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

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

INDEX

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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 2017, 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 2017, 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.

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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)

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

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 Notes 3 and 31.2 to the consolidated financial statements.

Our audit procedures included understanding and assessment of controls over the granting, booking and monitoring processes of Islamic financing to customers to confirm the operating effectiveness of the key controls in place. In addition, we assessed the methodologies, inputs and assumptions used by the Group in identifying the impaired facilities and determining the adequacy of impairment provision.

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 unimpaired 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 consolidated financial statement disclosures on allowance for impairment of Islamic financing to customers as detailed in Notes 8 and 12 to the consolidated financial statements.

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 2017, the Group has recognised an impairment loss of KD 12,170 thousand on an associate as disclosed in Notes 8 and 16 to the consolidated financial statements. The impairment test of the investment in associate 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, historical dividend yield and payout ratios and considering qualitative and quantitative factors specific to the measurement. Therefore, we identified the impairment testing of associates 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 to the consolidated financial statements.

Other information included in the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in Group's 2017 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 2017 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.

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.

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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)

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.

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, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, 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, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2017 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 2017 that might have had a material effect on the business of the Bank or on its financial position.

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7 January 2018
Kuwait

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 KD'000	2016 KD'000
Income			
Murabaha and other Islamic financing income		**149,431**	122,682
Finance cost and distribution to depositors	5	**(45,955)**	(34,151)
Net financing income		**103,476**	88,531
Net investment income	6	**7,920**	4,442
Net fees and commission income	7	**11,134**	9,820
Share of results of associates	16	**559**	(1,691)
Net foreign exchange gain		**2,478**	2,201
Operating income		**125,567**	103,303
Staff costs		**(31,020)**	(25,428)
General and administrative expenses		**(17,918)**	(14,724)
Depreciation		**(3,939)**	(3,250)
Operating expenses		**(52,877)**	(43,402)
Operating profit before provision for impairment		**72,690**	59,901
Provision for impairment	8	**(22,427)**	(16,357)
Operating profit before deductions		**50,263**	43,544
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(448)**	(381)
National Labour Support Tax ("NLST")		**(1,281)**	(1,074)
Zakat		**(502)**	(428)
Board of directors' remuneration		**(360)**	(360)
Net profit for the year		**47,672**	41,301
Attributable to:			
Equity holders of the Bank		**47,605**	41,071
Non-controlling interests		**67**	230
Net profit for the year		**47,672**	41,301
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	9	**18.71**	16.94

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

	2017	2016
	KD'000	KD'000
Net profit for the year	**47,672**	41,301
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	**298**	(943)
Net gains on sale of available for sale investments transferred to consolidated statement of profit and loss	**(138)**	(85)
Impairment losses on available for sale investments transferred to consolidated statement of profit and loss	**-**	568
Foreign currency translation adjustments	**(177)**	163
Other comprehensive loss for the year	**(17)**	(297)
Total comprehensive income for the year	**47,655**	41,004
Attributable to:		
Equity holders of the Bank	**47,588**	40,774
Non-controlling interests	**67**	230
Total comprehensive income for the year	**47,655**	41,004

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

	Notes	2017 KD'000	2016 KD'000
Assets			
Cash and balances with banks	10	**48,544**	36,911
Deposits with Central Bank of Kuwait		**310,420**	292,742
Deposits with other banks	11	**323,860**	328,952
Islamic financing to customers	12	**2,876,778**	2,516,760
Financial assets at fair value through profit or loss	13	**13,123**	19,495
Available for sale investments	14	**220,188**	160,305
Investments in associates	16	**52,975**	62,204
Investment properties	17	**53,572**	24,680
Other assets	18	**16,579**	13,943
Property and equipment		**54,357**	25,815
Total assets		**3,970,396**	3,481,807
Liabilities and Equity			
Liabilities			
Due to banks		**67,474**	76,278
Depositors' accounts		**3,398,752**	2,945,076
Other liabilities	19	**51,813**	37,300
Total liabilities		**3,518,039**	3,058,654
Equity			
Share capital	20	**227,473**	216,641
Share premium	21	**62,896**	62,896
Proposed bonus shares	22	**11,374**	10,832
Treasury shares	23	**(1,122)**	(1,438)
Statutory reserve	24	**19,349**	14,329
Voluntary reserve	25	**18,510**	13,713
Share based payment reserve	26	**1,671**	1,540
Fair value reserve		**3,859**	3,699
Foreign currency translation reserve		**(9,276)**	(9,099)
Retained earnings		**24,122**	18,884
Proposed cash dividends	22	**15,900**	12,974
Equity attributable to equity holders of the Bank		**374,756**	344,971
Perpetual Tier 1 Sukuk	27	**75,388**	75,388
Non-controlling interests		**2,213**	2,794
Total equity		**452,357**	423,153
Total liabilities and equity		**3,970,396**	3,481,807

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.

	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 2017	**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**
Profit for the year	-	-	-	-	-	-	-	-	-	47,605	-	47,605	-	67	47,672
Other comprehensive income /(loss)	-	-	-	-	-	-	-	160	(177)	-	-	(17)	-	-	(17)
Total comprehensive income / (loss) for the year	-	-	-	-	-	-	-	160	(177)	47,605	-	47,588	-	67	47,655
Capital increase by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	199	199
Transfer to reserves	-	-	-	-	5,020	4,797	-	-	-	(9,817)	-	-	-	-	-
Issue of bonus shares	10,832	-	(10,832)	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	-	-	(5)	(12,974)	(12,979)	-	-	(12,979)
Profit paid on Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	-	-	(5,118)	-	(5,118)	-	-	(5,118)
Share based payment (note 26)	-	-	-	-	-	-	374	-	-	-	-	374	-	-	374
Sales of treasury shares	-	-	-	316	-	-	(243)	-	-	-	-	73	-	-	73
Proposed bonus shares (note 22)	-	-	11,374	-	-	-	-	-	-	(11,374)	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	(153)	-	(153)	-	(847)	(1,000)
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	(15,900)	15,900	-	-	-	-
Balance at 31 December 2017	**227,473**	**62,896**	**11,374**	**(1,122)**	**19,349**	**18,510**	**1,671**	**3,859**	**(9,276)**	**24,122**	**15,900**	**374,756**	**75,388**	**2,213**	**452,357**

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

	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 for the year	-	-	-	-	-	-	-	(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 27)	-	-	-	-	-	-	-	-	-	-	-	-	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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	**2017** **KD'000**	2016 KD'000
OPERATING ACTIVITIES			
Net profit for the year		**47,672**	41,301
Adjustments for:			
Provision for impairment	8	**22,427**	16,357
Depreciation		**3,939**	3,250
Foreign currency translation adjustments		**(2,284)**	5,472
Net gain from available for sale investments		**(492)**	(293)
Net gain from financial assets at fair value through profit or loss		**(931)**	(427)
Share of results of associates		**(559)**	1,691
Dividend income		**(1,967)**	(1,822)
Net unrealized loss from change in fair value of investment properties		**995**	628
Net gain on sale of investment properties		**(33)**	(52)
Share based payment reserve		**374**	480
Operating profit before changes in operating assets and liabilities		**69,141**	66,585
Changes in operating assets and liabilities:			
Deposits with Central Bank of Kuwait		**(17,678)**	(164,635)
Deposits with other banks		**37,457**	(188,514)
Islamic financing to customers		**(370,000)**	(351,030)
Other assets		**(2,636)**	226
Due to banks		**(8,804)**	(306,471)
Depositors' accounts		**453,676**	546,141
Other liabilities		**14,238**	6,789
Net cash generated from / (used in) operating activities		**175,394**	(390,909)
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(1,368)**	(5,000)
Proceeds from sale of financial assets at fair value through profit or loss		**8,575**	5,327
Purchase of available for sale investments		**(126,699)**	(98,108)
Proceeds from sale of available for sale investments		**66,875**	60,032
Dividends received from associates		**-**	397
Purchase of investment properties		**(29,440)**	(2,027)
Purchase of property and equipment		**(32,481)**	(10,283)
Dividend income received		**1,967**	1,822
Net cash used in investing activities		**(112,571)**	(47,840)
FINANCING ACTIVITES			
Purchase of treasury shares		**-**	(1,032)
Profit paid on perpetual Tier 1 Sukuk		**(5,118)**	(2,573)
Perpetual Tier 1 Sukuk issuing cost		**-**	(650)
Net proceeds from issue of Perpetual Tier 1 Sukuk		**-**	75,388
Capital increase by non-controlling interest		**199**	(3)
Proceeds from exercise of share options		**73**	51
Acquisition of non-controlling interests		**(1,000)**	-
Dividends paid		**(12,979)**	(10,311)
Net cash (used in) / generated from financing activities		**(18,825)**	60,870
Net increase (decrease) in cash and cash equivalents		**43,998**	(377,879)
Cash and cash equivalents at the beginning of the year		**87,380**	465,259
Cash and cash equivalents at the end of the year	10	**131,378**	87,380

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, in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK"). 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 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 **1,382** employees as at 31 December 2017 (1,278 employees as at 31 December 2016).

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 7 January 2018 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. Amendments to IFRS which are effective for annual accounting period starting from 1 January 2017 did not have any significant impact on the accounting policies, financial position or performance of the Group.

2.5 New standards and interpretations not yet adopted

The standards and interpretations issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, 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. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: "Recognition and Measurement".

The Group has determined the date of Initial Application for IFRS 9 to be 1 January 2018. The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening consolidated statement of financial position at 1 January 2018. The Group will not restate the comparatives as permitted by IFRS 9.

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted (continued)

IFRS 9 Financial Instruments: (continued)

Classification and measurement

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 consolidated statement of profit or loss.

Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to consolidated statement of profit or loss. This designation is also available to non-trading equity instrument holdings on date of transition.

The adoption of this standard will have impact on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The Group will adopt accounting requirements of hedge accounting requirements as per IFRS 9 and does not expect any significant impact on its financial position.

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. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

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 has completed the development and testing of operating models and methodologies for the calculation of ECL. The Group has also performed parallel runs during the year to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The Group continues to revise, refine and validate the impairment models and related process controls in advance of 31 March 2018 reporting.

Transition impact:

Upon adoption of IFRS 9 the Group expects certain changes in classification of financial assets and related reclassifications between retained earnings and fair value reserve. The Group does not expect a material impact on equity due to changes in classification of financial assets.

The bank will determine the potential impact of the ECL provision for Islamic financing to customers that will be classified as "measured at amortized cost" as per IFRS 9 starting from 31 March 2018 reporting. The bank will also comply with the instructions to be issued by Central Bank of Kuwait in that regard.

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted (continued)

IFRS 9 Financial Instruments: (continued)

Financial instruments: disclosures (IFRS 7)
IFRS 7 Financial Instruments Disclosures, has been amended to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

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.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Group has assessed the impact of IFRS 15. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Group's consolidated financial statements.

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.

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 operating 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 2017 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.1 Business combinations (continued)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.4 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

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 balances with banks, deposits with Central Bank of Kuwait, Deposits with other 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

Deposits with banks and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

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.

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, are recognised in consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Fair values (continued)

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.

3.8 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.9.2 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.14 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. The present value of the defined benefit obligation is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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 31.7, 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 and selection of appropriate inputs for valuation.

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

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

	2017	2016
	KD'000	KD'000
Sukuk coupon income	**3,888**	2,414
Dividend income	**1,967**	1,822
Net rental income from investment properties	**1,604**	62
Net gain from financial assets at fair value through profit or loss	**931**	427
Net gain from sale of available for sale investments	**492**	293
Net gain on sale of investment properties	**33**	52
Unrealized loss from changes in fair value of investment properties	**(995)**	(628)
	7,920	4,442

7. NET FEES AND COMMISSION INCOME

	2017	2016
	KD'000	KD'000
Gross fees and commission income	**16,112**	14,102
Fees and commission expenses	**(4,978)**	(4,282)
	11,134	9,820

8. PROVISION FOR IMPAIRMENT

	2017	2016
	KD'000	KD'000
Provision for impairment of finance facilities	**10,257**	5,287
Impairment of investments	**-**	568
Impairment loss on investments in associates (note 16)	**12,170**	10,502
	22,427	16,357

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

	Specific	General	Total
	KD'000	KD'000	KD'000
Balance at 1 January 2016	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
Provided during the year	**2,746**	**7,511**	**10,257**
Recovery of written off balances	**1,159**	**-**	**1,159**
Written off balances during the year	**(8,434)**	**-**	**(8,434)**
Balance at 31 December 2017	**7,715**	**52,556**	**60,271**

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

	Islamic finance to customers	Non-cash facilities	Total
	KD'000	KD'000	KD'000
Balance at 1 January 2016	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
Provided during the year	**9,982**	**275**	**10,257**
Recovery of written off balances	**1,159**	**-**	**1,159**
Written off balances during the year	**(8,434)**	**-**	**(8,434)**
Balance at 31 December 2017	**58,301**	**1,970**	**60,271**

At 31 December 2017, non-performing finance facilities amounted to **KD 15,827 thousand**, net of provision of **KD 7,715 thousand** (31 December 2016: KD 8,856 thousand, net of provision of KD 12,244 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.

	2017	2016
Net profit for the year attributable to the equity holders of the Bank (KD'000)	**47,605**	41,071
Less: profit payment on Perpetual Tier 1 Sukuk	**(5,118)**	(2,573)
	42,487	38,498
Weighted average number of shares outstanding during the year (thousands of shares)	**2,271,255**	2,272,451
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**18.71**	16.94

Earnings per share for the year ended 31 December 2016 was 17.79 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

10. CASH AND CASH EQUIVALENTS

	2017	2016
	KD'000	KD'000
Cash and balances with banks	**48,544**	36,911
Placement with banks maturing within seven days	**82,834**	50,469
	131,378	87,380

11. DEPOSITS WITH OTHER BANKS

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

	2017	2016
	KD'000	KD'000
Kuwait & Middle East	**299,851**	313,419
Europe	**24,009**	15,533
	323,860	328,952

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**
2017				
Corporate banking	**1,605,433**	**1,791**	**724**	**1,607,948**
Consumer banking	**1,327,131**	**-**	**-**	**1,327,131**
	2,932,564	**1,791**	**724**	**2,935,079**
Less: provision for impairment	**(58,241)**	**(18)**	**(42)**	**(58,301)**
	2,874,323	**1,773**	**682**	**2,876,778**

	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

12. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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

	Specific		General		Total	
	2017	2016	**2017**	2016	**2017**	2016
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**12,244**	8,720	**43,350**	40,430	**55,594**	49,150
Provided during the year	**2,746**	2,258	**7,236**	2,920	**9,982**	5,178
Recovery of written off balances	**1,159**	1,578	**-**	-	**1,159**	1,578
Written off balances during the year	**(8,434)**	(312)	**-**	-	**(8,434)**	(312)
Balance at end of the year	**7,715**	12,244	**50,586**	43,350	**58,301**	55,594

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

	Corporate banking		Consumer banking		Total	
	2017	2016	**2017**	2016	**2017**	2016
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**8,452**	7,123	**3,792**	1,597	**12,244**	8,720
Provided during the year	**312**	661	**2,434**	1,597	**2,746**	2,258
Recovery of written off balances	**820**	968	**339**	610	**1,159**	1,578
Written off balances during the year	**(8,408)**	(300)	**(26)**	(12)	**(8,434)**	(312)
Balance at end of the year	**1,176**	8,452	**6,539**	3,792	**7,715**	12,244

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:

	2017	2016
	KD'000	KD'000
Islamic financing to customers	**23,542**	21,100
Specific provision for impairment	**(7,715)**	(12,244)
	15,827	8,856

At 31 December 2017, management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 14,671 thousand** (31 December 2016: KD 5,109 thousand).

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	KD'000	KD'000
Investment in unquoted equity securities	**3,477**	2,987
Investment in unquoted equity funds	**9,646**	16,508
	13,123	19,495

14. AVAILABLE FOR SALE INVESTMENTS

	2017	2016
	KD'000	KD'000
Investment in Sukuk	**180,928**	121,304
Investment in unquoted equity funds	**29,267**	27,953
Investment in unquoted equity securities	**9,788**	10,097
Investment in quoted equity securities	**205**	951
	220,188	160,305

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activity	**2017**	2016
			% Effective ownership	
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	Takaful insurance	**79.49**	67.68
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	**2017**	2016
			% 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**	26.40
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 impairment in respect 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 and historical dividend yield and payout ratios.

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	2017	2016
	KD'000	KD'000
Total assets	**1,291,932**	1,161,139
Total liabilities	**(1,206,984)**	(1,090,461)
Net assets	**84,948**	70,678
Group's share of net assets	**18,689**	15,549
Group's share of contingent liabilities	**2,236**	3,295

	2017	2016
	KD'000	KD'000
Total revenue	**39,032**	43,227
Net profit	**2,056**	1,727
Group's share of results	**448**	380

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

	2017	2016
	KD'000	KD'000
Total assets	**418,810**	508,697
Total liabilities	**(330,223)**	(416,841)
Net assets	**88,587**	91,856
Group's share of net assets	**23,690**	24,564

	2017	2016
	KD'000	KD'000
Total revenue	**8,077**	12,374
Net profit	**1,346**	(6,846)
Group's share of results	**360**	(2,317)

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

	2017	2016
	KD'000	KD'000
Total assets	**119,696**	127,822
Total liabilities	**(86,887)**	(95,605)
Net assets	**32,809**	32,217
Group's share of net assets	**7,112**	7,482
Group's share of contingent liabilities	**2,131**	2,214

	2017	2016
	KD'000	KD'000
Total revenue	**6,055**	6,767
Net profit	**1,269**	1,271
Group's share of results	**(249)**	246

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2017	2016
	KD'000	KD'000
Balance at the beginning of the year	**24,680**	23,397
Additions during the year	**29,440**	2,203
Disposals during the year	**-**	(172)
Net unrealized loss from change in fair value of investment properties	**(995)**	(628)
Foreign currency translation adjustments	**447**	(120)
Balance at the ending of the year	**53,572**	24,680

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 2017.

18. OTHER ASSETS

	2017	2016
	KD'000	KD'000
Accrued income	**1,942**	1,246
Prepayments	**5,461**	5,342
Others	**9,176**	7,355
	16,579	13,943

19. OTHER LIABILITIES

	2017	2016
	KD'000	KD'000
Creditors and accruals	**24,273**	17,372
Accrued staff benefits	**6,799**	5,697
Post Employment Benefit	**6,704**	4,881
General provision on non-cash facilities	**1,970**	1,695
Others	**12,067**	7,655
	51,813	37,300

Post Employment Benefit

The present value of defined benefit obligation was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation were a discount rate of 5%, future salary increases in line with expected consumer price inflation and appropriate mortality and disability rates.

20. SHARE CAPITAL

	2017		2016	
	Shares	**KD'000**	Shares	KD'000
Shares authorised, issued and paid up of 100 fils each comprised of **2,166,414,153** shares (2016: 2,063,251,575 shares) fully paid in cash and **108,320,707** shares (2016: 103,162,578 shares) issued as bonus shares during the year.	**2,274,734,860**	**227,473**	2,166,414,153	216,641

21. SHARE PREMIUM

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

22. PROPOSED DIVIDEND

The board of directors recommended distribution of cash dividends of **7 fils** per share (2016: 6 fils) and bonus shares of **5%** (2016: 5%) for the year ended 31 December 2017. The proposed dividends, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

23. TREASURY SHARES

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

	2017	2016
Number of treasury shares	**3,323,164**	4,024,946
Treasury shares as a percentage of total issued shares - %	**0.1461%**	0.1858%
Cost of treasury shares – KD thousand	**1,122**	1,438
Market value of treasury shares – KD thousand	**1,449**	1,590
Weighted average of market value per share (fils)	**0.424**	0.382

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.

No options was granted during the year. The fair value of options granted during 2016 as determined using the Black-Scholes valuation model was **347 fils**. The significant inputs into the model were a share price of **440 fils** at the grant date, an exercise price of **100 fils** as shown above, a standard deviation of expected share price returns of **23%**, option life disclosed above and annual risk free rate of **2.25%**. 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 **206 days** (2016: 461 days) and the weighted average fair value of share options granted was **334 fils** (2016: 376 fils).

26. SHARE BASED PAYMENT RESERVE (CONTINUED)

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

	2017 Number of share options	2016 Number of share options
Outstanding at 1 January	**4,626,940**	3,399,565
Granted during the year	**-**	2,115,938
Cancelled during the year	**(400,155)**	(329,814)
Exercised during the year	**(885,416)**	(558,749)
Outstanding at 31 December	**3,341,369**	4,626,940

The expense accrued on account of share based compensation plans for the year amounts to **KD 374 thousand** (31 December 2016: KD 491 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 **885 thousand shares** (2016: 559 thousands shares) and these shares have been issued from treasury shares held by the Bank.

27. PERPETUAL TIER 1 SUKUK

During 2016, the Bank, issued “Tier 1 Sukuk”, through a Sharia’s compliant Sukuk arrangement 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.

28. 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			
	2017	2016	**2017**	2016	**2017**	2016
					KD'000	KD'000
Islamic financing to customers	**8**	8	**2**	3	**7,717**	2,965
Depositors' accounts	**18**	17	**9**	9	**10,023**	22,563
Letters of guarantee and letters of credit	**2**	1	1	1	**29**	25
Murabaha and other Islamic financing income					**144**	83
Finance cost and distribution to depositors					**(182)**	(500)
Parent Company						
Due from banks					**128,711**	124,188
Due to banks					**35,883**	38,528
Murabaha and other Islamic financing income					**1,583**	595
Finance cost and distribution to depositors					**(162)**	(278)

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 7,834 thousand** as at 31 December 2017 (31 December 2016: KD 4,670 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2017	2016
	KD'000	KD'000
Short-term benefits	**1,853**	1,787
Post-employment benefits	**560**	336
Share based compensation	**531**	470
	2,944	2,593

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

29. 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:

	2017	2016
	KD'000	KD'000
Guarantees	**239,409**	200,246
Acceptances and letters of credit	**84,330**	58,604
Other commitments	**1,278**	27,969
	325,017	286,819

Operating lease commitments:
Future minimum lease payments:

	2017	2016
	KD'000	KD'000
Within one year	**2,835**	2,515
After one year but not more than five years	**2,717**	3,636
Total operating lease expenditure contracted for at the reporting date	**5,552**	6,151

30. 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.

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
2017	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**
Net financing income/(loss)	**58,035**	**32,359**	**(2,881)**	**12,088**	**3,875**	**103,476**
Share of results of associates	**-**	**-**	**559**	**-**	**-**	**559**
Operating income/(loss)	**62,538**	**41,967**	**8,161**	**14,565**	**(1,664)**	**125,567**
Depreciation	**(2,349)**	**15**	**(39)**	**(23)**	**(1,543)**	**(3,939)**
Net profit/ (loss) for the year	**34,540**	**36,706**	**(6,906)**	**14,110**	**(30,778)**	**47,672**
Total assets	**1,323,618**	**1,848,673**	**195,633**	**618,771**	**(16,299)**	**3,970,396**
Total liabilities	**1,540,167**	**250,435**	**54,598**	**1,674,822**	**(1,983)**	**3,518,039**
2016						
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	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

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	North America	Europe	Asia	Total
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2017					
Assets	**3,779,158**	**4,521**	**95,006**	**91,711**	**3,970,396**
Non-current assets (excluding financial instruments)	**125,804**	**-**	**36,475**	**15,204**	**177,483**
Liabilities and equity	**3,969,086**	**-**	**1,310**	**-**	**3,970,396**
Segment income/(expenses)	**123,369**	**-**	**745**	**1,453**	**125,567**
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

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

31.1 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.

31.2 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 credit worthiness. 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.

31.2.1 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:

	2017		2016	
	Gross exposure KD'000	**Net exposure KD'000**	Gross exposure KD'000	Net exposure KD'000
Islamic financing to customers	**2,876,778**	**1,915,284**	2,516,760	1,620,289
Contingent liabilities and capital commitments	**325,017**	**240,291**	286,819	250,358

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.

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

31.2.2 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 2017 are **22.23%** (2016: 23.98%).

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	**North America**	**Europe**	**Asia**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2017					
Balances with banks	**13,327**	**4,521**	**1,134**	**39**	**19,021**
Deposits with Central Bank of Kuwait	**310,420**	**-**	**-**	**-**	**310,420**
Deposits with other banks	**294,841**	**-**	**29,019**	**-**	**323,860**
Islamic financing to customers	**2,874,323**	**-**	**1,773**	**682**	**2,876,778**
Available for sale investments (Sukuk)	**100,548**	**-**	**4,588**	**75,792**	**180,928**
Other assets (excluding accrued income and prepayments)	**9,176**	**-**	**-**	**-**	**9,176**
	3,602,635	**4,521**	**36,514**	**76,513**	**3,720,183**
Contingent liabilities	**315,025**	**-**	**689**	**8,025**	**323,739**
Commitments	**1,278**	**-**	**-**	**-**	**1,278**
Total credit risk exposure	**3,918,938**	**4,521**	**37,203**	**84,538**	**4,045,200**

	Middle East & North Africa	North America	Europe	Asia	Total
	KD'000	KD'000	KD'000	KD'000	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

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

31.2.2 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:

	2017	2016
	KD'000	KD'000
Trading	**117,283**	129,368
Manufacturing	**135,741**	100,194
Banking and other financial institutions	**570,269**	548,352
Construction	**56,599**	46,013
Real Estate	**769,852**	697,203
Retail	**1,265,383**	1,116,265
Government	**366,938**	328,465
Others	**438,118**	310,951
	3,720,183	3,276,811

31.2.3 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			
	High	**Standard**	**Past due or impaired**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**
2017				
Balances with banks	**19,021**	**-**	**-**	**19,021**
Deposits with Central Bank of Kuwait	**310,420**	**-**	**-**	**310,420**
Deposits with other banks	**323,860**	**-**	**-**	**323,860**
Islamic financing to customers	**2,649,853**	**210,462**	**74,764**	**2,935,079**
Available for sale investments (Sukuk)	**180,928**	**-**	**-**	**180,928**
Other assets (excluding accrued income and prepayment)	**9,176**	**-**	**-**	**9,176**
	3,493,258	**210,462**	**74,764**	**3,778,484**

	Neither past due nor impaired			
	High	Standard	Past due or impaired	Total
	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

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

31.2.3 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	**Past due and impaired**	**Past due and not impaired**	**Past due and impaired**	**Past due and not impaired**	**Past due and impaired**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2017						
Up to 30 days	**21,474**	**1,678**	**16,548**	**-**	**38,022**	**1,678**
31 – 60 days	**3,184**	**158**	**4,929**	**-**	**8,113**	**158**
61 – 90 days	**2,505**	**-**	**2,582**	**-**	**5,087**	**-**
91 – 180 days	**-**	**7,274**	**-**	**2,845**	**-**	**10,119**
More than 180 days	**-**	**5,020**	**-**	**6,567**	**-**	**11,587**
	27,163	**14,130**	**24,059**	**9,412**	**51,222**	**23,542**

	Corporate banking		Consumer banking		Total	
	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired
	KD'000	KD'000	KD'000	KD'000	KD'000	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

At 31 December 2017 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to **KD 14,671 thousand** (31 December 2016: KD 5,109 thousand).

31.3 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.

31.4 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.

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.4 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.

		2017		2016	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000	**KD'000**	KD'000	KD'000
US Dollar	+5	**(58)**	**-**	81	-
Sterling Pound	+5	**(19)**	**-**	3	-
Euro	+5	**(6)**	**-**	4	-
Indonesian Rupiah	+5	**-**	**760**	-	1,242
Sudanese Pound	+5	**50**	**139**	54	229
Japanese Yen	+5	**2**	**-**	1	-
Others	+5	**(7)**	**-**	(7)	-

A five 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 2017 would have increased equity by **KD 10 thousand** (31 December 2016: an increase of KD 48 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.

31.5 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.

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.5 Liquidity risk (continued)

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 one year**	**Over 1 year**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2017					
Assets					
Cash and balances with banks	**48,544**	**-**	**-**	**-**	**48,544**
Deposits with Central Bank of Kuwait	**138,385**	**105,474**	**21,142**	**45,419**	**310,420**
Deposits with Banks	**323,860**	**-**	**-**	**-**	**323,860**
Islamic financing to customers	**1,104,893**	**250,790**	**138,871**	**1,382,224**	**2,876,778**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**13,123**	**13,123**
Available for sale investments	**152,902**	**-**	**-**	**67,286**	**220,188**
Investments in associates	**-**	**-**	**-**	**52,975**	**52,975**
Investment properties	**-**	**-**	**-**	**53,572**	**53,572**
Other assets	**9,176**	**-**	**7,403**	**-**	**16,579**
Property and equipment	**-**	**-**	**-**	**54,357**	**54,357**
Total assets	**1,777,760**	**356,264**	**167,416**	**1,668,956**	**3,970,396**
Liabilities and Equity					
Due to banks	**67,474**	**-**	**-**	**-**	**67,474**
Depositors' accounts	**2,235,047**	**349,973**	**566,714**	**247,018**	**3,398,752**
Other liabilities	**12,068**	**-**	**24,272**	**15,473**	**51,813**
Equity	**-**	**-**	**-**	**452,357**	**452,357**
Total liabilities and equity	**2,314,589**	**349,973**	**590,986**	**714,848**	**3,970,396**

	Up to three months	3 to 6 months	6 to one year	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

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.5 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 one year KD'000**	**Over 1 year KD'000**	**Total KD'000**
2017					
Financial liabilities					
Due to banks	**67,491**	**-**	**-**	**-**	**67,491**
Depositors' accounts	**2,240,474**	**357,358**	**578,672**	**265,791**	**3,442,295**
	2,307,965	**357,358**	**578,672**	**265,791**	**3,509,786**
Contingent liabilities and capital commitments					
Contingent liabilities	**117,249**	**44,553**	**65,177**	**96,760**	**323,739**
Capital commitments	**-**	**-**	**1,278**	**-**	**1,278**
	117,249	**44,553**	**66,455**	**96,760**	**325,017**

	Up to three months KD'000	3 to 6 months KD'000	6 to one year 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

31.6 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.

31.7 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 2017 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).

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.7 Fair value of financial instruments (continued)

Financial assets	Fair value as at **2017**	2016	Fair value Hierarchy 2017	Sector
Financial assets at fair value through profit or loss - *Unquoted securities*	**3,477**	2,987	**Level 3**	**Real Estate**
Financial assets at fair value through profit or loss - *Unquoted funds*	**9,646**	16,508	**Level 2**	**Financial Institutions**
Available for sale investments – *Sukuk*	**49,054**	35,723	**Level 1**	**Government**
	113,434	85,581	**Level 1**	**Financial Institutions**
	15,411	-	**Level 1**	**Oil and Gas**
	3,029	-	**Level 1**	**Public Services**
Available for sale investments - *Unquoted funds*	**5,435**	5,365	**Level 2**	**Financial Institutions**
	8,275	8,133	**Level 2**	**Real Estate**
	15,557	14,455	**Level 2**	**Services**
Available for sale investments - *Unquoted securities*	**1,511**	1,743	**Level 3**	**Financial Institutions**
	1,550	1,738	**Level 3**	**Real Estate**
	6,727	6,616	**Level 3**	**Services**
Available for sale investments - *Quoted securities*	**205**	657	**Level 1**	**Real Estate**
	-	294	**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).

2017	**Level 1 KD'000**	**Level 2 KD'000**	**Level 3 KD'000**	**Total KD'000**
Financial assets at fair value through profit or loss	**-**	**9,646**	**3,477**	**13,123**
Available for sale investments	**181,133**	**29,267**	**9,788**	**220,188**
	181,133	**38,913**	**13,265**	**233,311**

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

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.7 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 2017	**Change in fair value**	**Impairment**	**Additions**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2017**
	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	**2,987**	**379**	**-**	**-**	**111**	**-**	**3,477**
Available for sale investments							
Unquoted securities	**10,097**	**(107)**	**-**	**-**	**15**	**(217)**	**9,788**
	13,084	**272**	**-**	**-**	**126**	**(217)**	**13,265**

	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

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 2017 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 a (decrease) increase in fair value by **KD 35 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 a (decrease) increase in fair value by **KD 98 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.

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.7 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 and is only used for disclosure purpose.

31.8 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 2017 and 31 December 2016 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:

	2017	2016
	KD'000	KD'000
Risk weighted assets	**2,290,189**	1,875,775
Capital required	**309,175**	253,230
Capital available		
Common Equity Tier 1 Capital	**343,410**	304,023
Additional Tier 1 Capital	**75,531**	75,725
Tier 1 Capital	**418,941**	379,748
Tier 2 Capital	**25,520**	20,750
Total Capital	**444,461**	400,498
Common Equity Tier 1 Capital Adequacy Ratio	**14.99%**	16.21%
Tier 1 Capital Adequacy Ratio	**18.29%**	20.24%
Total Capital Adequacy Ratio	**19.41%**	21.35%

The Group's financial leverage ratio for the year ended 31 December 2017 is calculated in accordance with Central Bank of Kuwait circular number 2/RBA/ 343/2014 dated 21 October 2014 and is shown below:

	2017	2016
	KD'000	KD'000
Tier 1 Capital	**418,941**	379,748
Total Exposures	**4,186,179**	3,675,971
Financial Leverage Ratio	**10.01%**	10.33%

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

31.8 Capital management (continued)

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 2017 are included under the 'Risk Management' section of the annual report.

32. 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 2017 is **KD Nil thousand** (2016: KD 6 thousand) and their notional amounts outstanding as of 31 December 2017 are **KD Nil thousand** (2016: KD 243 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.

33. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 135,689 thousand** (31 December 2016: KD 127,203 thousand) and the related income from these assets amounted to **KD 811 thousand** (31 December 2016: KD 834 thousand).