	**24,680**	**-**	23,397	-
Investments and financing to customers	**447,157**	**189,222**	386,268	227,770
Sukuk exposures	**20,522**	**-**	19,045	-
Other exposures	**132,485**	**-**	108,998	-
	3,636,996	**530,476**	3,230,844	580,551

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 Gross, average and net credit exposures

The Group's gross credit exposures, average credit exposures and net credit exposures, the former adjusted for credit risk mitigation factors, respectively, are detailed below:

	2016			2015		
	Gross credit exposure	**Self-funded exposure**	**Funded through investments accounts exposure**	Gross credit exposure	Self-funded exposure	Funded through investments accounts exposure
Table 5	**KD'000**	**KD'000**	**KD'000**	KD'000	KD'000	KD'000
Cash	**27,214**	**5,366**	**21,848**	25,598	7,253	18,345
Claims on sovereigns	**328,465**	**93,446**	**235,019**	165,776	70,034	95,742
Claims on international organisations	**49,281**	**49,281**	**-**	39,513	39,513	-
Claims on public sector Entities	**58,202**	**11,476**	**46,726**	6,129	1,737	4,392
Claims on MDBs	**15,777**	**15,777**	**-**	6,064	6,064	-
Claims on banks	**348,628**	**76,758**	**271,870**	533,412	157,774	375,638
Claims on corporates	**1,035,142**	**308,339**	**726,803**	931,421	333,286	598,135
Regulatory retail exposure	**1,140,980**	**224,979**	**916,001**	974,557	276,122	698,435
Past due exposure	**8,463**	**1,669**	**6,794**	10,666	3,022	7,644
Investments in real estate	**24,680**	**24,680**	**-**	23,397	23,397	-
Investments and financing to customers	**447,157**	**88,171**	**358,986**	386,268	109,442	276,826
Sukuk exposures	**20,522**	**20,522**	**-**	19,045	19,045	-
Other exposures	**132,485**	**100,566**	**31,919**	108,998	85,382	23,616
	3,636,996	**1,021,030**	**2,615,966**	3,230,844	1,132,071	2,098,773

	2016			2015		
	Average credit exposure *	**Self-funded exposure**	**Funded through investments accounts exposure**	Average credit exposure	Self-funded exposure	Funded through investments accounts exposure
Table 6	**KD'000**	**KD'000**	**KD'000**	KD'000	KD'000	KD'000
Cash	**26,330**	**5,869**	**20,461**	23,913	6,265	17,648
Claims on sovereigns	**292,925**	**88,997**	**203,928**	160,077	60,399	99,678
Claims on international organisations	**41,730**	**41,730**	**-**	39,655	39,655	-
Claims on public sector Entities	**29,438**	**6,174**	**23,264**	5,934	1,540	4,394
Claims on MDBs	**17,545**	**17,545**	**-**	6,042	6,042	-
Claims on banks	**433,030**	**105,548**	**327,482**	473,055	131,897	341,158
Claims on corporates	**1,013,999**	**314,291**	**699,708**	884,303	301,009	583,294
Regulatory retail exposure	**1,072,600**	**238,621**	**833,979**	895,416	233,548	661,868
Past due exposure	**9,534**	**2,143**	**7,391**	12,174	3,162	9,012
Investments in real estate	**24,245**	**24,245**	**-**	24,390	24,390	-
Investments and financing to customers	**428,777**	**95,336**	**333,441**	380,781	99,033	281,748
Sukuk exposures	**22,253**	**22,253**	**-**	20,744	20,744	-
Other exposures	**122,509**	**92,386**	**30,123**	106,945	83,776	23,169
	3,534,915	**1,055,138**	**2,479,777**	3,033,429	1,011,460	2,021,969

* Based on quarterly average balances

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 Gross, average and net credit exposures (continued)

	2016			2015		
	Net credit exposure	**Self-funded exposure**	**Funded through investments accounts exposure**	Net credit exposure	Self-funded exposure	Funded through investments accounts exposure
Table 7	**KD'000**	**KD'000**	**KD'000**	KD'000	KD'000	KD'000
Cash	**27,214**	**5,366**	**21,848**	25,598	7,253	18,345
Claims on sovereigns	**328,465**	**93,446**	**235,019**	165,776	70,034	95,742
Claims on international organisations	**49,281**	**49,281**	**-**	39,513	39,513	-
Claims on public sector Entities	**58,202**	**11,476**	**46,726**	6,129	1,737	4,392
Claims on MDBs	**15,777**	**15,777**	**-**	6,064	6,064	-
Claims on banks	**348,628**	**76,758**	**271,870**	531,510	157,235	374,275
Claims on corporates	**695,393**	**235,860**	**459,533**	580,776	229,733	351,043
Regulatory retail exposure	**1,140,980**	**224,979**	**916,001**	974,557	276,122	698,435
Past due exposure	**6,958**	**1,372**	**5,586**	10,433	2,956	7,477
Investments in real estate	**24,680**	**24,680**	**-**	23,397	23,397	-
Investments and financing to customers	**257,935**	**50,849**	**207,086**	158,498	44,907	113,591
Sukuk exposures	**20,522**	**20,522**	**-**	19,045	19,045	-
Other exposures	**132,485**	**100,566**	**31,919**	108,998	85,382	23,616
	3,106,520	**910,932**	**2,195,588**	2,650,294	963,378	1,686,916

As at 31 December 2016, **23.8%** of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), (31 December 2015: **27.7%**) as detailed below:

	2016			2015		
	Net credit exposure	**Rated exposure**	**Unrated exposure**	Net credit exposure	Rated exposure	Unrated exposure
Table 8	**KD'000**	**KD'000**	**KD'000**	KD'000	KD'000	KD'000
Cash	**27,214**	**-**	**27,214**	25,598	-	25,598
Claims on sovereigns	**328,465**	**328,465**	**-**	165,776	165,776	-
Claims on international organisations	**49,281**	**49,281**	**-**	39,513	39,513	-
Claims on public sector Entities	**58,202**	**-**	**58,202**	6,129	-	6,129
Claims on MDBs	**15,777**	**-**	**15,777**	6,064	-	6,064
Claims on banks	**348,628**	**340,793**	**7,835**	531,510	509,616	21,894
Claims on corporates	**695,393**	**-**	**695,393**	580,776	-	580,776
Regulatory retail exposure	**1,140,980**	**-**	**1,140,980**	974,557	-	974,557
Past due exposure	**6,958**	**-**	**6,958**	10,433	-	10,433
Investments in real estate	**24,680**	**-**	**24,680**	23,397	-	23,397
Investments and financing to customers	**257,935**	**-**	**257,935**	158,498	-	158,498
Sukuk exposures	**20,522**	**20,522**	**-**	19,045	19,045	-
Other exposures	**132,485**	**-**	**132,485**	108,998	-	108,998
	3,106,520	**739,061**	**2,367,459**	2,650,294	733,950	1,916,344

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 Gross, average and net credit exposures (continued)

The Group uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

The geographical distribution of the gross credit exposure before taking into consideration credit enhancements is as detailed below:

31 December 2016

Table 9	**Middle East KD'000**	**North America KD'000**	**Europe KD'000**	**Asia and Other KD'000**	**Total KD'000**
Cash	**27,214**	**-**	**-**	**-**	**27,214**
Claims on sovereigns	**317,773**	**-**	**4,350**	**6,342**	**328,465**
Claims on international organisations	**-**	**-**	**-**	**49,281**	**49,281**
Claims on public sector Entities	**58,202**	**-**	**-**	**-**	**58,202**
Claims on MDBs	**15,777**	**-**	**-**	**-**	**15,777**
Claims on banks	**321,699**	**5,020**	**17,744**	**4,165**	**348,628**
Claims on corporates	**1,035,142**	**-**	**-**	**-**	**1,035,142**
Regulatory retail exposure	**1,140,980**	**-**	**-**	**-**	**1,140,980**
Past due exposure	**7,651**	**-**	**-**	**812**	**8,463**
Investments in real estate	**20,498**	**-**	**4,182**	**-**	**24,680**
Investments and financing to customers	**447,157**	**-**	**-**	**-**	**447,157**
Sukuk exposures	**11,386**	**-**	**-**	**9,136**	**20,522**
Other exposures	**132,485**	**-**	**-**	**-**	**132,485**
	3,535,964	**5,020**	**26,276**	**69,736**	**3,636,996**

31 December 2015

Table 9	Middle East KD'000	North America KD'000	Europe KD'000	Asia and Other KD'000	Total KD'000
Cash	25,598	-	-	-	25,598
Claims on sovereigns	154,311	-	5,159	6,306	165,776
Claims on international organisations	-	-	-	39,513	39,513
Claims on public sector Entities	6,129	-	-	-	6,129
Claims on MDBs	6,064	-	-	-	6,064
Claims on banks	453,261	2,549	73,400	4,202	533,412
Claims on corporates	928,036	-	3,385	-	931,421
Regulatory retail exposure	974,557	-	-	-	974,557
Past due exposure	9,444	-	-	1,222	10,666
Investments in real estate	19,491	-	3,906	-	23,397
Investments and financing to customers	386,268	-	-	-	386,268
Sukuk exposures	16,116	-	2,929	-	19,045
Other exposures	90,945	33	-	18,020	108,998
	3,070,220	2,582	88,779	69,263	3,230,844

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.9 Gross, average and net credit exposures (continued)

The Group's gross credit exposure by residual contractual maturity is as detailed below:

31 December 2016

Table 10	Up to 3 months KD'000	3 – 6 months KD'000	6 – 12 months KD'000	Over 1 year KD'000	Total KD'000
Cash	27,214	-	-	-	27,214
Claims on sovereigns	64,500	109,971	79,985	74,009	328,465
Claims on international organisations	49,281	-	-	-	49,281
Claims on public sector Entities	56,450	1,752	-	-	58,202
Claims on MDBs	-	-	-	15,777	15,777
Claims on banks	339,277	139	8,206	1,006	348,628
Claims on corporates	580,005	132,693	129,465	192,979	1,035,142
Regulatory retail exposure	12,238	1,685	8,853	1,118,204	1,140,980
Past due exposure	8,463	-	-	-	8,463
Investments in real estate	-	-	-	24,680	24,680
Investments and financing to customers	414,785	20,407	11,965	-	447,157
Sukuk exposures	9,136	-	3,068	8,318	20,522
Other exposures	7,358	-	6,588	118,539	132,485
	1,568,707	266,647	248,130	1,553,512	3,636,996

31 December 2015

Table 10	Up to 3 months KD'000	3 – 6 months KD'000	6 – 12 months KD'000	Over 1 year KD'000	Total KD'000
Cash	25,598	-	-	-	25,598
Claims on sovereigns	65,662	40,236	57,640	2,238	165,776
Claims on international organisations	37,537	-	-	1,976	39,513
Claims on public sector Entities	-	3,505	-	2,624	6,129
Claims on MDBs	5,761	-	-	303	6,064
Claims on banks	488,668	31,356	13,225	163	533,412
Claims on corporates	441,879	141,169	162,756	185,617	931,421
Regulatory retail exposure	9,760	1,296	7,344	956,157	974,557
Past due exposure	10,666	-	-	-	10,666
Investments in real estate	-	-	-	23,397	23,397
Investments and financing to customers	276,576	92,805	16,648	239	386,268
Sukuk exposures	18,093	-	-	952	19,045
Other exposures	7,749	-	6,424	94,825	108,998
	1,387,949	310,367	264,037	1,268,491	3,230,844

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.10 "Past-due" and impairment provisions

Credit facilities are classified as "past-due" when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered as "past-due and impaired" if the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

"Past due" and "Past-due and impaired" facilities are managed and monitored as "irregular facilities" and are classified into the following four categories which are then used to guide the provisioning process:

Category	Criteria
Watchlist	Irregular for a period up to 90 days (inclusive)
Substandard	Irregular for a period between 91 and 180 days (inclusive)
Doubtful	Irregular for a period between 181 days and 365 days (inclusive)
Bad	Irregular for a period exceeding 365 days

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

The Group's impaired finance portfolio as at 31 December 2016 was **KD 21,100 thousand** against which a specific provision of **KD 12,244 thousand** has been made, (31 December 2015: KD 19,523 thousand and KD 8,720 thousand), as detailed below:

	2016			2015		
	Impaired finance facilities	**Related specific provision**	**Net balance**	Impaired finance facilities	Related specific provision	Net balance
Table 11	**KD'000**	**KD'000**	**KD'000**	KD'000	KD'000	KD'000
Claims on corporates	**14,222**	**8,452**	**5,770**	14,814	7,123	7,691
Regulatory retail exposure	**6,878**	**3,792**	**3,086**	4,709	1,597	3,112
	21,100	**12,244**	**8,856**	19,523	8,720	10,803

The geographical distribution of "past-due and impaired "financing and the related specific provision are as follows:

	2016			2015		
	Middle East	**Asia**	**Total**	Middle East	Asia	Total
Table 12	**KD'000**	**KD'000**	**KD'000**	KD'000	KD'000	KD'000
Past due and impaired financing	**17,775**	**3,325**	**21,100**	16,225	3,298	19,523
Related specific provision	**9,439**	**2,805**	**12,244**	6,408	2,312	8,720

In accordance with CBK regulations, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities is made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

The adequacy of provisions are regularly evaluated and monitored by the Provisions Committee.

The Bank's total provision as at 31 December 2016 was **KD 57,289 thousand** inclusive of a general provision of **KD 45,045 thousands**, (31 December 2015: KD 50,736 thousand and KD 42,016 thousand), as detailed below:

	2016	2015
Table 13	**KD'000**	KD'000
Claim on corporates	**33,388**	32,196
Regulatory retail exposure	**11,657**	9,820
	45,045	42,016

The total general provision above includes **KD 1,695 thousand** relating to "non-cash" facilities in accordance with CBK regulations, (31 December 2015: KD 1,586 thousand).

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (continued)

6.2.10 "Past-due" and impairment provisions (continued)

The geographical distribution of the general provision on "cash" facilities is as follows:

Table 14	**2016**	2015
	KD'000	KD'000
Middle East and North Africa	**43,324**	40,396
Asia	**26**	34
	43,350	40,430

The analysis of specific and general provisions is further detailed in note 8 and 12 of the Group's consolidated financial statements.

6.3 "Market" risk

"Market" risk is defined as the potential loss in value of financial instruments caused by adverse movements in market variables such as profit rates, foreign exchange rates and equity prices.

Market risk results from uncertainty in future earnings arising from changes in profit rates, exchange rates, market prices and volatilities. Speculative Market Risk is not undertaken by the Bank but market risk arises from financing and investment activities.

The strategy for controlling market risk includes:

- Stringent controls and limits.
- Strict segregation of "front", "middle" and "back" office duties.
- Regular independent reporting of positions.
- Regular independent review of all controls and limits.

6.3.1 Market-risk management framework

The Market-Risk Management Framework governs the Bank's activities related to market risk. Market risk arising from banking book activities is the primary responsibility of the Bank's Asset and Liability Management Executive Committee and managed within a structure of approved financing and position limits.

6.4 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems failure, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial or reputational loss

6.4.1 Operation- risk management framework

The Bank monitors its operational risks through an Operational-Risk Management Framework which defines roles and responsibilities for managing and reporting operational risk. The key components of this framework are Risk Control Self Assessments, comprehensive documented policies, procedures and internal controls.

Through the framework, line management is able to identify, assess and decide in what form and scale it can accept, control and reduce operational risk, together with the form of risk-prevention measures which are necessary. Furthermore, it embeds a culture of transparency of information, escalation of key issues, and accountability for issue resolution. The Bank's Risk Management collates and reviews actual loss data arising from the Bank's day-to-day operations to continuously refine its control arrangements.

The operational-risk framework is supplemented by regular reviews from the Bank internal audit function. The Bank has a Business Continuity Plan together with a fully-equipped Disaster Recovery Centre which is tested periodically.

The Bank's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Bank's services for laundering money and/or financing terrorism. The Bank's "anti-money laundering" and "combating terrorism-financing" initiatives are regularly reviewed to ensure full compliance with legal and regulatory requirements and international best practices.

6.5 Liquidity risk

Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having to access funds to meet payment obligations at an excessive cost. It is the policy of the Bank to maintain adequate liquidity at all times.

The Bank applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of liabilities.

6. RISK MANAGEMENT (CONTINUED)

6.6 Reputation and fiduciary risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion which will affect the ability to establish new relationships or services or to continue servicing existing relationships.

Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary and non-fiduciary clients.

Through its policies and practices Boubyan ensures proper screening of clients' risk profiles and performance expectations is conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated, and funds placed under management are treated with due care and professionalism.

During the year, Assets under Management at the Group increased by **33.2%** to reach **KD 127,203 thousands** on 31 December 2016, (31 December 2015: decreased by 4.3% to reach KD 95,496 thousands).

7. COMPLIANCE WITH SHARI'A PRINCIPLES

Fatwa & Shari'a Supervisory Board of the Bank is responsible for monitoring the Bank's compliance with its issued fatwa and resolutions. The Shari'a Supervisory Board reviews and approves the contract and agreement forms after obtaining the necessary information to provide its opinion. Random samples of operations related to the Bank's transactions are reviewed through Shari'a supervision according to the annual Shari'a audit plan for all the departments and through the periodic reports provided by the Shari'a supervisory department about the audit processes, field visits, workflow and the validity of implementing the fatwa and resolutions issue by the Shari'a Supervisory Board. Accordingly, an annual report about the Bank's compliance with Shari'a fatwa and resolutions are issued according to those fatwa and resolutions and it is attached along with Bank's annual report and submitted to shareholders in the General Assembly. The external auditors have looked at the procedures adopted by the Shari'a Supervisory Board review all the Shari's committee minute of the meeting held during the year and regarding to this and based on CBK circular number (2/RBA/100/2003) issue the report describing the procedures that taken in place during the year to ensure that Bank compliance with Shari's rules and principles in addition, they disclosed in the report that Bank had comply with all Shari'a Supervisory Board rules and instructions.

According to the law no 46/2003 related to Zakat should be paid by listed companies, the Bank will pay **KD 428 thousands** for the year ended 31 December 2016, (31 December 2015: KD 354 thousands), and it is subject to auditing procedures by external consultant and approval by Ministry of Finance.

The violations related to compliance of Sharia's principles for the year ended 31 December 2016 is **Nil**, (31 December 2015: Nil).

The Shari's Supervisor Board's remuneration for the year ended 31 December 2016 is **KD 54 thousands**, (31 December 2015: KD 54 thousands).

8. INVESTMENT ACCOUNTS

Investment accounts receive a proportion of profit based on an agreed profit-sharing ratio and bear a share of loss.

Investment accounts take the form of unrestricted Mudaraba or Wakala contracts and include savings accounts and fixed term deposit accounts.

Saving Investment Accounts

These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time. The profit sharing of saving investment accounts is calculated and distributed monthly and the rate of profits on the accounts balances were ranging between 0.1% and 1% based on the product and currency.

Fixed-Term Deposit Investment Accounts

These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits have a predetermined maturity date and renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit. The profit sharing of fixed-term deposit investment accounts is calculated monthly and distributed on the month ended after the maturity date and the rate of profits on the accounts balances were ranging between 1% and 1.5% based on the product and currency.

Investment accounts are invested in pools of assets and receive a proportion share of net income from these assets after allocating it's proportion share of expenses. These assets are complying with the Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board. The Bank doesn't maintain investment risk reserve or profit equalization reserve.

A weighting factor of 50% is used for credit risk-weighted exposures financed from investment accounts.

9. COMPOSITION OF CAPITAL

9.1 Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

- Common Equity Tier 1
- Tier 1 Capital
- Total Capital

Common Equity Tier 1 Capital comprises share capital, share premium, retained earnings, eligible reserves and related eligible non-controlling interests. The book values of Goodwill and Intangibles are deducted along with other regulatory adjustments.

Tier 1 Capital consists of Common Equity Tier 1 Capital and Additional Tier 1 Capital which includes eligible portions of non-controlling interests.

Total Regulatory Capital includes Tier 1 Capital and Tier 2 Capital which consists of the allowed portions of general provisions and certain additional eligible non-controlling interests.

The below table summarizes the composition of capital and ratios:

	2016	2015
Table 15	**KD'000**	KD'000
Common Equity Tier 1 Capital before regulatory adjustments	**333,435**	308,493
Less:		
Total regulatory adjustments to Common Equity Tier 1	**22,854**	27,978
Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	**6,558**	21,151
Common Equity Tier 1 Capital (CET1)	**304,023**	259,364
Additional Tier 1 Capital (AT1)	**75,725**	230
Tier 1 Capital (T1 = CET1 + AT1)	**379,748**	259,594
Tier 2 Capital (T2)	**20,750**	18,332
Total Capital (TC = T1 + T2)	**400,498**	277,926
Total risk-weighted assets	**1,875,775**	1,631,425
Capital ratios and buffers		
Common Equity Tier 1 Capital (as percentage of risk-weighted assets)	**21.35%**	15.90%
Tier 1 Capital (as percentage of risk-weighted assets)	**20.24%**	15.91%
Total Regulatory Capital (as percentage of risk-weighted assets)	**16.21%**	17.04%
National minima		
Common Equity Tier 1 minimum ratio including Capital Conservation buffer and D-SIB buffer	**10.00%**	9.00%
Tier 1 minimum ratio	**11.50%**	10.50%
Total capital minimum ratio excluding CCY	**13.50%**	12.50%

A detailed breakdown of the Group's regulatory capital position under the Common Disclosures template as stipulated under the Pillar 3 section of the CBK Basel III Capital Adequacy framework is presented in Table 25.

10. RECONCILIATION REQUIREMENTS

The basis for the scope of consolidation for accounting and regulatory purposes is consistent for the Group. In order to provide a full reconciliation of all regulatory capital elements to the balance sheet in the audited financial statements, a three-step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework.

Table 16 provides the comparison (Step1) of the balance sheet published in the consolidated financial statement and the balance sheet under the regulatory scope of consolidation. Lines have been expanded and referenced with letters (Step 2) to display the relevant items of the regulatory capital.

31 December 2016 **Table 16 - Step 1 and 2 of Reconciliation requirements**	**Balance sheet as in published financial statements** **KD'000**	**Under regulatory scope of consolidation** **KD'000**	**Reference**
Assets			
Cash and balances with banks	36,911	36,911	
Deposits with Central Bank of Kuwait	292,742	292,742	
Deposits with other banks	328,952	328,952	
Islamic financing to customers	2,516,760	2,516,760	
of which general provisions(netted above) capped for Tier 2 inclusion	20,691	20,691	A
Financial assets at fair value through profit or loss	19,495	19,495	
Available for sale investments	160,305	160,305	
Investment in associates	62,204	62,204	
of which goodwill	21,416	21,416	B
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	6,558	6,558	C
Investment properties	24,680	24,680	
Other assets	13,943	13,943	
Property and equipment	25,815	25,815	
Total assets	**3,481,807**	**3,481,807**	
Liabilities			
Due to banks	76,278	76,278	
Depositors' accounts	2,945,076	2,945,076	
Other liabilities	37,300	37,300	
Total liabilities	**3,058,654**	**3,058,654**	
Equity			
Share capital	216,641	216,641	D
Share premium	62,896	62,896	E
Proposed bonus shares	10,832	10,832	F
Treasury shares	(1,438)	(1,438)	G
Statutory reserve	14,329	14,329	H
Voluntary reserve	13,713	13,713	I
Share based payment reserve	1,540	1,540	J
Fair value reserve	3,699	3,699	K
Foreign currency translation reserve	(9,099)	(9,099)	L
Retained earnings	18,884	18,884	M
Proposed cash dividends	12,974	12,974	N
Equity attributable to equity holders of the Bank	**344,971**	**344,971**	
Non-controlling interests	**2,794**	**2,794**	
Perpetual Tier 1 Sukuk	**75,388**	**75,388**	
of which limited recognition eligible as CET1 Capital	**-**	**-**	
of which limited recognition eligible as AT1 Capital	75,725	75,725	O
of which limited recognition eligible as Tier 2 Capital	59	59	P
Total equity	**423,153**	**423,153**	
Total liabilities and equity	**3,481,807**	**3,481,807**	

10. RECONCILIATION REQUIREMENTS (CONTINUED)

31 December 2015 Table 16 - Step 1 and 2 of Reconciliation requirements	Balance sheet as in published financial statements KD'000	Under regulatory scope of consolidation KD'000	Reference
Assets			
Cash and balances with banks	35,009	35,009	
Deposits with Central Bank of Kuwait	133,128	133,128	
Deposits with other banks	515,198	515,198	
Islamic financing to customers	2,171,794	2,171,794	
of which general provisions(netted above) capped for Tier 2 inclusion	18,288	18,288	A
Financial assets at fair value through profit or loss	15,388	15,388	
Available for sale investments	126,307	126,307	
Investment in associates	79,713	79,713	
of which goodwill	27,410	27,410	B
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	21,151	21,151	C
Investment properties	23,397	23,397	
Other assets	14,169	14,169	
Property and equipment	18,782	18,782	
Total assets	**3,132,885**	**3,132,885**	
Liabilities			
Due to banks	382,749	382,749	
Depositors' accounts	2,398,935	2,398,935	
Other liabilities	30,402	30,402	
Total liabilities	**2,812,086**	**2,812,086**	
Equity			
Share capital	206,325	206,325	D
Share premium	62,896	62,896	E
Proposed bonus shares	10,316	10,316	F
Treasury shares	(568)	(568)	G
Statutory reserve	9,998	9,998	H
Voluntary reserve	9,570	9,570	I
Share based payment reserve	1,171	1,171	J
Fair value reserve	4,159	4,159	K
Foreign currency translation reserve	(9,262)	(9,262)	L
Retained earnings	13,320	13,320	M
Proposed cash dividends	10,307	10,307	N
Equity attributable to equity holders of the Bank	**318,232**	**318,232**	
Non-controlling interests	**2,567**	**2,567**	
Perpetual Tier 1 Sukuk	-	-	
of which limited recognition eligible as CET1 Capital	-	-	
of which limited recognition eligible as AT1 Capital	230	230	O
of which limited recognition eligible as Tier 2 Capital	44	44	P
Total equity	**320,799**	**320,799**	
Total liabilities and equity	**3,132,885**	**3,132,885**	

10. RECONCILIATION RFQUIREMENTS (CONTINUED)

Table 17 provides the relevant lines under 'Table 24: Composition of Regulatory Capital' with cross references to the letters in Table 16, thereby reconciling (Step 3) the components of regulatory capital to the published balance sheet.

31 December 2016

Relevant row number in common disclosure template	Table 17: Step 3 of Reconciliation requirements	Component regulatory capital KD'000	Source based on reference letters of the balance sheet from step2 KD'000
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	216,641	D
2	Retained earnings	18,884	M
3	Accumulated other comprehensive income (and other reserves)	97,910	E+H+I+J+K+L+F
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
5	**Common Equity Tier 1 Capital before regulatory adjustments**	333,435	
	Common Equity Tier 1 Capital : regulatory adjustments		
6	Goodwill	21,416	B
7	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
8	Investments in own shares	1, 438	G
9	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	6,558	C
10	**Total regulatory adjustments to Common Equity Tier 1**	29,412	
11	**Common Equity Tier 1 Capital (CET1)**	304,023	
	Additional Tier 1 capital : instruments		
12	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	75,725	O
13	**Additional Tier 1 capital before regulatory adjustments**	75,725	
	Additional Tier 1 Capital : regulatory adjustments		
14	Additional Tier 1 Capital (AT1)	75,725	
15	**Tier 1 Capital (T1 = CET1 + AT1)**	379,748	
	Tier 2 Capital : instruments and provisions		
16	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	59	P
17	General Provisions included in Tier 2 Capital	20,691	A
18	**Tier 2 Capital before regulatory adjustments**	20,750	
19	Total capital (TC = T1 + T2)	400,498	

10. RECONCILIATIN RFQUIREMENTS (CONTINUED)

31 December 2015

Relevant row number in common disclosure template	Table 17: Step 3 of Reconciliation requirements	Component regulatory capital KD'000	Source based on reference letters of the balance sheet from step2 KD'000
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	206,325	D
2	Retained earnings	13,320	M
3	Accumulated other comprehensive income (and other reserves)	88,848	E+H+I+J+K+L+F
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
5	**Common Equity Tier 1 Capital before regulatory adjustments**	308,493	
	Common Equity Tier 1 Capital : regulatory adjustments		
6	Goodwill	27,410	B
7	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
8	Investments in own shares	568	G
9	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	21,151	C
10	**Total regulatory adjustments to Common Equity Tier 1**	49,129	
11	**Common Equity Tier 1 Capital (CET1)**	259,364	
	Additional Tier 1 capital : instruments		
12	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	230	O
13	**Additional Tier 1 capital before regulatory adjustments**	230	
	Additional Tier 1 Capital : regulatory adjustments		
14	Additional Tier 1 Capital (AT1)	230	
15	**Tier 1 Capital (T1 = CET1 + AT1)**	259,594	
	Tier 2 Capital : instruments and provisions		
16	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	44	P
17	General Provisions included in Tier 2 Capital	18,288	A
18	**Tier 2 Capital before regulatory adjustments**	18,332	
19	Total capital (TC = T1 + T2)	277,926	

11. LEVERAGE RATIO

In October 2014, CBK issued the regulations on the 'Leverage ratio' introduced by BCBS as part of the regulatory reforms package. This transparent and non-risk based metric supplements the Capital ratio to act as a backstop measure to limit excessive build-up of on and off-balance sheet exposures.

The Leverage ratio is a separate, additional requirement from the risk-based capital requirement. It is defined as the 'capital' measure divided by the 'exposure' measure. The capital measure is made up of Tier 1 Capital. The exposure measure is a sum of on-balance sheet assets, derivative exposures; securities finance transactions and off-balance sheet exposures.

The Group is in compliance with the requirements stipulated by CBK for the Leverage ratio set at a minimum of 3%.

The Leverage Ratio for the Group at consolidated level is:

	2016	2015
Table 18		
Tier 1 Capital (KD' 000s)	**379,748**	259,594
Total Exposures (KD' 000s)	**3,675,971**	3,286,647
Leverage Ratio (%)	**10.33%**	7.90%

The below Table provides the details of the Total Exposures for Leverage Ratio:

	2016	2015
Table 19	**KD'000**	KD'000
On-balance sheet exposures	**3,453,832**	3,084,326
Off-balance sheet items	**222,139**	202,321
Total Exposures	**3,675,971**	3,286,647

Table 26 provides details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework

11.1 Leverage Ratio Reconciliation

Table 20 provides the reconciliation of the balance sheet assets from the published financial statement with total exposure amount in the calculation of leverage ratio.

Summary comparison of accounting assets vs leverage ratio exposure measure

	2016	2015
Table 20	**KD'000**	KD'000
Item		
Total consolidated assets as per published financial statements	**3,481,807**	3,132,885
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(27,975)**	(48,559)
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**-**	-
Adjustments for derivative financial instruments	**-**	-
Adjustment for off-balance sheet items (i.e conversion to credit equivalent amounts of off-balance sheet exposures)	**222,139**	202,321
Other adjustments	**-**	-
Leverage ratio exposure	**3,675,971**	3,286,647

12. LIQUIDITY COVERAGE RATIO DISCLOSURE

12.1 Introduction

In December 2014, the Central Bank of Kuwait (CBK) issued a directive (2/RB/346/2014) to Islamic banks operating in Kuwait on the adoption of the Liquidity Coverage Ratio (LCR) as part of the Central Bank's implementation of the Basel III reforms.

The main objective of the Liquidity Coverage Ratio (LCR) is to ensure the short-term resilience of the liquidity risk management of banks by ensuring that they have sufficient high quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of 30 days.

12.2 Definition

The LCR is defined as a ratio of Islamic Sharia'a compliant HQLA to the total net cash outflows estimated for the next 30 'calendar' days. HQLA are classified into two categories: "Level 1" and "Level 2" with a cap on "Level 2" assets to the total HQLA. "Level 2 HQLA" are calculated after applying the hair cut provided by the Central Bank of Kuwait on their market values. The net cash outflows are calculated by applying cash outflow and inflow run off factors assigned by the Central Bank of Kuwait. These factors apply to the various categories of liabilities (outflows relating to retail and wholesale deposits, contingent funding obligations and undrawn commitments) and assets (inflows from retail and corporate financing receivables) maturing within 30 days.

The LCR is calculated by dividing the amount of unencumbered HQLA by the estimated net outflows over a stressed 30-day period.

12.3 Regulatory Scope of Reporting and Consolidation

The LCR is reported at local level, including head office and its branches in Kuwait.

The LCR is calculated on a total currency level. For follow up purposes only the LCR is prepared on a stand-alone basis for significant currencies. Significant currencies are defined as those whose aggregate liabilities (on- and off- balance sheet) constitute more than 5% of the bank's total aggregate liabilities. Accordingly, the Bank reports the LCR for Kuwaiti Dinar (KWD) and US Dollar (USD) denominated balances in addition to the total currency level.

12.4 Liquidity Policy and Contingency Funding Plan

The Bank's liquidity management is guided by its Liquidity Policy which is reviewed annually and approved by the Board of Directors. The Liquidity Policy document specifies the main goals, policies and procedures for managing liquidity risk. The Liquidity Policy outlines procedures to identify, measure and monitor liquidity risk parameters in line with regulatory and internal limits, under normal and stress scenarios.

The Liquidity Policy also encompasses the bank's Contingency Funding Plan (CFP), which is approved by the Board of Directors, charts the course to be followed under stressed conditions.

12.5 Funding Strategy and Liquidity Management

While the operational aspect of day-to-day cash flow and liquidity management rests with Treasury, other groups such as Consumer Banking Group (CBG), Corporate Banking Group (COR), Risk Management Division (RMD), and Financial Control Group (FCG) plays a key role in managing and monitoring the longer-term funding profile of the bank under the oversight of the Asset Liability Management Committee (ALCO).

The Bank's long-term strategy has been to maintain a strong and diversified liabilities profile. The bank has embraced a robust funding profile through its wide domestic retail customer base and the diversified wholesale funding customers. The bank's major wholesale funding counterparties comprise mostly of Kuwaiti government and quasi-sovereign agencies with which the Bank has established a strong and long-term relationship.

12.6 Results Analysis and Main Drivers

The Bank's HQLA during the three months ending 31 December 2016, was averaging at **KD 389 Million** (post-haircut) against an average liquidity requirement of **KD 130 Million**. Hence, the LCR averaged **298%** during the last quarter of 2016

The HQLA is primarily comprised of Level 1 assets which represent cash and reserve balances with the CBK as well as debt issuances by sovereign and Islamic development banks in domestic and foreign currencies. Level 2 assets comprises of debt issuances by International Islamic Liquidity Management Corporation and other non-financial institutions in domestic and foreign currencies. Level 1 assets comprise of 88% of the total HQLA.

12. LIQUIDITY COVERAGE RATIO DISCLOSURE (CONTINUED)

12.7 Quantitative Information

Quantitative information on the Liquidity Coverage Ratio is provided in the table below. The values are calculated as the simple average of daily observations over the period between 1 October 2016 and 31 December 2016 for the Bank at Local level.

Table 21

KD 000s

SL.	Description	Value before applying flow rates (average)**	Value after applying flow rates (average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		**388,974**
Cash Outflows			
2	Retail deposits and small business		
3	• Stable deposits	**-**	**-**
4	• Less stable deposits	**588,107**	**88,300**
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:		
6	• Operational deposits	**-**	**-**
7	• Non-operational deposits (other unsecured commitments)	**601,505**	**338,433**
8	Secured Funding		**-**
9	Other cash outflows, including:		
10	• Resulting from Shari'ah compliant hedging contracts	**-**	**-**
11	• Resulting from assets-backed sukuk and other structured funding instruments	**-**	**-**
12	• Binding credit and liquidity facilities	**-**	**-**
13	Other contingent funding obligations	**1,035,513**	**51,776**
14	Other contractual cash outflows obligations	**43,315**	**43,315**
15	**Total Cash Outflows**		**521,824**
Cash Inflows			
16	Secured lending transactions	**-**	**-**
17	Inflows from the performing exposures (as per the counterparties)	**575,373**	**405,382**
18	Other cash Inflows	**-**	**-**
19	**Total Cash Inflows**	**575,373**	**405,382**
	LCR		
20	Total HQLA (after adjustments)		**388,974**
21	Net Cash Outflows		**130,456**
22	LCR		**298 %**

13. REMUNERATION DISCLOSURE

13.1 Qualitative Information

13.1.1 Governance bodies

The Boubyan Bank Group's remuneration framework is under the supervision of the Board of Directors. As per the Bank's policies and charters, the Board is responsible to review and approve the remuneration policy and oversee the implementation of the remuneration framework.

The Board Nomination and Remuneration Committee (BNRC) comprises three non-executive Board members. Its main responsibility, in terms of remuneration mandates, is to support the board in setting the principles of the Group's remuneration policy and ensures effective implementation in accordance with the Bank's remuneration policy and Corporate Governance Code.

Boubyan Bank remuneration policy is developed and implemented at the Group level and covers Bank's subsidiaries.

The remuneration policy defines three major categories for remuneration treatment, governance and disclosures.

Senior Management: includes all employees in the positions of Assistant General Manager and above and staff whose hiring are subject to approval of regulators. The number of employees in this category as at 31 December 2016 was **35 employees**, (31 December 2015: 33 employees).

Material Risk Takers: includes all employees whose activities and decisions have a material impact on the risk profile of the Bank. The number of employees in this category as at 31 December 2016 was **25 employees**, (31 December 2015: 23 employees).

Financial and Risk Control: includes all head of divisions and head of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions. The number of employees in this category as at 31 December 2016 was **14 employees**, (31 December 2015: 13 employees).

13.1.2 Remuneration Structure and design

Boubyan Bank's remuneration policy is in line with the strategic objectives of the Group. The policy is designed mainly to attract, retain and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring a sound risk management and sustained profitability.

The Bank's financial remuneration framework has been linked with long-term and short-term performance objectives. The Board-approved Bank's Strategy is transformed into Key Performance Indicators (KPIs) and remuneration is determined based on the achievement of those KPIs towards the overall Group strategy [including financial and non-financial criteria and Key Risk Indicators (KRIs), as appropriate].

The employees of the Bank are entitled to two categories of remuneration, which are as follows:

Fixed remuneration: such remuneration are defined in the employment agreements, and may include fixed salaries (i.e. basic salary , allowances and annual fixed pay as a percentage of basic salary) and other benefits (i.e. medical insurance, air-tickets, and schooling support),

Variable remuneration: such remuneration are driven mainly by performance and guided by the "Employee Incentive Plan". This is in the form of cash bonus and/or Employee Stock Options (ESOP).

The remuneration policy is reviewed by the Board Nomination and Remuneration Committee annually and any amendments should be approved by the Board of Directors.

The risk management, compliance and internal audit functions are independent functions. The risk management and compliance functions are reporting to and assessed by the Board Risk Committee. The internal audit function is reporting to and assessed by the Board Audit Committee. The total remuneration for these positions are determined and approved by the Board Risk Committee and Board Audit committee as a fully independent parties.

Boubyan Bank considers its Group risk profile when determining its annual remuneration pool; the risk profile includes the key risks to which the Group is exposed such as strategic, credit, market, liquidity, and operational.

The overall variable remuneration pool is determined by taking into account of relevant risk metrics. The metrics used to determine the pool are linked with key risk indicators and they are in line with the Group's overall risk strategy. The Group applied the key risk indicators (KRIs) this year without significant change from last year's KRIs.

13. REMUNERATION DISCLOSURE (CONTINUED)

13.1 Qualitative Information (continued)

13.1.3 An Overview on the Key Performance Indicators

The overall strategy of the Bank is set and approved by the Board and translated into KPIs. These are then documented and communicated to ensure the alignment of management activities to the strategy applied by Senior Management. These KPIs are monitored and reported to the Board on a regular basis.

Remuneration is determined based on the achievement of KPIs toward the overall Group strategy; this includes financial and non-financial criteria and Key Risk Indicators (KRIs) at Bank's level.

The Bank's Performance Management Policy sets the methodology of linking an individual's annual performance with the Bank's overall performance.

The annual remuneration pool for this year was approved by the Board of Directors after review, discussion and recommendation by the Board Nomination and Remuneration Committee. The percentage of approved remuneration was determined based on the Bank-level KPIs.

The performance appraisal form for each position identifies the quantitative weights of individual KPIs; the final scoring of the appraisal is linked with a quantitative formula to determine the level of remunerations.

Since the overall remuneration pool of the Group is linked to Group performance, the Group adjusts the remuneration percentages in case of weak performance and business recessions.

13.1.4 Remuneration Adjustments

The annual remuneration amount (fixed and variable) is reviewed by the Board Nomination and Remuneration Committee and is then subject to review and approval by the Board of Directors'.

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organisation) is deferred.

The deferment of variable remuneration applies to the equity shares as per the ESOP terms. This deferred variable remuneration is subject to clawback in the event of established fraud, misleading information or exceeding the approved risk limits.

13.1.5 Types of Remuneration Components

The Bank has two main remuneration components (fixed and variable). The variable component is mainly linked with performance and is subject to the deferment approach as mentioned above.

The fixed component (salaries, benefits) is on cash basis, while the variable component is on cash or equity basis (ESOP).

The percentage between fixed and variable (cash and equity) is reviewed and approved by the Board on an annual basis.

In case weak performance and business recessions, the Group would try to minimise the percentage of variable remuneration, especially for the Senior Management and Material Risk-Takers.

13. REMUNERATION DISCLOSURE (CONTINUED)

13.2 Quantitative Information (continued)

During the year, the Board Nomination and Remuneration Committee met **4 times**, (31 December 2015: 5 times).

The total remuneration paid to the Committee members was **Nil**, (31 December 2015: Nil).

The quantitative disclosures detailed below cover only senior management and other material risk takers.

The number of employees having received a variable remuneration award during 2016 was **44 employees** and they represent **7.8%** of the total number of employees which received a variable remuneration, (31 December 2015: 42 employees and they represent 6.3%).

The number of employees who received sign-on awards or guaranteed bonuses during 2016 was **Nil**, (31 December 2015: Nil).

The total amount of end-of-service benefit paid during 2016 was **KD 270 thousand**; this is related to **6 employees** (31 December 2015: KD 159 thousand related to 7 employee).

The total amount of outstanding deferred remuneration as at 31 December 2016 was **KD 2,006,** (31 December 2015: KD 1,588).

Total amount of deferred remuneration paid during 2016 was **KD 337 thousands,** (31 December 2015: KD 235 thousands).

Total salaries & remuneration granted during reported period

Senior Management

Table 22	**2016**		2015	
	Unrestricted KD'000	**Deferred KD'000**	Unrestricted KD'000	Deferred KD'000
Fixed remuneration:				
- Cash	**3,430**	**-**	3,049	-
- Others (Note 1)	**-**	**513**	-	581
Variable remuneration:				
- Cash	**741**	**-**	729	-
- ESOP	**-**	**741**	-	730

Material Risk Taker*

Table 23	**2016**		2015	
	Unrestricted KD'000	**Deferred KD'000**	Unrestricted KD'000	Deferred KD'000
Fixed remuneration:				
- Cash	**2,173**	**-**	1,959	-
- ESOP	**-**	**270**	-	337
Variable remuneration:				
- Cash	**527**	**-**	508	-
- ESOP	**-**	**528**	-	505

Note 1: This consists of deferred end-of-service benefits in line with Boubyan Bank policy

Employees Category

Table 24	**2016**		2015	
	Number of employees	**Remuneration Fixed and Variable KD'000**	Number of employees	Remuneration Fixed and Variable KD'000
Senior Management	**35**	**5,425**	33	5,089
Material Risk Takers*	**25**	**3,498**	23	3,309
Financial and Risk Control	**14**	**1,005**	13	1,062

* Material Risk Takers are identified as Senior Management

14. OTHER DISCLOSURES

14.1 Regulatory Capital Composition: Common Disclosure Template

Row Number	Table 25	KD 000s	
	Common Equity Tier 1 Capital: instruments and reserves	**2016**	2015
1	Directly issued qualifying common share capital plus related stock surplus	**279,538**	279,538
2	Retained earnings	**29,715**	13,320
3	Accumulated other comprehensive income (and other reserves)	**24,182**	15,635
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	**-**	-
5	Common Equity Tier 1 capital before regulatory adjustments	**333,435**	308,493
	Common Equity Tier 1 Capital : regulatory adjustments		
6	Goodwill (net of related tax liability)	**(21,416)**	(27,410)
7	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(1,438)**	(568)
8	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	**(6,558)**	(21,151)
9	**Total regulatory adjustments to Common Equity Tier 1**	**(29,412)**	(49,129)
10	Common Equity Tier 1 Capital (CET1)	**304,023**	259,364
	Additional Tier 1 Capital : instruments		
11	Additional Tier 1 instruments (and CET1 instruments not included in row 4) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**75,725**	230
12	**Additional Tier 1 Capital before regulatory adjustments**	**75,725**	230
	Additional Tier 1 Capital : regulatory adjustments		
13	Additional Tier 1 capital (AT1)	**-**	-
14	**Tier 1 Capital (T1 = CET1 + AT1)**	**379,748**	259,594
	Tier 2 Capital : instruments and provisions		
15	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	**59**	44
16	General Provisions included in Tier 2 Capital	**20,691**	18,288
17	**Tier 2 capital before regulatory adjustments**	**20,750**	18,332
	Tier 2 Capital: regulatory adjustments		
18	National specific regulatory adjustments	**-**	-
19	Total regulatory adjustments to Tier 2 Capital	**-**	-
20	Tier 2 Capital (T2)	**20,750**	18,332
21	**Total Capital (TC = T1 + T2)**	**400,498**	277,926
22	Total risk-weighted assets	**1,875,775**	1,631,425
	Capital ratios and buffers		
23	Common Equity Tier 1 (as percentage of risk-weighted assets)	**16.21%**	15.91%
24	Tier 1 (as percentage of risk-weighted assets)	**20.24%**	15.90%
25	Total capital (as percentage of risk-weighted assets)	**21.35%**	17.04%
	National minima		
26	Common Equity Tier 1 minimum ratio including Capital Conservation buffer and D-SIB buffer	**10.00%**	9.00%
27	Tier 1 minimum ratio	**11.50%**	10.50%
28	Total capital minimum ratio excluding CCY	**13.50%**	12.50%

14. OTHER DISCLOSURES (CONTINUED)

14.2 Leverage Ratio: Common Disclosure Template

Table 26

	Item	2016 KD 000's	2015 KD 000's
	On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	**3,481,807**	3,132,885
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	**(27,975)**	(48,559)
3	**Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)**	**3,453,832**	3,084,326
	Exposures to Sharia compliant hedging contracts		
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	**-**	-
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	**-**	-
6	Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the Bank's accounting policy.	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	**-**	-
8	(Bank's exposures to exempted Central counter parties "CCP")	**-**	-
9	**Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)**	**-**	-
	Other off-balance sheet exposures		
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	**1,110,079**	1,200,570
11	(Adjustments for conversion to credit equivalent amounts)	**(887,940)**	(998,249)
12	**Off-balance sheet items (sum of lines 10 and 11)**	**222,139**	202,321
	Capital and total exposures		
13	**Tier 1 Capital**	**379,748**	259,594
14	**Total exposures (sum of lines 3, 9,12)**	**3,675,971**	3,286,647
	Leverage ratio		
15	**Leverage ratio (Tier 1 Capital (13)/total exposures (14))**	**10.33%**	7.90%

Report of Fatwa & Shari’a Supervisory Board

Report of Fatwa & Shari'a Supervisory Board

Date: 04 Rabi' Al-Thani 1438 A.H.
Corresponding to: 03 January 2017

**In the Name of Allah, the Most Gracious,
the Most Merciful**

Report of the Fatwa and Shari'a Supervisory Board
From 01.01.2016 to 31.12.2016

To the Shareholders of Boubyan Bank

Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Folk, and Companions All.

By virtue of the resolution of the General Assembly to appoint the Fatwa and Shari'a Supervisory Board of Boubyan Bank (the "Board"), and assigning us with such a duty, we hereby provide you with the following report:

We, at the Fatwa and Shari'a Supervisory Board of Boubyan Bank, have reviewed the principles adopted and the contracts pertinent to the transactions of the Bank for the period from 1/1/2016 to 31/12/2016. We have observed the due review and revision necessary to express our opinion on the Bank's compliance with the rulings and principles of the Noble Islamic Shari'a as well as its compliance with the Fatwa, resolutions, principles and guidelines previously issued or set by the Board. The management of the Bank is entrusted with implementation of such rulings, principles and Fatwa while the Board's responsibility is limited to expressing an independent opinion in light of the transactions submitted and presented to it.

We have exercised proper observation and review that covered review of contracts and procedures followed in the Bank by testing each type of transactions, and we have obtained all the information and explanations necessary to express an opinion on the extent to which the Bank's activities are in compliance with the rulings of the Noble Islamic Shari'a. In our opinion, Boubyan Bank's contracts, documents and operations during the period from 1/1/2016 to 31/12/2016, presented to us, have been concluded as per the rulings and principles of the Noble Islamic Shari'a.

We invoke the Almighty Allah to rightly guide the Bank's management to better serve our noble religion, our dear country and to put everyone on the right path. Verily, Allah is the Arbiter of All Success.
Peace be with you.

Peace and blessings be upon our Prophet, Muhammad, his Folk and Companions All & Praise be to Allah, Lord of the Worlds.

Sheikh Dr. Abdul Aziz K. Al-Qassar

Sheikh Dr. Essam K. Al-Enezi

Sheikh Dr. Ibrahim A. Al-Rashed

Sheikh Dr. Mohammed O. Al-Fazie

BOUBYAN BANK K.S.C. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

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Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Boubyan Bank K.S.C.P (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)
We identified the following as the key audit matter:

a) Impairment of Islamic financing to customers

The impairment of Islamic financing to customers is highly subjective and is determined by the management through the exercise of extensive judgment. Certain judgements applied by the management in accounting for impairment of Islamic financing to customers include the identification of impairment events, the valuation of collateral and assessment of customers that may default, and the future cash flows of Islamic financing granted to customers.

Due to the significance of Islamic financing to customers and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies and disclosures related to exposure to credit risk are presented in Note 12 to the consolidated financial statements.

Our audit procedures included understanding and assessing the controls over the granting, booking and monitoring processes of Islamic financing to customers and the impairment provisioning process, to confirm the operating effectiveness of the key controls in place which identify the impaired Islamic financing to customers and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operating effectively for the purpose of our audit.

In addition to testing the key controls, we selected samples of Islamic financing to customers outstanding as at the reporting date and assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. For the samples selected, we also verified whether impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing Islamic financing to customers, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing Islamic financing to customers, we assessed whether the borrowers exhibit any possible default risk that may affect the repayment abilities.

We have also assessed appropriateness of the Bank's financial statement disclosures on allowance for impairment of Islamic financing to customers as detailed in Note 12.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Impairment of investment in associates

As at 31 December 2016, has recognised an impairment loss of KD 10,502 thousand on an associate as disclosed in note 16. The impairment test of investment in associates performed by the management is significant to our audit because the assessment of fair value less cost of disposal requires considerable judgment on the part of management. Estimates of fair values are based on management's views of market multiples derived from a set of comparable entities and considering qualitative and quantitative factors specific to the measurement. Therefore, we identified the impairment testing of the associate as a key audit matter.

We assessed the knowledge and expertise of the management of the Group to perform such valuations. Our audit procedures included, testing the key inputs forming the Group's fair value less cost of disposal estimate. We assessed the appropriateness of the valuation technique used and tested the key assumptions forming the Group's fair value less cost of disposal estimate. Additionally, we performed a sensitivity analysis for the effect on the valuation of changes to the inputs used.

The Bank's policy on assessing impairment on associates is disclosed in note 4 of the consolidated financial statements.

Other information

Management is responsible for the other information. Other information consists of the information included in Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BOUBYAN BANK K.S.C.P. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016 and its executive regulations, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016 and its executive regulations, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62 A
EY	DELOITTE & TOUCHE
AL-AIBAN, AL-OSAIMI & PARTNERS	AL WAZZAN & CO.

5 January 2017
Kuwait

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016

	Notes	2016 KD'000	2015 KD'000
Income			
Murabaha and other Islamic financing income		**122,682**	101,462
Finance cost and distribution to depositors	5	**(34,151)**	(22,120)
Net financing income		**88,531**	79,342
Net investment income	6	**4,442**	2,200
Net fees and commission income	7	**9,820**	7,839
Share of results of associates	16	**(1,691)**	313
Net foreign exchange gain		**2,201**	1,659
Operating income		**103,303**	91,353
Staff costs		**(25,428)**	(22,933)
General and administrative expenses		**(14,724)**	(13,624)
Depreciation		**(3,250)**	(2,636)
Operating expenses		**(43,402)**	(39,193)
Operating profit before provision for impairment		**59,901**	52,160
Provision for impairment	8	**(16,357)**	(15,058)
Operating profit before deductions		**43,544**	37,102
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(381)**	(327)
National Labour Support Tax ("NLST")		**(1,074)**	(926)
Zakat		**(428)**	(354)
Board of directors' remuneration		**(360)**	(310)
Net profit for the year		**41,301**	35,185
Attributable to:			
Equity holders of the Bank		**41,071**	35,235
Non-controlling interests		**230**	(50)
Net profit for the year		**41,301**	35,185
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	9	**17.79**	16.28

The notes from 1 to 33 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 KD'000	2015 KD'000
Net profit for the year	**41,301**	35,185
Other comprehensive income		
Items that are or may be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of available for sale investments	**(943)**	(2,973)
Net gains on sale of available for sale investments transferred to consolidated statement of profit and loss	**(85)**	(198)
Impairment losses on available for sale investments transferred to consolidated statement of profit and loss	**568**	2,248
Foreign currency translation adjustments	**163**	(2,794)
Other comprehensive loss for the year	**(297)**	(3,717)
Total comprehensive income for the year	**41,004**	31,468
Attributable to:		
Equity holders of the Bank	**40,774**	31,518
Non-controlling interests	**230**	(50)
Total comprehensive income for the year	**41,004**	31,468

The notes from 1 to 33 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 KD'000	2015 KD'000
Assets			
Cash and balances with banks	10	**36,911**	35,009
Deposits with Central Bank of Kuwait		**292,742**	133,128
Deposits with other banks	11	**328,952**	515,198
Islamic financing to customers	12	**2,516,760**	2,171,794
Financial assets at fair value through profit or loss	13	**19,495**	15,388
Available for sale investments	14	**160,305**	126,307
Investments in associates	16	**62,204**	79,713
Investment properties	17	**24,680**	23,397
Other assets	18	**13,943**	14,169
Property and equipment		**25,815**	18,782
Total assets		**3,481,807**	3,132,885
Liabilities and Equity			
Liabilities			
Due to banks		**76,278**	382,749
Depositors' accounts		**2,945,076**	2,398,935
Other liabilities	19	**37,300**	30,402
Total liabilities		**3,058,654**	2,812,086
Equity			
Share capital	20	**216,641**	206,325
Share premium	21	**62,896**	62,896
Proposed bonus shares	22	**10,832**	10,316
Treasury shares	23	**(1,438)**	(568)
Statutory reserve	24	**14,329**	9,998
Voluntary reserve	25	**13,713**	9,570
Share based payment reserve	26	**1,540**	1,171
Fair value reserve		**3,699**	4,159
Foreign currency translation reserve		**(9,099)**	(9,262)
Retained earnings		**18,884**	13,320
Proposed cash dividends	22	**12,974**	10,307
Equity attributable to equity holders of the Bank		**344,971**	318,232
Perpetual Tier 1 Sukuk	33	**75,388**	-
Non-controlling interests		**2,794**	2,567
Total equity		**423,153**	320,799
Total liabilities and equity		**3,481,807**	3,132,885

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 33 form an integral part of these consolidated financial statements.

بنك بوبيان
Boubyan Bank

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2016	**206,325**	**62,896**	**10,316**	**(568)**	**9,998**	**9,570**	**1,171**	**4,159**	**(9,262)**	**13,320**	**10,307**	**318,232**	-	**2,567**	**320,799**
Profit for the year	-	-	-	-	-	-	-	-	-	**41,071**	-	**41,071**	-	**230**	**41,301**
Other comprehensive (loss)/ income	-	-	-	-	-	-	-	**(460)**	**163**	-	-	**(297)**	-	-	**(297)**
Total comprehensive (loss)/ income for the year	-	-	-	-	-	-	-	**(460)**	**163**	**41,071**	-	**40,774**	-	**230**	**41,004**
Capital redemption of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	**(3)**	**(3)**
Transfer to reserves	-	-	-	-	**4,331**	**4,143**	-	-	-	**(8,474)**	-	-	-	-	-
Issue of bonus shares	**10,316**	-	**(10,316)**	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	-	-	**(4)**	**(10,307)**	**(10,311)**	-	-	**(10,311)**
Issue of Perpetual Tier 1 Sukuk (Note 33)	-	-	-	-	-	-	-	-	-	-	-	-	**75,388**	-	**75,388**
Transaction costs on issue of Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	-	-	**(650)**	-	**(650)**	-	-	**(650)**
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	-	-	**(2,573)**	-	**(2,573)**	-	-	**(2,573)**
Share based payment (note 26)	-	-	-	-	-	-	**480**	-	-	-	-	**480**	-	-	**480**
Purchase of treasury shares	-	-	-	**(1,032)**	-	-	-	-	-	-	-	**(1,032)**	-	-	**(1,032)**
Sales of treasury shares	-	-	-	**162**	-	-	**(111)**	-	-	-	-	**51**	-	-	**51**
Proposed bonus shares (note 22)	-	-	**10,832**	-	-	-	-	-	-	**(10,832)**	-	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	**(12,974)**	**12,974**	-	-	-	-
Balance at 31 December 2016	**216,641**	**62,896**	**10,832**	**(1,438)**	**14,329**	**13,713**	**1,540**	**3,699**	**(9,099)**	**18,884**	**12,974**	**344,971**	**75,388**	**2,794**	**423,153**

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Perpetual Tier 1 Sukuk	Non-controlling interests	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2015	196,500	62,896	9,825	(763)	6,283	6,015	864	5,082	(6,468)	5,978	9,815	296,027	-	5,075	301,102
Profit for the year	-	-	-	-	-	-	-	-	-	35,235	-	35,235	-	(50)	35,185
Other comprehensive loss for the year	-	-	-	-	-	-	-	(923)	(2,794)	-	-	(3,717)	-	-	(3,717)
Total comprehensive (loss) /income for the year	-	-	-	-	-	-	-	(923)	(2,794)	35,235	-	31,518	-	(50)	31,468
Transfer to reserves	-	-	-	-	3,715	3,555	-	-	-	(7,270)	-	-	-	-	-
Issue of bonus shares	9,825	-	(9,825)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	-	-	-	(9,815)	(9,815)	-	-	(9,815)
Capital redemption of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,458)	(2,458)
Share based payment (note 26)	-	-	-	-	-	-	307	-	-	145	-	452	-	-	452
Sales of treasury shares	-	-	-	195	-	-	-	-	-	(145)	-	50	-	-	50
Proposed bonus shares (note 22)	-	-	10,316	-	-	-	-	-	-	(10,316)	-	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	(10,307)	10,307	-	-	-	-
Balance at 31 December 2015	206,325	62,896	10,316	(568)	9,998	9,570	1,171	4,159	(9,262)	13,320	10,307	318,232	-	2,567	320,799

The notes from 1 to 33 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	**2016 KD'000**	2015 KD'000
OPERATING ACTIVITIES			
Net profit for the year		**41,301**	35,185
Adjustments for:			
Provision for impairment	8	**16,357**	15,058
Depreciation		**3,250**	2,636
Foreign currency translation adjustments		**5,472**	(2,791)
Net gain from available for sale investments		**(293)**	(198)
Net (gain)/ loss from financial assets at fair value through profit or loss		**(427)**	630
Share of results of associates		**1,691**	(313)
Dividend income		**(1,822)**	(1,824)
Net unrealized loss from change in fair value of investment properties		**628**	998
Net (gain)/loss on sale of investment properties		**(52)**	180
Share based payment reserve		**480**	452
Operating profit before changes in operating assets and liabilities		**66,585**	50,013
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**(164,635)**	(29,998)
Deposits with other banks		**(188,514)**	75,515
Islamic financing to customers		**(351,030)**	(377,879)
Other assets		**226**	(3,649)
Due to banks		**(306,471)**	156,010
Depositors' accounts		**546,141**	306,907
Other liabilities		**6,789**	2,257
Net cash (used in)/ generated from operating activities		**(390,909)**	179,176
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(5,000)**	(3,690)
Proceeds from sale of financial assets at fair value through profit or loss		**5,327**	544
Purchase of available for sale investments		**(98,108)**	(170,963)
Proceeds from sale of available for sale investments		**60,032**	158,991
Dividends received from associates		**397**	559
Purchase of investment properties		**(2,203)**	(58)
Proceeds from sale of investment properties		**176**	2,194
Purchase of property and equipment		**(10,283)**	(5,916)
Dividend income received		**1,822**	1,824
Net cash used in investing activities		**(47,840)**	(16,515)
FINANCING ACTIVITES			
Purchase of treasury shares		**(1,032)**	-
Profit paid on perpetual Tier 1 Sukuk		**(2,573)**	-
Perpetual Tier 1 Sukuk issuing cost		**(650)**	-
Net proceeds from issue of Perpetual Tier 1 Sukuk		**75,388**	-
Capital redemption of non-controlling interest		**(3)**	(2,458)
Proceeds from exercise of share options		**51**	50
Dividends paid		**(10,311)**	(9,815)
Net cash generated from/(used in) financing activities		**60,870**	(12,223)
Net increase in cash and cash equivalents		**(377,879)**	150,438
Cash and cash equivalents at the beginning of the year		**465,259**	314,821
Cash and cash equivalents at the end of the year	10	**87,380**	465,259

The notes from 1 to 33 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P ("the Bank") is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 of 2003).

The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

On 17 May 2015, the Bank's Articles of Incorporation were amended by adding a new activity, namely, offering securities or selling the same for their issuer, its affiliate or obtaining securities from the issuer or its affiliate for remarketing (issuance management).

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012.The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

The Bank is a subsidiary of National Bank of Kuwait S.A.K.P ("the Parent Company").

The total number of employees in the Group was **1278** employees as at 31 December 2016 (1201 employees as at 31 December 2015).

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

The consolidated financial statements were authorised for issue by the Board of Directors on 5 January 2017 and the shareholders have the power to amend these consolidated financial statements at the annual assembly meeting.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRSs except for the IAS 39 requirements for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirements for a minimum general provision as described in accounting policy 3.9.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of available for sale investments, financial asset at fair value through profit or loss, investment properties and derivatives. The Bank presents its consolidated statement of financial position in order of liquidity.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Bank's functional currency. All financial information presented in Kuwaiti Dinars ("KD") has been rounded to the nearest thousands, except when otherwise indicated.

2.4 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of the following new or amended IFRS applicable to the Group.

2.5 New standards and interpretations not yet adopted

The following IFRS and Interpretations have been issued but are not yet effective and have not been early adopted by the Group. The Group intends to adopt them when they become effective.

IFRS 9 "Financial Instruments":

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

a.Classification and measurement

The adoption of this standard will have an effect on the classification and measurement of the Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted (continued)

IFRS 9 "Financial Instruments": (continued)

b.Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS become mandatory on 1 January 2018.

c.Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL").

Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment or are considered to be in default or otherwise credit impaired and are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

IFRS 15 "Revenue from Contracts with Customers":

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 "Construction Contracts" and IAS 18 "Revenue" along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

The Group is in the process of evaluating the impact of IFRS 15 but does not expect any significant effect on adoption of this standard.

IFRS 16 "Leases"

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is in the process of evaluating the impact of IFRS 16 on the Group's consolidated financial statements and does not expect any significant effect on adoption of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in this consolidated financial statements, and have been applied consistently by all of the Group's entities.

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C (Closed). And Boubyan Capital Investment Company K.S.C (Closed)., as at 31 December 2016 and which are controlled by the Bank as set out in note 15.

3.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3.1.2 Non-controlling interests

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognized amount of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Bank.

3.1.4 Loss of control

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in the consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

3.1.5 Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting rights.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1.5 Investments in associates (equity-accounted investees) (continued)

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The Group recognises in the consolidated statement of profit or loss its share of the total recognised profit or loss of the associate from the date that significant influence effectively commences until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investments. Adjustments to the carrying amount may also be necessary for changes in Group's share in the associate arising from changes in the associate's equity and other comprehensive income. The Group's share of those changes is recognised directly in equity or in other comprehensive income as appropriate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill within the carrying amount of the associates.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of profit or loss.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3.2 Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the consolidated statement of profit or loss for the year. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the year, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the consolidated statement of profit or loss in the year in which the foreign operation is disposed off.

3.3 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

- Income from Murabaha, Wakala, and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.
- Dividend income is recognized when the right to receive payment is established.
- Fees and commission income is recognized at the time the related services are provided.
- Rental income from investment properties is recognised on a straight line basis over the lease period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments

3.4.1 Financial assets

Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in the fair value between trade date and settlement date are recognized in the consolidated statement of profit or loss for financial assets at fair value through profit or loss and are recognized in other comprehensive income for available for sale investments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Recognition and derecognition of financial assets

Financial assets are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a liability for the proceeds received.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

The Group classifies financial assets into the following categories: cash and cash equivalents, due from banks, Islamic financing to customers, financial assets at fair value through profit or loss, available for sale investments and other assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, current account with other banks and placements with banks maturing within seven days.

Deposits with Banks and Islamic financing to customers

Due from banks and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market. These instruments comply with Code of Islamic Sharia.

Murabaha

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Wakala

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortized cost net of provision for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

Renegotiated finance facilities

In the event of a default, the Group seeks to restructure facilities rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new facility conditions. When the terms and conditions of these finance facilities are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these facilities remain past due. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continues to be subject to an individual or collective impairment assessment.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's strategy or such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Attributable transaction costs are recognised in consolidated statement of profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in consolidated statement of profit or loss.

Available for sale investment

Available for sale investments are non-derivative financial assets that are not classified in any of the above categories of financial assets.

Available for sale investment are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3.9) and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised or is determined to be impaired, the gain or loss accumulated in equity is reclassified to consolidated statement of profit or loss.

3.4.2 Financial liabilities

All financial liabilities are recognised initially on the settlement date at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities comprise due to banks, depositors' accounts and other liabilities.

Due to banks and depositors' accounts

Depositors' accounts are deposits received from customers under current account, saving investment accounts and fixed term investments accounts. The depositors' accounts of the Bank comprise the following:

i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hassan from depositors to the Bank under Islamic Sharia'a principals. Investing such Qard Hassan is made at the discretion of the Group, the results of which are attributable to the equity shareholders of the Bank.

i) Investment deposit accounts include savings accounts, fixed term deposit accounts, and open term deposit accounts.

Saving Investment Accounts

These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time.

Fixed-Term Deposit Investment Accounts

These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits mature monthly, quarterly, semi-annually, or annually.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.2 Financial liabilities (continued)

Open –Term Deposit Investment Accounts
These are open-term deposits and are treated as annual deposits renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit.

In all cases, investment accounts receive a proportion of profit, bear a share of loss and are carried at cost plus profit payable.

3.5 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and also considering the ability to generate economic benefits by using the property in its highest and best use.

3.6 Derivatives

Derivative instruments are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

The Group enters into foreign exchange forward contracts. Forward foreign exchange contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and losses from derivatives are included in the consolidated statement of profit or loss.

3.7 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance is expensed as incurred.

Items of property and equipment are depreciated on a straight-line basis in the consolidated statement of profit or loss over the estimated useful lives of each component.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

• Furniture and leasehold improvement	5 years
• Office equipment	3 - 10 years
• Building on leasehold land	20 years

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted, if appropriate.

3.9. Impairment

3.9.1 Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss.

Financial assets measured at amortised cost

The amount of impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective yield. Losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against Islamic financing to customers. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

In addition, in accordance with Central Bank of Kuwait's instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provisions is made. In March 2007, CBK issued a circular amending the basis of calculating general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 1% to 0.5% for non-cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non-cash facilities as of 31 December 2006 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

Available for sale investment

Impairment losses on available for sale investment are recognised by reclassifying the losses accumulated in the other comprehensive income to consolidated statement of profit or loss. The cumulative loss that is reclassified from other comprehensive income to consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in consolidated statement of profit or loss. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Impairment (continued)

3.9.2 Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market rates and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of profit or loss.

3.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the financial reporting date and are discounted to present value where the effect is material.

3.11 Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes of the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

3.12 Share based payment

The Bank operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of options or shares is recognized as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

3.13 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Treasury shares

Treasury shares consist of the Bank's own shares that have been issued, subsequently reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account.

No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

3.15 Post-employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

3.16 Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% in accordance with the calculation based on the Foundation's Board of Directors resolution.

3.17 National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

3.18 Zakat

Effective from 10 December 2007, the Bank has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of profit and loss.

3.19 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

3.20 Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its customers. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the consolidated financial statements:

Classification of investments

Management decides on acquisition of an investment whether to classify it as held to maturity, available for sale or financial asset at fair value through profit or loss.

In designating financial assets at fair value through profit or loss, the Group determines if it meets one of the criteria for this designation set out in the significant accounting policies (see note 3.4.1).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.1 Critical judgments in applying the Group's accounting policies (continued)

Impairment of investments

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Fair value hierarchy

As disclosed in note 30.6, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

Impairment of investment in associates

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value If there is any objective evidence that the investment in associates are impaired. The estimation of recoverable amount requires the Group to make an estimate of fair value less cost of disposal, the expected future cash flows and selection of appropriate inputs for valuation.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment losses on Islamic finance facilities

The Group reviews its irregular Islamic finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that has substantially the same characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

5. FINANCE COST AND DISTRIBUTION TO DEPOSITORS

The Bank determines and distributes the depositors' share of profit based on the Bank's results at the end of each month.

6. NET INVESTMENT INCOME

	2016	2015
	KD'000	KD'000
Sukuk coupon income	**2,414**	1,986
Dividend income	**1,822**	1,824
Net rental income from investment properties	**62**	-
Net gain /(loss) from financial assets at fair value through profit or loss	**427**	(630)
Net gain from sale of available for sale investments	**293**	198
Net gain/(loss) on sale of investment properties	**52**	(180)
Unrealized loss from changes in fair value of investment properties	**(628)**	(998)
	4,442	2,200

7. NET FEES AND COMMISSION INCOME

	2016 **KD'000**	2015 KD'000
Gross fees and commission income	**14,102**	10,812
Fees and commission expenses	**(4,282)**	(2,973)
	9,820	7,839

8. PROVISION FOR IMPAIRMENT

	2016 **KD'000**	2015 KD'000
Provision for impairment of finance facilities	**5,287**	9,951
Impairment of investments	**568**	2,672
Impairment losses of investments in associate (note 16)	**10,502**	2,435
	16,357	15,058

The analysis of provision for impairment of finance facilities based on specific and general provision is as follows:

	Specific KD'000	General KD'000	Total KD'000
Balance at 1 January 2015	5,380	36,204	41,584
Provided during the year	4,139	5,812	9,951
Recovery of written off balances	1,463	-	1,463
Written off balances during the year	(2,262)	-	(2,262)
Balance at 31 December 2015	8,720	42,016	50,736
Provided during the year	**2,258**	**3,029**	**5,287**
Recovery of written off balances	**1,578**	**-**	**1,578**
Written off balances during the year	**(312)**	**-**	**(312)**
Balance at 31 December 2016	**12,244**	**45,045**	**57,289**

Further analysis of provision for impairment of finance facilities by category is as follows:

	Islamic finance to customers KD'000	Non-cash facilities KD'000	Total KD'000
Balance at 1 January 2015	40,089	1,495	41,584
Provided during the year	9,860	91	9,951
Recovery of written off balances	1,463	-	1,463
Written off balances during the year	(2,262)	-	(2,262)
Balance at 31 December 2015	49,150	1,586	50,736
Provided during the year	**5,178**	**109**	**5,287**
Recovery of written off balances	**1,578**	**-**	**1,578**
Written off balances during the year	**(312)**	**-**	**(312)**
Balance at 31 December 2016	**55,594**	**1,695**	**57,289**

At 31 December 2016, non-performing finance facilities amounted to **KD 8,856 thousand**, net of provision of **KD 12,244 thousand** (31 December 2015: KD 10,803 thousand, net of provision of KD 8,720 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. BASIC AND DILUTED EARNING PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to the equity holders of the Bank adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change from the reported basic earnings per share.

	2016	2015
Net profit for the year attributable to the equity holders of the Bank (KD'000)	**41,071**	35,235
Less: profit payment on Perpetual Tier 1 Sukuk	**(2,573)**	-
	38,498	35,235
Weighted average number of shares outstanding during the year (thousands of shares)	**2,164,135**	2,164,583
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**17.79**	16.28

Earnings per share for the year ended 31 December 2015 was 17.09 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

10. CASH AND CASH EQUIVALENTS

	2016	2015
	KD'000	KD'000
Cash and balances with banks	**36,911**	35,009
Placement with banks maturing within seven days	**50,469**	430,250
	87,380	465,259

11. DEPOSITS WITH OTHER BANKS

The geographical distribution of balances deposits with other banks is as follows:

	2016	2015
	KD'000	KD'000
Kuwait & Middle East	**313,419**	489,398
Europe	**15,533**	25,800
	328,952	515,198

12. ISLAMIC FINANCING TO CUSTOMERS

The geographical distribution of Islamic financing to customers is as follows:

	Kuwait & Middle East	**Europe**	**Asia**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**
2016				
Corporate banking	**1,393,476**	**2,645**	**3,325**	**1,399,446**
Consumer banking	**1,172,908**	**-**	**-**	**1,172,908**
	2,566,384	**2,645**	**3,325**	**2,572,354**
Less: provision for impairment	**(52,763)**	**(26)**	**(2,805)**	**(55,594)**
	2,513,621	**2,619**	**520**	**2,516,760**

	Kuwait & Middle East	Europe	Asia	Total
	KD'000	KD'000	KD'000	KD'000
2015				
Corporate banking	1,215,001	3,385	3,534	1,221,920
Consumer banking	999,024	-	-	999,024
	2,214,025	3,385	3,534	2,220,944
Less: provision for impairment	(46,804)	(34)	(2,312)	(49,150)
	2,167,221	3,351	1,222	2,171,794

12. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

Provisions for impairment of Islamic financing to customers are as follows:

	Specific		General		Total	
	2016	2015	**2016**	2015	**2016**	2015
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**8,720**	5,380	**40,430**	34,709	**49,150**	40,089
Provided during the year	**2,258**	4,139	**2,920**	5,721	**5,178**	9,860
Recovery of written off balances	**1,578**	1,463	**-**	-	**1,578**	1,463
Written off balances during the year	**(312)**	(2,262)	**-**	-	**(312)**	(2,262)
Balance at end of the year	**12,244**	8,720	**43,350**	40,430	**55,594**	49,150

Further analysis of specific provision based on class of financial assets is given below:

	Corporate banking		Consumer banking		Total	
	2016	2015	**2016**	2015	**2016**	2015
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**7,123**	3,756	**1,597**	1,624	**8,720**	5,380
Provided during the year	**658**	3,093	**1,597**	1,046	**2,258**	4,139
Recovery of written off balances	**971**	1,066	**610**	397	**1,578**	1,463
Written off balances during the year	**(300)**	(792)	**(12)**	(1,470)	**(312)**	(2,262)
Balance at end of the year	**8,452**	7,123	**3,792**	1,597	**12,244**	8,720

Whenever necessary, Islamic financing to customers is secured by acceptable forms of collateral to mitigate the related credit risks.

Non performing Islamic financing to customers and related specific provisions are as follows:

	2016	2015
	KD'000	KD'000
Islamic financing to customers	**21,100**	19,523
Specific provision for impairment	**(12,244)**	(8,720)
	8,856	10,803

At 31 December 2016 management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 5,109 thousand** (31 December 2015: KD 7,171 thousand).

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	KD'000	KD'000
Investment in unquoted equity securities	**2,987**	2,560
Investment in unquoted equity funds	**16,508**	12,828
	19,495	15,388

14. AVAILABLE FOR SALE INVESTMENTS

	2016	2015
	KD'000	KD'000
Investment in Sukuk	**121,304**	96,805
Investment in unquoted equity funds	**27,953**	18,015
Investment in unquoted equity securities	**10,097**	10,153
Investment in quoted equity securities	**951**	1,334
	160,305	126,307

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	2016	2015
			% Effective ownership	
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	Takaful insurance	**67.68**	67.63
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	Islamic investments	**99.67**	99.67

16. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	Principal activity	2016	2015
			% Effective ownership	
Bank Syariah Muamalat Indonesia Tbk ("BSMI")	Indonesia	Islamic Banking	**22.00**	22.00
Bank of London and the Middle East ("BLME")	United Kingdom	Islamic Banking	**26.40**	25.62
United Capital Bank	Republic of Sudan	Islamic Banking	**21.67**	21.67
Saudi Projects Holding Group	Kuwait	Real Estate	**25.00**	25.00
Ijarah Indonesia Finance Company	Indonesia	Islamic financing	**33.33**	33.33

During the year, the Group provided for an impairment in respect of one of its associates. The impairment is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using market multiples.

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarized financial information in respect of BSMI is set out below:

	2016 KD'000	2015 KD'000
Total assets	**1,161,139**	1,206,572
Total liabilities	**(1,090,461)**	(1,122,595)
Net assets	**70,678**	83,977
Group's share of net assets	**15,549**	18,475
Group's share of contingent liabilities	**3,295**	4,032

	2016 KD'000	2015 KD'000
Total revenue	**43,227**	46,640
Net profit	**1,727**	2,397
Group's share of results	**380**	410

Summarized financial information in respect of BLME is set out below:

	2016 KD'000	2015 KD'000
Total assets	**508,697**	634,139
Total liabilities	**(416,841)**	(518,104)
Net assets	**91,856**	116,035
Group's share of net assets	**24,564**	29,728

	2016 KD'000	2015 KD'000
Total revenue	**12,374**	19,528
Net profit	**(6,846)**	322
Group's share of results	**(2,317)**	(440)

Summarized financial information in respect of the Group's other associates that are individually immaterial, are set out below:

	2016 KD'000	2015 KD'000
Total assets	**127,822**	140,669
Total liabilities	**(95,605)**	(104,166)
Net assets	**32,217**	36,503
Group's share of net assets	**7,482**	8,582
Group's share of contingent liabilities	**2,214**	2,434

	2016 KD'000	2015 KD'000
Total revenue	**6,767**	10,355
Net profit	**1,271**	1,412
Group's share of results	**246**	343

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2016	2015
	KD'000	KD'000
Balance at the beginning of the year	**23,397**	25,637
Additions during the year	**2,203**	1,394
Disposals during the year	**(172)**	(2,447)
Net unrealized loss from change in fair value of investment properties	**(628)**	(998)
Foreign currency translation adjustments	**(120)**	(189)
Balance at the ending of the year	**24,680**	23,397

The fair values were determined based on market approach. There has been no change to the valuation techniques during the year. All of the Group's investment properties are included in Level 2 of fair value hierarchy as at 31 December 2016.

18. OTHER ASSETS

	2016	2015
	KD'000	KD'000
Accrued income	**1,246**	1,017
Prepayments	**5,342**	5,406
Others	**7,355**	7,746
	13,943	14,169

19. OTHER LIABILITIES

	2016	2015
	KD'000	KD'000
Creditors and accruals	**17,372**	13,740
Accrued staff benefits	**10,578**	8,902
Clearing accounts	**-**	2,731
General provision on non-cash facilities	**1,695**	1,586
Others	**7,655**	3,443
	37,300	30,402

20. SHARE CAPITAL

	2016		2015	
	Shares	**KD'000**	Shares	KD'000
Shares authorised, issued and paid up of 100 fils each comprised of **2,063,251,570** shares (2015: 1,965,001,500 shares) fully paid in cash and **103,162,578** shares (2015: 98,250,070 shares) issued as bonus shares during the year.	**2,166,414,153**	**216,641**	2,063,251,570	206,325

21. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Companies Law No. 1 of 2016, as amended and its executive regulations

22. PROPOSED DIVIDEND

The board of directors recommended distribution of cash dividends of **6 fils** per share (2015: 5 fils) and bonus shares of **5%** (2015: 5%) (The increase in capital during the year was recorded in the commercial register on 23 March 2016) on outstanding shares as at 31 December 2016. The cash dividend, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the annual general assembly meeting and the bonus shares, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the regulatory approval for distribution of bonus shares.

23. TREASURY SHARES

The Bank held the following treasury shares as at 31 December:

	2016	2015
Number of treasury shares	**4,024,946**	1,790,413
Treasury shares as a percentage of total issued shares - %	**0.1858%**	0.0868%
Cost of treasury shares – KD thousand	**1,438**	568
Market value of treasury shares – KD thousand	**1,590**	790
Weighted average of market value per share (fils)	**0.382**	0.427

An amount equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from retained earnings and voluntary reserve throughout the holding period of treasury shares.

24. STATUTORY RESERVE

In accordance with the Companies Law No. 1 of 2016 and the Bank's Memorandum of Incorporation and Articles of Association, 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST, Zakat and Board of directors' remuneration is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

25. VOLUNTARY RESERVE

As required by the Bank's Articles of Association, 10% of profit for the year attributable to the shareholders of the Bank before Board of directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount equivalent to the cost of purchase of the treasury shares (Note 23).

26. SHARE BASED PAYMENT RESERVE

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was **347 fils** (2015: 316 fils). The significant inputs into the model were a share price of **440 fils** (2015: 410 fils) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of **23%** (2015: 21%), option life disclosed above and annual risk free rate of **2.25%** (2015:2%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The weighted average remaining life of the share options was **461 days** (2015: 501 days) and the weighted average fair value of share options granted was **376 fils** (2015: 402 fils).

The following table shows the movement in number of share options during the year:

	2016 Number of share options	2015 Number of share options
Outstanding at 1 January	**3,399,565**	2,410,645
Granted during the year	**2,115,938**	1,821,007
Cancelled during the year	**(329,814)**	(340,107)
Exercised during the year	**(558,749)**	(491,980)
Outstanding at 31 December	**4,626,940**	3,399,565

The expense accrued on account of share based compensation plans for the year amounts to **KD 491 thousand** (31 December 2015: KD 461 thousand) and is included under staff costs in the consolidated statement of profit or loss. During the year certain employees have exercised their stock options of **559 thousand shares** (2015: 492 thousands shares) and these shares have been issued from treasury shares held by the Bank.

27. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the Parent Company including their board members, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

	Number of board member or executive officers		Number of related parties			
	2016	2015	**2016**	2015	**2016**	2015
					KD'000	KD'000
Islamic financing to customers	**8**	8	**3**	3	**2,965**	3,918
Depositors' accounts	**17**	16	**9**	8	**22,563**	53,059
Letters of guarantee and letters of credit	**1**	1	1	-	**25**	43
Murabaha and other Islamic financing income					**83**	96
Finance cost and distribution to depositors					**(500)**	(537)
Parent Company						
Due from banks					**124,188**	72,021
Due to banks					**38,528**	124,310
Murabaha and other Islamic financing income					**595**	234
Finance cost and distribution to depositors					**(278)**	(246)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 4,670 thousand** as at 31 December 2016 (31 December 2015: KD 5,713 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2016	2015
	KD'000	KD'000
Short-term benefits	**1,787**	1,790
Post-employment benefits	**336**	373
Share based compensation	**470**	398
	2,593	2,561

Senior executive officers also participate in the Group's share based payment programme (see note 26).

28. CONTINGENCIES AND COMMITMENTS

At the financial reporting date there were outstanding contingencies and commitments entered in the ordinary course of business in respect of the following:

	2016	2015
	KD'000	KD'000
Guarantees	**200,246**	184,644
Acceptances and letters of credit	**58,604**	49,756
Other commitments	**27,969**	3,812
	286,819	238,212

Operating lease commitments:
Future minimum lease payments:

	2016	2015
	KD'000	KD'000
Within one year	**2,515**	2,400
After one year but not more than five years	**3,636**	5,259
Total operating lease expenditure contracted for at the reporting date	**6,151**	7,659

29. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments

For management purposes, the Bank is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional customers. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking: Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking: Principally handling direct investments, investment in associates, local and international real estate investment and asset management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre: Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

2016	**Consumer banking KD'000**	**Corporate banking KD'000**	**Investment banking KD'000**	**Treasury KD'000**	**Group centre KD'000**	**Total KD'000**
Net financing income/(loss)	**52,101**	**28,970**	**(2,025)**	**4,254**	**5,231**	**88,531**
Share of results of associates	**-**	**-**	**(1,691)**	**-**	**-**	**(1,691)**
Operating income/(loss)	**55,287**	**36,239**	**3,884**	**6,457**	**1,436**	**103,303**
Depreciation	**(2,121)**	**(65)**	**(65)**	**(16)**	**(983)**	**(3,250)**
Net profit/ (loss) for the year	**30,076**	**31,376**	**(10,044)**	**6,057**	**(16,164)**	**41,301**
Total assets	**1,173,513**	**1,565,260**	**172,836**	**592,655**	**(22,457)**	**3,481,807**
Total liabilities	**1,192,754**	**276,269**	**24,474**	**1,560,582**	**4,575**	**3,058,654**

2015	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Net financing income/(loss)	47,293	27,758	(1,837)	4,625	1,503	79,342
Share of results of associates	-	-	313	-	-	313
Operating income/(loss)	49,339	34,490	2,392	6,277	(1,145)	91,353
Depreciation	(1,571)	(50)	(79)	(10)	(926)	(2,636)
Net profit/(loss) for the year	27,232	27,357	(5,803)	5,876	(19,477)	35,185
Total assets	1,004,871	1,381,277	175,623	597,377	(26,263)	3,132,885
Total liabilities	1,034,387	258,201	20,009	1,497,611	1,878	2,812,086

Geographical segment

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of assets.

	Middle East & North Africa KD'000	**North America KD'000**	**Europe KD'000**	**Asia KD'000**	**Total KD'000**
2016					
Assets	**3,309,100**	**5,020**	**77,414**	**90,273**	**3,481,807**
Non-current assets (excluding financial instruments)	**68,047**	**-**	**33,748**	**24,847**	**126,642**
Liabilities and equity	**3,478,500**	**-**	**3,307**	**-**	**3,481,807**
Segment income/(expenses)	**103,144**	**-**	**(768)**	**927**	**103,303**

	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
2015					
Assets	2,897,131	3,102	142,559	90,093	3,132,885
Non-current assets (excluding financial instruments)	60,815	-	40,670	34,576	136,061
Liabilities and equity	3,131,880	-	1,005	-	3,132,885
Segment income/(expenses)	91,678	40	(1,032)	667	91,353

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a Group risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors and Board Risk Committee with the support of the Management Executive Committee and the Group's Risk Management functions.

The Group is exposed to credit risk, market risk, liquidity risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify, manage and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

As part of its overall risk management, the Group uses financial instruments to manage exposures resulting from changes in foreign exchange and equity risks. Collateral is used to reduce the Group's credit risk.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risks.

30.2 Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the respective credit risk functions. Whenever necessary, Islamic facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee, which meets regularly throughout the year, is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

The Group further limits risk through diversification of its assets by industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

30.2.1 Maximum exposure to credit risk (Net exposure after covered collateral)

An analysis of Islamic financing to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements is as follows:

	2016		2015	
	Gross exposure KD'000	**Net exposure KD'000**	Gross exposure KD'000	Net exposure KD'000
Islamic financing to customers	**2,516,760**	**1,620,289**	2,171,794	1,375,208
Contingent liabilities and capital commitments	**286,819**	**250,358**	238,212	204,459

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units. The Group may also obtain guarantees from parent companies for financing provided to their subsidiaries.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.2 Risk Concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2016 are **23.98%** (2015: 19.6%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	Middle East & North Africa KD'000	**North America KD'000**	**Europe KD'000**	**Asia KD'000**	**Total KD'000**
2016					
Balances with banks	**3,356**	**5,020**	**1,174**	**148**	**9,698**
Deposits with Central Bank of Kuwait	**292,742**	**-**	**-**	**-**	**292,742**
Deposits with other banks	**313,419**	**-**	**15,533**	**-**	**328,952**
Islamic financing to customers	**2,513,621**	**-**	**2,619**	**520**	**2,516,760**
Available for sale investments (Sukuk)	**52,196**	**-**	**4,350**	**64,758**	**121,304**
Other assets (excluding accrued income and prepayments)	**7,355**	**-**	**-**	**-**	**7,355**
	3,182,689	**5,020**	**23,676**	**65,426**	**3,276,811**
Contingent liabilities	**248,756**	**-**	**2,069**	**8,025**	**258,850**
Commitments	**27,969**	**-**	**-**	**-**	**27,969**
Total credit risk exposure	**3,459,414**	**5,020**	**25,745**	**73,451**	**3,563,630**

	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
2015					
Balances with banks	3,654	2,543	3,031	183	9,411
Deposits with Central Bank of Kuwait	133,128	-	-	-	133,128
Deposits with other banks	444,935	-	70,263	-	515,198
Islamic financing to customers	2,167,458	-	3,351	985	2,171,794
Available for sale investments (Sukuk)	42,897	-	8,089	45,819	96,805
Other assets (excluding accrued income and prepayments)	7,746	-	-	-	7,746
	2,799,818	2,543	84,734	46,987	2,934,082
Contingent liabilities	226,094	-	281	8,025	234,400
Commitments	3,812	-	-	-	3,812
Total credit risk exposure	3,029,724	2,543	85,015	55,012	3,172,294

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.2 Risk Concentration of the maximum exposure to credit risk (continued)

The Group's financial assets before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2016	2015
	KD'000	KD'000
Trading	**129,368**	160,991
Manufacturing	**100,194**	83,672
Banking and other financial institutions	**548,352**	669,345
Construction	**46,013**	37,306
Real Estate	**697,203**	648,343
Retail	**1,116,265**	967,672
Government	**328,465**	165,776
Others	**310,951**	200,977
	3,276,811	2,934,082

30.2.3 Credit quality per class of financial assets

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of relevant aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired		**Past due or impaired**	**Total**
	High	**Standard**		
	KD'000	**KD'000**	**KD'000**	**KD'000**
2016				
Balances with banks	**9,698**	**-**	**-**	**9,698**
Deposits with Central Bank of Kuwait	**292,742**	**-**	**-**	**292,742**
Deposits with other banks	**328,952**	**-**	**-**	**328,952**
Islamic financing to customers	**2,379,997**	**127,321**	**65,036**	**2,572,354**
Available for sale investments (Sukuk)	**121,304**	**-**	**-**	**121,304**
Other assets (excluding accrued income and prepayment)	**7,355**	**-**	**-**	**7,355**
	3,140,048	**127,321**	**65,036**	**3,332,405**

	Neither past due nor impaired		Past due or impaired	Total
	High	Standard		
	KD'000	KD'000	KD'000	KD'000
2015				
Balances with banks	9,411	-	-	9,411
Deposits with Central Bank of Kuwait	133,128	-	-	133,128
Deposits with other banks	515,198	-	-	515,198
Islamic financing to customers	2,004,175	123,651	93,118	2,220,944
Available for sale investments (Sukuk)	96,805	-	-	96,805
Other assets (excluding accrued income and prepayment)	7,746	-	-	7,746
	2,766,463	123,651	93,118	2,983,232

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (continued)

30.2.3 Credit quality per class of financial assets (continued)

Ageing analysis of past due or impaired financial assets:

	Corporate banking		**Consumer banking**		**Total**	
	Past due and not impaired KD'000	**Past due and impaired KD'000**	**Past due and not impaired KD'000**	**Past due and impaired KD'000**	**Past due and not impaired KD'000**	**Past due and impaired KD'000**
2016						
Up to 30 days	**8,180**	**2,793**	**11,391**	**-**	**19,571**	**2,793**
31 – 60 days	**4,916**	**-**	**4,066**	**-**	**8,982**	**-**
61 – 90 days	**13,371**	**-**	**2,012**	**-**	**15,383**	**-**
91 – 180 days	**-**	**424**	**-**	**2,698**	**-**	**3,122**
More than 180 days	**-**	**11,005**	**-**	**4,180**	**-**	**15,185**
	26,467	**14,222**	**17,469**	**6,878**	**43,936**	**21,100**

	Corporate banking		Consumer banking		Total	
	Past due and not impaired KD'000	Past due and impaired KD'000	Past due and not impaired KD'000	Past due and impaired KD'000	Past due and not impaired KD'000	Past due and impaired KD'000
2015						
Up to 30 days	40,254	2,688	10,936	-	51,190	2,688
31 – 60 days	6,072	-	3,953	-	10,025	-
61 – 90 days	10,597	-	1,783	-	12,380	-
91 – 180 days	-	498	-	3,111	-	3,609
More than 180 days	-	11,628	-	1,598	-	13,226
	56,923	14,814	16,672	4,709	73,595	19,523

At 31 December 2016 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to **KD 5,109 thousand** (31 December 2015: KD 7,171 thousand).

30.3 Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of prices such as foreign exchange rates and equity prices.

The Group is not exposed to material risk in terms of the re-pricing of its liabilities since, in accordance with Islamic Sharia'a, the Group does not provide a guaranteed contractual rate of return to its depositors.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis by an independent middle office function.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 Foreign Currency risk (continued)

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		2016		2015	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000	**KD'000**	KD'000	KD'000
US Dollar	+5	**81**	**-**	131	-
Sterling Pound	+5	**3**	**-**	4	-
Euro	+5	**4**	**-**	5	-
Indonesian Rupiah	+5	**-**	**1,242**	-	1,729
Sudanese Pound	+5	**54**	**229**	58	258
Japanese Yen	+5	**1**	**-**	8	-
Others	+5	**(7)**	**-**	7	-

A 5 percent decrease of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effect of the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

For such investments classified as available for sale, a five percent increase in stock prices as at 31 December 2016 would have increased equity by **KD 48 thousand** (31 December 2015: an increase of KD 67 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The Group has established an Asset and Liabilities Management Committee to manage the assets and liabilities of the Group comprehensively and strategically. The committee meets regularly to determine and review policies for managing liquidity risk, as well as to set risk limits.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows, maturity dates or on management's estimate of liquidation. This does not necessarily take account of the effective maturities.

	Up to three months	**3 to 6 months**	**6 to 12 Months**	**Over 1 year**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2016					
Assets					
Cash and balances with banks	**36,911**	**-**	**-**	**-**	**36,911**
Deposits with Central Bank of Kuwait	**55,318**	**119,153**	**70,803**	**47,468**	**292,742**
Deposits with Banks	**328,952**	**-**	**-**	**-**	**328,952**
Islamic financing to customers	**994,119**	**140,788**	**123,602**	**1,258,251**	**2,516,760**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**19,495**	**19,495**
Available for sale investments	**116,425**	**-**	**-**	**43,880**	**160,305**
Investments in associates	**-**	**-**	**-**	**62,204**	**62,204**
Investment properties	**-**	**-**	**-**	**24,680**	**24,680**
Other assets	**7,355**	**-**	**6,588**	**-**	**13,943**
Property and equipment	**-**	**-**	**-**	**25,815**	**25,815**
Total assets	**1,539,080**	**259,941**	**200,993**	**1,481,793**	**3,481,807**
Liabilities and Equity					
Due to banks	**61,076**	**15,202**	**-**	**-**	**76,278**
Depositors' accounts	**1,769,894**	**281,477**	**638,353**	**255,352**	**2,945,076**
Other liabilities	**7,655**	**-**	**17,372**	**12,273**	**37,300**
Equity	**-**	**-**	**-**	**423,153**	**423,153**
Total liabilities and equity	**1,838,625**	**296,679**	**655,725**	**690,778**	**3,481,807**

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
2015					
Assets					
Cash and balances with banks	35,009	-	-	-	35,009
Deposits with Central Bank of Kuwait	35,253	40,236	57,639	-	133,128
Deposits with Banks	475,733	28,842	10,623	-	515,198
Islamic financing to customers	703,406	222,738	164,901	1,080,749	2,171,794
Financial assets at fair value through profit or loss	-	-	-	15,388	15,388
Available for sale investments	91,336	-	-	34,971	126,307
Investments in associates	-	-	-	79,713	79,713
Investment properties	-	-	-	23,397	23,397
Other assets	7,746	-	6,423	-	14,169
Property and equipment	-	-	-	18,782	18,782
Total assets	1,348,483	291,816	239,586	1,253,000	3,132,885
Liabilities and Equity					
Due to banks	382,749	-	-	-	382,749
Depositors' accounts	1,371,830	504,917	506,468	15,720	2,398,935
Other liabilities	6,179	-	13,741	10,482	30,402
Equity	-	-	-	320,799	320,799
Total liabilities and equity	1,760,758	504,917	520,209	347,001	3,132,885

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk (continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the projected cash flows including future profit payments over the life of these financial liabilities based on contractual repayment arrangements.

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
2016					
Financial liabilities					
Due to banks	**61,116**	**15,285**	**-**	**-**	**76,401**
Depositors' accounts	**1,778,675**	**281,646**	**647,375**	**268,654**	**2,976,350**
	1,839,791	**296,931**	**647,375**	**268,654**	**3,052,751**
Contingent liabilities and capital commitments					
Contingent liabilities	**77,011**	**32,620**	**71,413**	**77,806**	**258,850**
Capital commitments	**-**	**-**	**27,969**	**-**	**27,969**
	77,011	**32,620**	**99,382**	**77,806**	**286,819**

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
2015					
Financial liabilities					
Due to banks	383,356	-	-	-	383,356
Depositors' accounts	1,375,582	506,007	510,276	15,770	2,407,635
	1,758,938	506,007	510,276	15,770	2,790,991
Contingent liabilities and capital commitments					
Contingent liabilities	68,138	36,352	51,051	78,859	234,400
Capital commitments	-	-	3,812	-	3,812
	68,138	36,352	54,863	78,859	238,212

30.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial /reputational loss.

The Group has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Group as part of overall risk management activities.

The operational risk of the Group is managed in line with the Central Bank of Kuwait's instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in banks.

30.6 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values as at 31 December due to relatively short-term maturity of the instruments.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (continued)

Financial assets	Fair value as at 2016	Fair value as at 2015	Fair value Hierarchy 2016	Sector
Financial assets at fair value through profit or loss - *Unquoted securities*	**2,987**	2,560	Level 3	Real Estate
Financial assets at fair value through profit or loss - *Unquoted funds*	**16,508**	12,828	Level 2	Financial Institutions
Available for sale investments – *Sukuk*	**35,723**	32,183	Level 1	Government
	85,581	64,622	Level 1	Financial Institutions
Available for sale investments - *Unquoted funds*	**5,365**	7,609	Level 2	Financial Institutions
	8,133	6,244	Level 2	Real Estate
	14,455	4,162	Level 2	Services
Available for sale investments - *Unquoted securities*	**1,743**	1,712	Level 3	Financial Institutions
	1,738	1,836	Level 3	Real Estate
	6,616	6,605	Level 3	Services
Available for sale investments - *Quoted securities*	**657**	886	Level 1	Real Estate
	294	448	Level 1	Financial Institutions

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data (unobservable inputs).

2016	**Level 1 KD'000**	**Level 2 KD'000**	**Level 3 KD'000**	**Total KD'000**
Financial assets at fair value through profit or loss	**-**	**16,508**	**2,987**	**19,495**
Available for sale investments	**122,255**	**27,953**	**10,097**	**160,305**
	122,255	**44,461**	**13,084**	**179,800**

2015	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Financial assets at fair value through profit or loss	-	12,828	2,560	15,388
Available for sale investments	98,139	18,015	10,153	126,307
	98,139	30,843	12,713	141,695

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (continued)

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets.

	At 1 January 2016	**Change in fair value**	**Impairment**	**Additions**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2016**
	KD 000's	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**
Financial assets at fair value through profit or loss							
Unquoted securities	**2,560**	**427**	**-**	**-**	**-**	**-**	**2,987**
Available for sale investments							
Unquoted securities	**10,153**	**421**	**-**	**1,595**	**(2,090)**	**18**	**10,097**
	12,713	**848**	**-**	**1,595**	**(2,090)**	**18**	**13,084**

	At 1 January 2015	Change in fair value	Impairment	Additions	Sale/ redemption	Exchange rate movements	At 31 December 2015
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Financial assets at fair value through profit or loss							
Unquoted securities	2,995	(435)	-	-	-	-	2,560
Available for sale investments							
Unquoted securities	11,906	397	(1,098)	336	(1,495)	107	10,153
	14,901	(38)	(1,098)	336	(1,495)	107	12,713

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2016 are as shown below:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	**Sensitivity of the input to fair value**
Financial assets at fair value through profit or loss *– unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 30 thousand**.
Available for sale investments *– unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 101 thousand.**

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

In the case of available for sale investments, the impairment charge in the profit or loss would depend on whether the decline is significant or prolonged. In case of equity securities classified as available for sale, an increase in the fair value would only impact equity (through other comprehensive income) and, would not have an effect on profit or loss.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (continued)

Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating a range of input assumptions that are appropriate in the circumstances. Carrying value of financial assets and liabilities that are carried at amortised cost are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in profit rates.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of profit or loss.

30.7 Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2016 and 31 December 2015 are calculated in accordance with Central Bank of Kuwait circular number 2/RB, RBA/336/2014 dated 24 June 2014 related to Basel III regulations which are shown below:

	2016	2015
	KD'000	KD'000
Risk weighted assets	**1,875,775**	1,631,425
Capital required	**253,230**	203,928
Capital available		
Common Equity Tier 1 Capital	**304,023**	259,364
Additional Tier 1 Capital	**75,725**	230
Tier 1 Capital	**379,748**	259,594
Tier 2 capital	**20,750**	18,332
Total capital	**400,498**	277,926
Common Equity Tier 1 capital adequacy ratio	**16.21%**	15.90%
Tier 1 capital adequacy ratio	**20.24%**	15.91%
Total capital adequacy ratio	**21.35%**	17.04%

The Group's financial leverage ratio for the year ended 31 December 2016 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2016	2015
	KD'000	KD'000
Tier 1 capital	**379,748**	259,594
Total exposures	**3,675,971**	3,286,647
Financial leverage ratio	**10.33%**	7.90%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2016 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve Sharia'a approved derivative financial instruments to mitigate foreign currency risk. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The notional amount, disclosed gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

The positive fair value of forward foreign exchange contracts outstanding as of 31 December 2016 is **KD 6 thousand** (2015: KD 1 thousand) and their notional amounts outstanding as of 31 December 2016 are **KD 243 thousand** (2015: KD 1,345 thousand)

The Group's derivative trading activities mainly related to deals with customers, which are normally matched by entering into reciprocal spot deals with counterparties.

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 127,203 thousand** (31 December 2015: KD 95,496 thousand) and the related income from these assets amounted to **KD 420 thousand** (31 December 2015: KD 355 thousand).

33. PERPETUAL TIER 1 SUKUK

In May 2016, the Bank through a Sharia's compliant Sukuk arrangement issued Tier 1 Sukuk amounting to USD 250 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588 % per annum.

At the issuer's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.

Towards perfection