بـنـك بـوبـيـان
Boubyan Bank

Annual Report **2014**

Towards perfection

In the Name of Allah, Most Gracious, Most Merciful

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

Allah the almighty spoke the truth

Contents

H.H. Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
Emir of the State of Kuwait

H.H. Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
Crown Prince

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

Board of Directors

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al-Majed
Vice-Chairman & CEO

Fatwa & Shari'a Supervisory Board

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

Abdulaziz Abdullah Al-Shaya
Board Member

Ahmad Khalid Al-Humaidhi
Board Member

Ahmed Yousef Al-Saqer
Board Member

Farid Soud Al-Fowzan
Board Member

Hazim Ali Al-Mutairi
Board Member

Nasser Abdulaziz Al-Jallal
Board Member

Waleed Mishari Al-Hamad
Board Member

Executive Management

Adel Abdul Wahab Al-Majed	Vice-Chairman & CEO
Abdulla Al-Najran Al-Tuwaijri	Deputy Chief Executive Officer
Abdul-Salam Mohammed Al-Saleh	Deputy Chief Executive Officer
Adel Abdullah Al-Hammad	General Manager - Human Resources Group
Dr. Waleed Eisa Al-Hasawi	General Manager - Information Technology Group
Fahad Ahmad Al-Fouzan	General Manager - Consumer Banking Group
Waleed Khalid Al-Yaqout	General Manager - Administration Group
Ashraf Abdallah Sewilam	General Manager – Corporate Banking Group
Leslie James Rice	General Manager - Risk Management
Abdul Rahman Hamza Mansour	General Manager - Internal Audit
Andre Loots	General Manager - Banking Operations Group
Mohamed Ibrahim Ismail	General Manager - Financial Control Group
Mukkulam Jamal Jaffar	Deputy General Manager - Treasury Services

Chairman's Message

The year 2014 marked a great performance for Boubyan Bank where we achieved remarkable growth and profitable financial results despite the rough operational environment and the challenging economic backdrop locally and regionally. On behalf of the Board and the executive management of the Bank, I am pleased to share with you the Annual Report for 2014 highlighting all the financial results and activities of the Bank during the past year and demonstrating the Bank's achievements and successes.

A Successful Journey

Boubyan Bank reported a net profit of KD 28.2 million in 2014, an increase of 111% over the same period of the previous year. Our market share in the financing portfolio in general increased from 2.3% in 2009 to 5.8% in 2014, while consumer finance grew from 1.2% to 8.3% during the same period. Furthermore, the operating income increased by 17% to reach KD 78.4 million compared with KD 67.1 million in 2013, whereas the operating expenses increased by 16% to reach KD 35.4 million compared with KD 30.5 million in 2013.

This growth is a clear indication that we are on the right track to build a well-established banking and financial institution that enjoys unique innovative and competitive potential across all markets.

In 2014 the bank witnessed the successful accomplishment of its first strategic plan (2010 - 2014) supported by positive figures and indicators on all levels. Yet, the most prominent aspect was returning to profitability and achieving operational revenues while maintaining first class banking practices and sound governance. This has successfully led to establishing a real Islamic banking brand name that is capable of competing and expanding in the Kuwaiti market.

The board of directors has recommended the distribution of cash dividends of 5 fils per share, amounting to KD 9,815,355 (Kuwaiti Dinar nine million, eight hundred fifteen thousand three hundred fifty five) as well as 5% of bonus shares for registered shares as at 31 December 2014, amounting to KD 9,825,007.500 (Kuwaiti Dinar nine million, eight hundred twenty five thousand and seven and five hundred fils). The board has also recommended KD 240 thousand as remuneration of the board for the year ended 31 December 2014.

The 2020 Strategy

Our results and achievements are the source of our motivation and our ambition in the upcoming years, where we aspire to further achievements aiming at developing the Bank and looking forward to its growth to provide new and innovative Islamic banking services while targeting new promising markets and achieving the best returns to our shareholders. Accordingly, the Bank has launched its new strategy, named "The 2020 Strategy" effective this year.

This ambitious strategy depends on establishing ourselves well in the Kuwaiti market and adopting a well-studied expansion approach to other markets abroad via multiple strategic relationships, and seizing favorable investment opportunities which are in conformity with the Bank's aspirations and in the best interest of the Bank's shareholders and customers. We will be focusing on relevant markets where we can add value to Islamic banking.

Consumer Banking

During 2014, our Consumer Banking Group excelled in providing the highest quality standards of services and concluding transactions as swiftly as possible while maintaining the most appropriate and convenient means possible to provide services to our customers.

All through the past five years, Boubyan Bank was keen to take the lead in launching unique and new services and products in the Kuwaiti market under the slogan "Towards Perfection". During that period, the phrase "for the first time in Kuwait" was associated with Boubyan Bank due to the number of services and products introduced by the Bank for the first time, mainly internet and mobile banking services that are available around the clock. Our branches have also witnessed a significant landmark reaching 30 operating branches in 2014 compared to 19 branches in 2010. We have an ambitious goal in place to reach 45 branches by 2016.

Staying well connected with our customers is our top priority. We strive to continuously develop all means of communication with our customers such as direct communication in branches, where high quality national manpower is selected to deal with our customers, while we relentlessly work to improve our indirect means of communication with our customers via social media, call center, online and mobile banking, etc.

Corporate Banking

As Boubyan Bank aspires to be the "First Choice" and the "Preferred Bank" in corporate banking, the Corporate Banking Group has successfully maintained cemented relationships with various national companies working in operational economic sectors. The Group also caters for the medium and large-sized companies in order to provide the best corporate banking service and experience. Despite the continuing difficult economic challenges, Boubyan Bank has managed to achieve high growth rates in its credit portfolio during 2014 by attracting various operating companies known for their financial and economic creditworthiness, while maintaining the highest credit standards, and scrutinizing and diversifying risks.

In 2014, the Corporate Banking Group arranged and managed syndicated loan transactions with local and regional banks in favor of a number of companies and financial institutions. Boubyan collaborated with the National Bank of Kuwait (NBK) to arrange and manage a KD 182 million syndicated loan for a well-known Kuwaiti company in order to finance the expansion of the Sulaibiya Wastewater Treatment & Reclamation Plant. Moreover, the Bank arranged a syndicated loan to one of the largest local telecommunication companies for USD 250 million in the first quarter of 2014.

It is worth mentioning that the Boubyan's market share in the corporate financing market has doubled during the period 2009 to 2014. The bank's corporate finance portfolio reached the KD 1 billion mark, while its market share stood at 4.8% compared with 2.6% in 2009.

All these achievements and successes led the Bank to proudly win the "Best Islamic Bank in Projects Finance" award for Kuwait by the internationally renowned "Global Finance" for the first time.

On another note, Boubyan Capital, the Bank's investment arm focusing on asset management, succeeded in launching a number of investment funds such as Boubyan Kuwait Real Estate Fund, Boubyan KD Money Market Fund, and Boubyan USD Liquidity Fund. This led to a significant increase in our portfolio of managed assets in 2014.

Our Social Responsibility

We take pride in being one of the top institutions of choice for Kuwaiti youths who are looking forward for a career opportunity. This is largely attributed to the professionalism, expertise and the working environment fostered by the Bank's corporate culture which encourages innovation, creativity and unleashes the potentials of young Kuwaiti nationals of both genders. The percentage of national manpower in the Bank raised to 72% in 2014 which represents not only one of the highest percentages among local banks and the Kuwaiti private sector at large, but a role model to follow for the employment of nationals and providing them with distinguished opportunities in the GCC in general. Boubyan Bank proudly received the distinguished "2014 Employment and Kuwaitization of Manpower Award" for Kuwait during the GCC 31st session of the Ministers of Labor.

Social responsibility and quality service represent the cornerstone of the Bank's dealings with all groups of the society emanating from the Bank's core belief in and contribution to development and building of a society capable of keeping pace with all regional and international changes and challenges. Therefore, the Bank took the lead in launching a variety of social initiatives and sponsoring many activities and events targeting various groups of the society.

The Bank's corporate social responsibility stems from the fact that we operate in compliance with the principles of the noble Islamic Shari'ah, and based on the real essence of Islam that enjoins cooperation, tolerance, selflessness and helping various groups of the society, especially those in need or suffering from daily life shortages of resources. During the past five years, the Bank sponsored, supported and participated in over 450 different social activities and events serving and benefiting all social groups.

Sound Governance

Boubyan Bank is committed to being a leader in corporate governance practices. The sound corporate governance is indeed a top priority for the board and the executive management alike. The Bank has successfully adopted the highest sound governance and risk management standards. It has also complied with these standards in concluding all transactions according to the principles and rulings of the Islamic Shari'ah. Boubyan Bank continues in the path of continuously updating its governance structure in a manner that meets the requirements of the Central Bank of Kuwait; such efforts were crowned with success in meeting all the requirements directed by the Central Bank of Kuwait in a timely manner.

Needless to say that NBK's acquisition of a significant stake in the Bank's shares back in 2009, with all its long-established expertise and deeply-rooted history, has played a major role in supporting the Bank's new strategy and the new launch and expansion in the Kuwaiti market. This certainly goes without compromising the Bank's core Islamic identity and maintaining a full operational and structural segregation between both banks in order to comply with the gracious principles and rulings of the noble Islamic Shari'ah.

A True Humanitarian Leader

On behalf of all the Board and the Executive Management, I would like to seize the opportunity to express our deepest thanks, appreciation and gratitude to His Highness, the Amir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, H.H. the Crown Prince; Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and H.H. the Prime Minister; Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah protect and bless them all with guidance and success towards the development and prosperity of our beloved country.

We would like to seize this opportunity to express our congratulations to H.H. the Amir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah on the recent honorary recognition by the United Nations, naming His Highness the "Humanitarian Leader" for 2014 and Kuwait an "International Humanitarian Center". His Highness and Kuwait have always been associated with charitable acts and humanitarian endeavors as they have always played a significant role in extending a helping hand to all friendly countries around the globe.

I would also like to express our appreciation to all the officials of the Central Bank of Kuwait, mainly to H.E. the Governor, Dr. Mohammad Al-Hashel, who spared no effort to take the needed actions to develop and safeguard the Kuwaiti banking and financial system.

We sincerely thank our esteemed shareholders and customers who have always been the key behind our success enabling us to meet all the challenges and aspire to new achievements. Our appreciation and gratitude are also extended to all the members of the Bank's Fatwa and Shari'ah Supervisory Board, chaired by Sheikh Dr. Ajeel Jassim Al-Nashmi, for their great efforts and dedication representing the guidelines for all the Bank's Islamic activities, services and dealings.

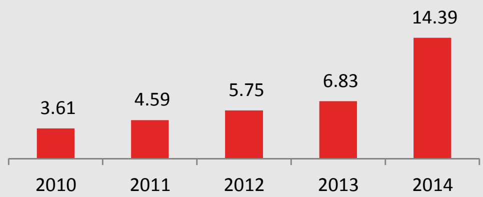
Finally, I would like to thank and commend all Boubyan's management and employees for their dedication, efforts and loyalty through the past years, working as one team to achieve more successes for our Bank. I look forward to continuing to work on your behalf in 2015 leading the Bank towards an unprecedented development and more achievements on the road of being one the leading Islamic banks in the region.

May Allah grant us all success.

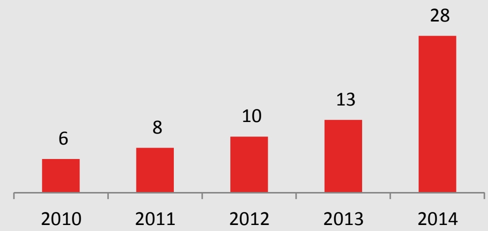
Mahmoud Yousef Al-Fulaij
Chairman

Financial Highlights (2010 - 2014)

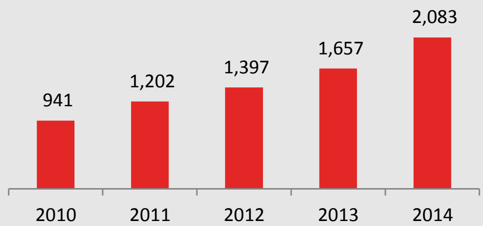
Earnings per share (fils)



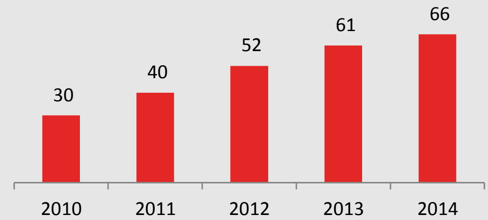
Net profit for the year (million K.D)



Depositors' accounts (million K.D)

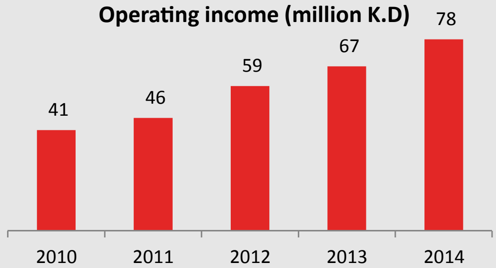


Net financing income (million K.D)



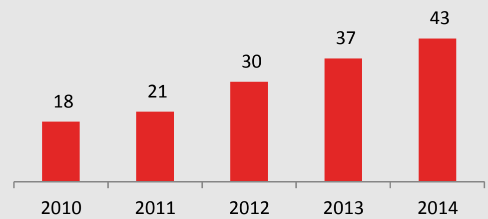
Total assets (million K.D)

Operating income (million K.D)

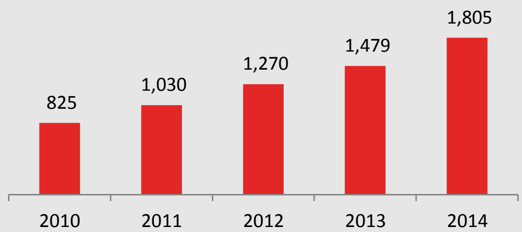


Total equity (million K.D)

Net operating profit (million K.D)



Islamic financing to customers (million K.D)



Management Discussion and Analysis Report

Introduction

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

Economic Outlook

Global Economy

The world economy has been more sluggish than expected since the 2007-2009 global financial crisis. The Global growth projections for 2014 is expected to be 3.3 percent. Monetary policy conditions have remained broadly unchanged in emerging markets during 2014. The European Central Bank (ECB) has announced a range of actions to tackle low inflation and address fragmentation, including a reduction in policy rates, targeted credit easing, and other measures to boost liquidity. In the United States, the Federal Reserve wound down bond purchase by end of 2014. Inflation has generally remained below central bank targets in advanced economies, an indication of continued substantial economic slack.

In its latest economic forecast, the World Bank lowered its global forecast for 2015 and 2016 due to disappointing economic prospects in the euro zone, Japan and some major emerging economies that offset benefit of lower oil prices. The World Bank predicts global economy to grow by 3% and 3.3% in 2015 and 2016 respectively. The roughly 60 percent drop in oil prices since June 2014 is expected to have a positive impact on oil importing countries. Falling oil prices could also curtail inflation around the world.

Regional Economy

Despite strong activity in the GCC economies, the recovery in the MENA region as a whole has been fragile, owing to ongoing political transitions and recently intensified conflicts. The economies of countries in the MENA region, such as Egypt, Libya, Syria, Tunisia, Lebanon and Jordan, continue to suffer from the transitional consequences of the "Arabic Spring".

In the GCC countries, growth is projected to average about 4.5 percent in 2014–15, with non-oil GDP growing by 6 percent and oil GDP rising by 1 percent. Fitch expects all GCC members except Bahrain to record budget surplus in 2014. However, declining oil prices if prolonged at these levels will reduce fiscal surpluses, affect economic confidence and moderate growth expectations. GCC countries would be able to maintain current spending, by drawing down their substantial reserves. As per Fitch there could be delays in infrastructure projects and payment for contractors which may put pressure on GCC banks revenue and asset quality. Lower oil prices also influence the domestic stock markets, which is a risk for banks exposed to equities through share lending or investment companies. GCC sovereigns have a strong track record of supporting the banking sector.

Fitch does not expect a downgrade in country ratings from oil price dip in the short term. According to Moody's Investors Service the 2015 outlook for GCC banks is stable, but it is negative for those in the rest of the MENA region.

Kuwait Eonomy

Kuwait's fiscal position remains healthy. The latest fiscal year (2013/2014) ending in March 2014 achieved a surplus of 26% of GDP.This has happened despite healthy spending growth that topped 11% over the last 14 years. However in the coming years surplus is seen narrowing on rapid government spending growth and lower oil prices. Inflation is expected to remain under control, supported by the recent strengthening of the Kuwaiti Dinar and limited global inflation. The petroleum sector continues to contribute nearly 90% of the treasury income

Management Discussion and Analysis Report

Real non-oil growth accelerated notably in 2013 and 2014 and is expected to maintain a more robust pace in the coming years. The improved growth is from the government's development plan, including ambitious capital spending targets that has begun to boost activity significantly. Nonetheless, non-oil economic growth has benefited from the boost to investment and is expected to continue to do so in the medium term. The consumer has been and remains a key driver of growth in Kuwait, even as growth in the sector has slowed down. Real estate sales maintained healthy growth in 2014, driven particularly by a strong investment sector. Kuwait's equities have generally underperformed the regional indices.

Banking Sector

The deposit portfolio of the local banks reached KD 39 billion by end of year 2014 with a compounded annual growth rate of 6% over the last five years. On the other side, the respective credit portfolio has reached KD 32 billion by end of year 2014 with a compounded annual growth rate of 3.8 % over the last five years.

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

On the regulatory front, the Central Bank of Kuwait mandated Basel III Capital Adequacy Ratio for banks in Kuwait in year 2014. Basel III Capital Adequacy Ratio reflects major alterations to the previously applicable Basel II Capital Adequacy Ratio, representing an increase in the overall ratio of regulatory capital, while re-defining the regulatory capital, with a set of standards that aim at improving its quality. Basel III set of reforms also includes the application of other standards, representing maximum limits for leverage ratio (applicable in 2014), and two new liquidity ratios; one is a short-term liquidity ratio, i.e. liquidity coverage ratio, and the other is a long-term liquidity ratio, i.e. the main stable funding ratio" which are expected to be applicable in 2015.

Strategy Overview

Current Strategy

Boubyan Bank's first five year strategy which was developed in 2010 completed its term in year 2014. The strategy emphasized on building Boubyan's franchise in Kuwait by focusing on specific consumer and corporate segments through providing superior customer services along with new and innovative products.

The strategy of the Bank has been fruitful. Boubyan managed to improve on many fronts, and the transformation has been recognized by many regional and international bodies.

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

- Steady growth in profitability and financial position since the turnaround in year 2010. Net financing income doubled from KD 30 million in 2010 to KD 66 million in 2014
- Moody's assigned credit rating of D+ for the Bank financial strength, Baa1 for long-term deposits and a stable outlook. During 2014, the Bank obtained Long term IDR of A+ and Viability rating of BB+ from Fitch
- Fastest growing bank in Kuwait with total assets compounded annual growth rate of 22% between 2009-2014
- Non-Performing Financing ratio dropped to 1.1% in 2014 compared to 5.4% in 2009, which is one of the lowest rates in the industry
- Awards from reputable organization such as Arabian Business, Euro Money and Service Hero on growth and services respectively
- Reaching 30 branches, with additional 3 branches in the pipeline for 2015

Prospective Strategy

The Bank has finalized its second five year strategy - "Boubyan 2020" - which will focus on additional growth in Kuwait while exploring regional and international markets with strong Islamic banking potential.

In Kuwait, the focus will be on introducing new products and targeting horizontal expansion in untapped banking and financing activities. Internationally, Boubyan is exploring markets with strong potential where the Bank is uniquely positioned

Operating income increased by 17 % from 2013 to KD 78.4 million compared to KD 67.1 million in the year 2013. This increase was mainly driven by the growth in the net financing income and fees and commission income which represents the core businesses of the Bank. Net financing income rose by 9% to reach KD

Financial Highlights

	2014	2013	2012
Financial performance			
Net financing income	66,208	60,742	52,471
Operating income	78,405	67,072	58,879
Net profit attributable to Equity holders of the Bank	28,239	13,408	10,050
Earnings per share – fils	14.4	6.8	5.1
Financial position			
Total assets	2,647,930	2,191,986	1,884,656
Financing receivables	1,805,115	1,478,701	1,270,014
Investments	237,955	184,846	178,208
Total depositors' accounts	2,082,854	1,657,398	1,396,962
Total equity	296,027	263,944	253,650
Key performance ratios			
Return on average assets	1.2%	0.7%	0.6%
Return on average equity	10.1%	5.2%	4.0%
Non-performing financing ratio	1.1%	1.9%	1.9%

For the year ended 31 December 2014, net profit attributable to Equity holders of the Bank increased by 111% to KD 28.2 million, or 14.4 fils per share, from KD 13.4 million, or 6.8 fils per share, in 2013.

66.2 million compared to KD 60.7 million in year 2013 and net fees and commission income grew 2.6 million; a growth of 58%. Net investment income also rose by KD 3 million. The improvement is resulting from strong balance sheet growth during 2014 which was driven by the successful implementation of Strategy.

Operating expenses increased by 16% to KD 35.4 million, compared to KD 30.5 million in 2013, driven primarily by the growth in business volumes and opening of new branches. However, as the growth in operating income was higher than the corresponding increase in operating expenses, the operating expenses to operating income ratio, which is the primary measure of efficiency, has been decreased to 45.2% in 2014 from 45.5% in 2013.

Provision for impairment decreased by 44% to KD 13 million as a result of phasing out the legacy non-performing assets and their associated provisions which was replaced by high quality assets. This also led to reducing the non-performing financing ratio to 1.1%, which is one of the lowest rate in the market, along with higher coverage ratio.

The return on average equity and average assets significantly increased during 2014.

Total assets grew by 21% in 2014 to reach KD 2.65 Billion. The growth is mainly driven by increase in financing portfolio which grew by 21% in 2014 to reach KD 1.8 Billion. Consumer and corporate finance grew by 22% and 13% respectively in 2014. Credit facilities growth was mainly from resident customers. The Bank continued to sustain asset quality of the credit growth thereby reducing NPL's.

Investments portfolio grew by 29% in 2014 to reach KD 238 Million. The growth is mainly from liquid Sukuk's which the bank uses to deploy surplus funds. The liquid assets to total assets was maintained at 25 % in 2014.

During 2014, customer deposits grew by 26% to reach KD 2 Billion.

The shareholders equity increased to KD 296 million; a growth of 12 % in 2014. During 2014, the Board of Directors have proposed cash and stock dividends which are subject to approval at the forthcoming Annual General Assembly meeting.

The Bank is strongly capitalized with a Capital Adequacy Ratio of 18.05% and is adequate to support the growth of balance sheet in year 2015.

Governance Report

Contents

Governance Statement

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

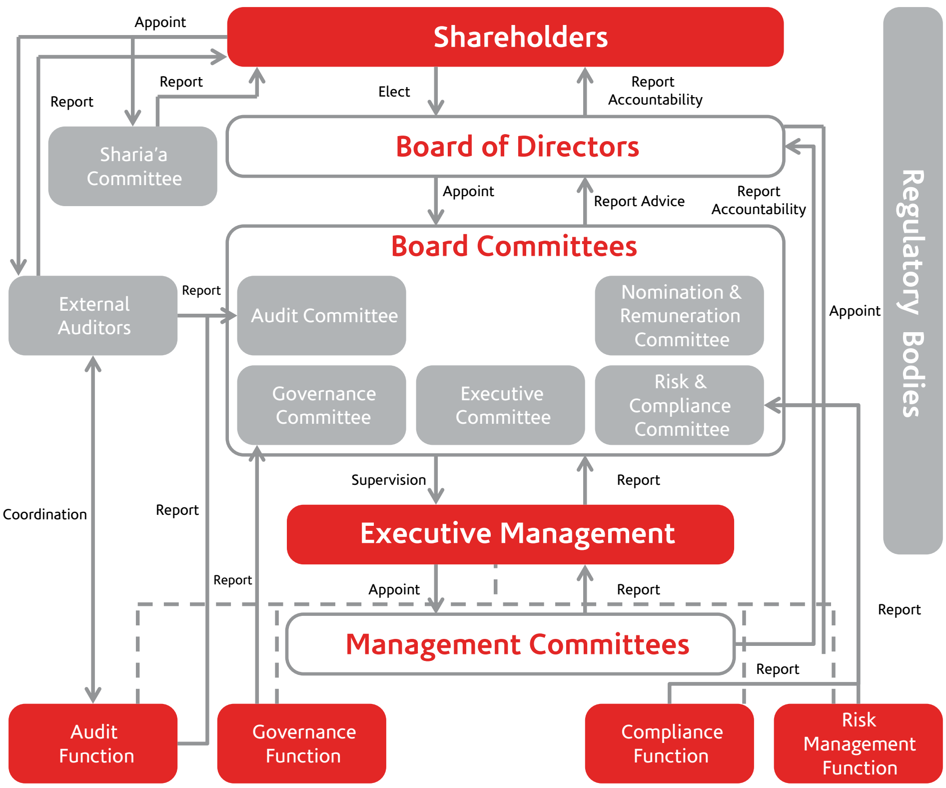
Accordingly, we are committed at Boubyan Bank to have a sound and effective governance framework, in line with our aim toward perfection, as it provides us the confidence that we are doing the right things to our shareholders.

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

In year 2014, Boubyan Bank ensured proper implementation of the "Governance Framework" in line with its "Governance Manual". Further, Boubyan conducted assessment for the Board and its Directors, and set improvements on its governance related practices.

Our success in achieving full implementation of the Corporate Governance requirements of the Central Bank of Kuwait ("CBK") is driven by our continuous endeavor for adopting professional practices in management and control under the prime objective of delivering the best to our shareholders and stakeholders.

Governance Framework



Board of Directors

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

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

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

Directors

Mahmoud Yousef Al-Fulaij

Chairman (Non-Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Fulaij is a well-known businessman in Kuwait with more than 33 years of experience; he manages two general trading and contracting companies in Kuwait. He graduated with a bachelor's degree in Business Administration from the United States of America in 1980.

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

Adel Abdul Wahab Al-Majed

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

Skills and Experience:
Mr. Al-Majed joined Boubyan Bank in August 2009 with more than 33 years of banking experience. In the course of his career, he worked for National Bank of Kuwait (NBK) where he held several positions including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a bachelor's degree in Accounting, and has attended various management training programs at various universities, including Harvard, Wharton and Stanford.

Other current posts:
- Chairman – Bank London & Middle East (UK)
- Board Director – Visa APCEMEA – Senior Client Council

Abdulaziz Abdullah Al-Shaya

Director (Non-Executive)
Year of joining: 2009

Skills and Experience:
Mr. Al-Shaya is a well-known businessman with more than 36 years of experience in trading and real estate sectors; he manages a trading company in Kuwait. Mr. Al-Shaya holds a bachelor's degree in Economics from Kuwait University.

Other current posts:
- Vice Chairman – Awtad Real Estate Company, KSCC (Kuwait)
- Vice Chairman – Orient Investment Company, KSCC (Kuwait)
- Vice Chairman – Enmaa Real Estate Company (Oman)

Ahmad Khalid Al-Homaidhi

Director (Non-Executive)
Year of joining: 2012

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

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

Ahmed Yousef Al-Sager

Director (Non-Executive)
Year of joining: 2011

Skills and Experience:
Mr. Al-Sager is a well-known businessman in Kuwait

with more than 28 years of experience. He is currently the Managing Partner of a well-known food trading company in Kuwait. Mr. Al-Sager graduated from the United States of America with a bachelor's degree in Economics.

Other current posts:
- Board Director – Al-Shall Investment Company, KSCC (Kuwait)
- Board Director – United Electronics Company – EXTRA (Saudi Arabia)
- Board Director – Göknur Foodstuff Company (Turkey)

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

Skills and Experience:
Mr. Al-Fozan possesses more than 26 years of experience in various sectors such as contracting, real estate development, and industry and energy services. He manages operations of companies in Kuwait and Kingdom of Saudi Arabia. Mr. Al-Fozan graduated from Kuwait University with a bachelor's degree in Finance and Banking.

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

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

Skills and Experience:
Mr. Al-Mutairi has a diversified experience for more than 22 years in the fields of financing, investment, and treasury. He is currently the CEO of CreditOne Kuwait Holding Company. He graduated from the United States of America with a bachelor's degree in Finance.

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

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

Skills and Experience:

Mr. Al- Jallal is a well-known banker with more than 31 years of banking, investment, and business experience; he possessed several executive positions in banking, including the General Manager-Corporate Banking and Treasury at Ahli United Bank in Kuwait. He is currently the CEO of a general trading company in Kuwait. He graduated from the United States of America with a degree in Economics.

Other current posts:
- Chairman – Perfetto Trading Company, KSCC (Kuwait)
- Vice Chairman – Future Investment Company, KSCC (Kuwait)
- Managing Director – Nasco Trading Company, KSCC (Kuwait)
- Board Director – American School of Kuwait (Kuwait)

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

Skills and Experience:
Director (Non-Executive)
Year of joining: 2010

Skills and Experience:
Mr. Al-Hamad has more than 21 years of experience, including 11 years in banking and the remaining in the investment sector; he is the Managing Director of a holding company in Kuwait. Mr. Al-Hamad possesses a bachelor's degree in Economics, and a master's degree in Finance from the United States of America.

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

Corporate Governance Report

Structure and Independence

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

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

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

Approach to Governance

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

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

Authorities

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

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

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

Reporting of Information

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

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

- The agenda and supporting documents of Board and Committee meetings.
- Regular reports and presentations on strategy, budgets and development in the businesses.
- Regular reports on the Group's risk appetite profile, top and emerging risks, risk management, credit exposures and the bank's finance portfolio, asset and liability management, liquidity, litigation, compliance and reputational issues.

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

Board Assessment

The Board has a mechanism to conduct annual assessment for the Board and Board Committees. During 2014, Boubyan Bank engaged external consultants who conducted assessment for the Board, its Committees, and Directors. Based on the assessment, the Board is well structured in terms of mixture of experiences and competencies in banking and other related fields. Also, there is adequate number of conducted meetings, and Board Directors are committed in general to attend the meetings.

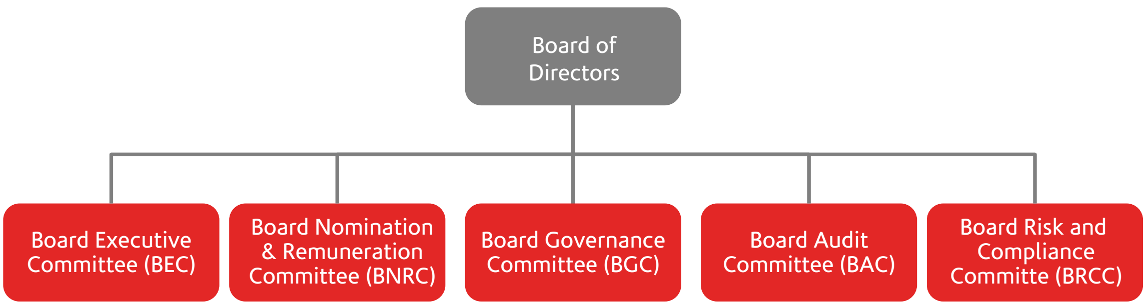
On the other hand, the external consultants advised the Board on areas for potential improvements, and the Board already took actions to implement the respective recommendations.

Board Committees

To assist in fulfilling its duties, the Board established five Board Committees and delegated to them responsibilities to act on its behalf. The respective committees were established in line with proper corporate governance principles and the applicable corporate governance regulatory requirements.

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

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



Composites

The composites of the Board Committees are as follows:

BEC	BNRC	BCGC	BAC	BRCC
Adel Abdul Wahab Al-Majed *	Nasser Abdulaziz Al-Jallal *	Mahmoud Yousef Al-Fulaij *	Farid Soud Al-Fozan *	Ahmed Yousef Al-Sager *
Abdulaziz Abdullah Al-Shaya	Abdulaziz Abdullah Al-Shaya	Adel Abdul Wahab Al-Majed	Ahmad Khalid Al-Homaizi	Ahmad Khalid Al-Homaizi
Hazim Ali Al-Mutairi	Ahmed Yousef Al-Sager	Farid Soud Al-Fozan	Waleed Mishari Al-Hamad	Waleed Mishari Al-Hamad
Nasser Abdulaziz Al-Jallal		Hazim Ali Al-Mutairi		

* Chairperson

Committees

Board Executive Committee (BEC)

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

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

Activities during the year:
During 2014, the BEC met more than forty times, almost on a weekly basis; the Committee performed various activities, which included but were not limited to:

- Review and approve exposure limits to countries, financial institutions, and currencies.
- Review the Corporate Finance Policy, and propose changes to the Board for approval.
- Discuss and approve financing transactions.
- Discuss settlement and/or legal cases of corporate customers and refer them to the Board for approval.
- Discuss and approve related party transactions and investment transactions within its authority limits.

Board Nomination and Remuneration Committee (BNRC)

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

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

Activities during the year:
During 2014, the BNRC met four times, where a meeting was held during each quarter; the activities of the BNRC included but were not limited to:

- Administer the assessment of the Board through engaging external consultants.
- Review the proposed remuneration schemes and propose recommendations to the Board.
- Ensure that performance assessment was conducted for Executive Management.
- Review the employee succession plan.
- Develop a training plan for the Board.
- Review the "Conflict of Interest" policy and update the Board Handbook.

Board Governance Committee (BGC)

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

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

Activities during the year:

During 2014, the BGC met two times in line with the minimum requirements; the BGC covered the following activities:

- Review the draft governance report.
- Discuss the governance review reports of the Corporate Governance Unit and follow up on the status of respective actions.
- Ensure that the Board and Board Committees held adequate number of meetings.
- Discuss the Board Assessment report and follow up on respective action plan.

Board Audit Committee (BAC)

The BAC comprises of three Board Directors, whose members have collective experience in banking, business, governance, and audit. None of the BAC members is a member of the Board Executive Committee.

The BAC should meet at least on quarterly basis; and its main role includes:

- Reviewing internal audit charter and manual, and accounting policies.
- Assessing and recommending appointment of external auditors.
- Reviewing quarterly financial statements.
- Approving internal audit plan, discussing internal audit report, and following up on audit corrective actions.
- Providing support to the Internal Audit Division to ensure fulfilling its scope of work effectively and independently.
- Assessing performance and approving appointment of the head of internal audit function.

Activities during the year:

The BAC met six times during 2014, including a meeting every quarter in line with the corporate governance regulatory requirements, the activities of the BAC during 2014 included but were not limited to:

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

Board Risk Management and Compliance Committee (BRCC)

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

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

- Assessing the Risk Appetite measures, Risk Strategy, and other risk related measures, and proposing recommendations to the Board.

Corporate Governance Report

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

Activities during the year:
During 2014, the BRCC met four times, once every quarter; the activities of the BRCC included but were not limited to the following:

- Follow up on revised risk appetite limits and implementation of ERM indices.
- Review various policies including credit risk policy and corporate finance policy.
- Discuss quarterly Risk Profile reports.
- Review periodic ICAAP & Stress Testing reports.
- Discuss Risk Asset Review reports.
- Review the CBK inspection reports.
- Discuss activity reports pertaining to Compliance and AML functions.

Meetings of Board and Board Committees

Attendance Number of Meetings Minimum Required Meetings	Board 7 6	BEC 41 6	BNRC 4 4	BCGC 2 2	BAC 6 4	BRCC 4 4
Mahmoud Yousef Al-Fulaij	7			2		
Adel Abdul Wahab Al-Majed	6	41		2		
Abdulaziz Abdullah Al-Shaya	5	34	2			
Ahmad Khalid Al-Homaizi	7				3	3
Ahmed Yousef Al-Sager	5		3			3
Farid Soud Al-Fozan	4			1	6	
Hazim Ali Al-Mutairi	6	33		1		
Nasser Abdulaziz Al-Jallal	6	33	4			
Waleed Mishari Al-Hamad	7				6	4

Executive Management

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

Management Team

Adel Abdul Wahab Al-Majed

Vice-Chairman & Chief Executive Officer

Mr. Al-Majed joined Boubyan Bank in August 2009, and has more than 33 years of banking experience. In the course of his career, he worked for National Bank of Kuwait (NBK) where he held several positions including Deputy Chief Executive Officer and General Manager - Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a bachelor's degree in accounting, and attended various management training programs at various universities, including Harvard, Wharton and Stanford.

Abdulla Al-Najran Al-Tuwaijri

Deputy Chief Executive Officer

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

Abdul-Salam Mohammed Al-Saleh

Deputy Chief Executive Officer

Mr. Al-Saleh joined Boubyan Bank in October 2012, and has more than 27 years of banking experience. He worked for 18 years at NBK, where he gained experience in Financial Control and Corporate Banking; and his last position was the Head of Domestic Corporate Banking. Prior to joining the Bank, he worked over 7 years for National Bank of Abu Dhabi (NBAD) as the Regional Manager of its branch in Kuwait. Mr. Al-Saleh got his bachelor's degree in Finance from Kuwait University, and attended various management and leadership training programs over the course of his career.

Waleed Khalid Al-Yaqout

General Manager - Administration Group

Mr. Al-Yaqout joined Boubyan from NBK with more than 33 years of banking experience. His last position at NBK was General Manager – Administration and Human Resources Group. Mr. Al-Yaqout graduated with a bachelor's degree in Business Administration and Marketing from the University of Ashland in USA, and participated in various executive management programs at Harvard, Wharton, Stanford and Columbia.

Adel Abdullah Al Hammad

General Manager - Human Resources Group

Mr. Al-Hammad joined Boubyan Bank in December 2006, and has more than 31 years of experience in Human Resources Management, out of which 23 years were at NBK, where he held several key positions, the last of which was the Head of Human Resources. Mr. Al-Hammad graduated with a bachelor's degree in Economics from Kuwait University, and attended several executive training programs at Harvard University and Stanford University.

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

Dr. Al-Hasawi joined Boubyan Bank in February 2011, and has more than 37 years of experience. He held many positions in different institutions, the last of which was the Assistant General Manager for the IT Sector at Kuwait Finance House. Dr. Al-Hasawi studied at Worcester Polytechnic Institute in USA and continued his master's study at Lehigh University and got his PhD. from Loughborough University of Technology in UK; all studies were in the area of Electronics and Computer Engineering.

Fahad Ahmad Al-Fouzan
General Manager – Consumer Banking Group

Mr. Al-Fouzan joined Boubyan Bank in 2012 and has more than 29 years of banking experience in both Conventional and Islamic sectors. Before joining Boubyan, he held a position of Deputy General Manager - Operations Group at NBK. Mr. Al-Fouzan worked at Kuwait International Bank for 24 years, including 19 years in Corporate Banking and 5 years in Operations. Mr. Fouzan graduated with a bachelor's degree in Accounting from Kuwait University.

Ashraf Abdallah Sewilam
General Manager – Corporate Banking Group

Mr. Sewilam joined Boubyan Bank in 2013, and has over 20 years experience in Banking sector. Before joining Boubyan, Mr. Sewilam was CEO of Al Rajhi Bank-Kuwait. He occupied the position of the CEO of UBCI (Ahli United Bank (AUB) subsidiary in Libya) and was a Deputy CEO at AUB (Kuwait) for Corporate and Treasury. Also, he worked for 10 years at NBK, where he progressed in several managerial positions, the last of which was Executive Manager. Mr. Sewilam holds bachelors' degree in Economics from Cairo University.

Leslie James Rice
General Manager - Risk Management

Mr. Rice joined Boubyan Bank in 2010, having over 30 years banking experience. He started his banking career with Grindlays Bank in London. Before joining Boubyan, Mr. Rice was Group Chief Risk and Compliance Officer at SHUAA Capital in the UAE. His regional experience includes senior positions with National Bank of Dubai and Riyad Bank. He is an Economics graduate and a Fellow of the Chartered Institute of Management Accountants.

Abdul Rahman Hamza Mansour
General Manager - Internal Audit

Mr. Hamza joined the Bank in year 2006 and has more than 33 years of professional experience with financial institutions. Prior to joining Boubyan, he held a position as Audit Manager at Kuwait Investment Authority, and worked before that at Al-Ahli Bank of Kuwait. Mr. Hamza holds a bachelor's degree in Accounting, and he is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE).

Andre Loots
General Manager – Banking Operations Group

André Loots has over 33 years of banking experience. He joined Boubyan in 2014.Before joining Boubyan Bank, André was Chief Operations Officer of NBK Group for 8 years. He was the Regional Director Service Delivery Barclays Africa and Middle East taking care of the Operations and IT of the businesses in Africa and Middle East. Andre holds a bachelor's degree in Accounting and Business Management from the University of South Africa. Andre has also attended various executive management programs at Harvard and Wharton.

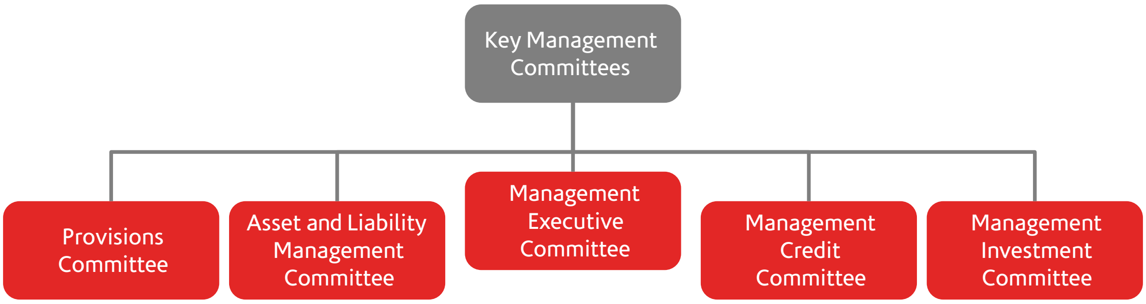
Mohamed Ibrahim Ismail
General Manager – Financial Control Group

Mr. Ismail joined Boubyan Bank in 2005 and has 18 years of banking and financial services experience. He started his carrier as an external auditor with Deloitte & Touche and then Ernst & Young. In the course of his carrier, he worked at Kuwait Finance House and Gulf Investment House. Mr. Ismail is a Certified Public Accountant (CPA) and a Certified Internal Auditor (CIA), and holds MBA in Finance from Manchester Business School.

Mukkulam Jamal Jaffar
Deputy General Manager - Treasury Services

Mr. Jaffar joined the Bank in March 2005 and has over 36 years experience in Banking sector, mainly in treasury services. Prior to joining Boubyan, he held the position as the Assistant Treasurer at Burgan Bank. Mr. Jaffar holds a master's degree in Physics and a diploma in Bank Management.

Key Management Committees
The Key Management Committees are as follows:



Management Committees

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

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

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

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

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

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

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

In line with its duties and responsibilities toward ensuring adequate internal control systems, the Board provided all needed support and ensured fulfillment of the roles of the various functions involved in the internal control, including:
- Sharia'a Board.
- External Audit.
- Independent Internal Control Review.
- Internal Audit.
- Risk Management.
- Compliance.
- Governance.

Internal Control Review
In year 2014, Boubyan Bank engaged an external auditor in line with the CBK regulation to conduct an independent internal control review for year 2013 activities. Based on the review of the external auditor, no exceptions pertaining to governance aspects were noted. Also, the report of the external auditor conveyed that Boubyan Bank maintained in all material aspects, effective internal control system, where no high risk issues were even noted; the Internal Control Review report is attached in the next page.

Internal Control Review Report

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Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait

Opinion letter

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

29 June, 2014

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 4 March, 2014, we have examined the accounting and other records and internal control systems of Boubyan Bank K.S.C.P ("the Bank") and the following subsidiaries of the bank (hereafter collectively referred to as "the group") for the year ended 31 December 2013:

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

We covered the following areas of the Bank:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) letter dated 11 February, 2014 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November, instructions relating to corporate governance issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning anti money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Group.

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

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

Having regard to the nature and volumes of the Group's operations, during the year ended 31 December 2013, and the materiality and risk rating of our findings, in our opinion:

a) the accounting and other records and internal control systems of the Group were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 11 November 1996 and letter issued by CBK on 11 February 2014,

b) the findings raised in the examination and assessment of the internal controls do not have an impact on the fair presentation of the financial statements of the Group for the year ended 31 December 2013, and

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

Yours faithfully,

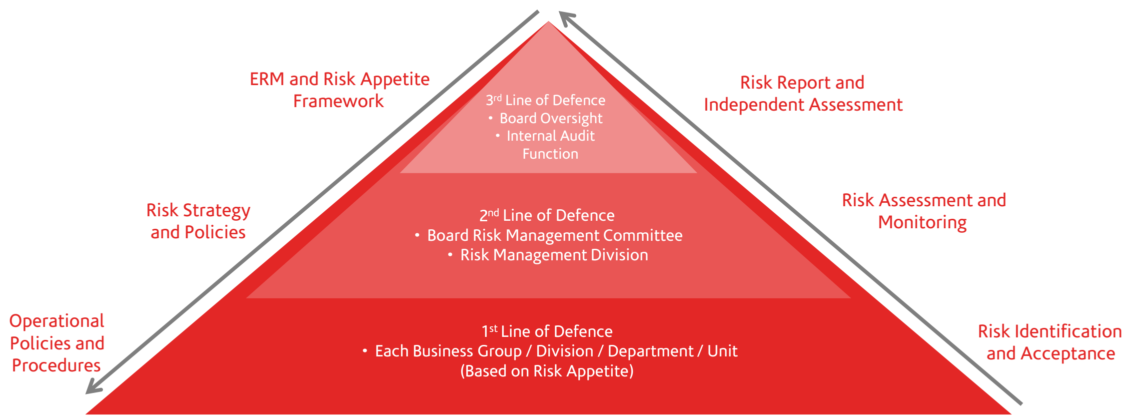
Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

Risk Management

Risk Management Framework

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

Boubyan Bank perceives Risk Management as an integrated function with the business activities, which is guided by a well-balanced Risk Appetite model; accordingly, we adopt the philosophy of "risk is everyone's business", and this is reflected in the following "Three-Lines of Defence" approach:



In line with the "Three Lines of Defence" approach, Boubyan Bank introduced its Enterprise Risk Management (ERM) framework through updating the Risk appetite measures and linking them to the ERM index.

Stress Testing

In line with best practices for risk management, Boubyan Bank conducts stress testing to measure the Bank's vulnerability to exceptional but plausible events.

The respective stress testing is conducted on a quarterly basis, where the results are discussed at management level and presented to the Board Risk Management and Compliance Committee. Further, the results of Stress Testing are reported on a semi-annual basis to the Board and Central Bank of Kuwait.

Risk Management Division

The Risk Management Division (RMD) operates independently from the business, and is head by a General Manager, who reports to the Board Risk Management and Compliance Committee and the CEO. The RMD comprises of the following functional departments:

- Financial & Market Risk Department
- Operational Risk Department
- Technology Risk Department
- Corporate Credit Risk Review Department
- Corporate Financing Risk Analytics Department
- Consumer Financing Risk Analytics Department

Remuneration Policy and Remuneration Package

Remuneration Scheme

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

The current "Employee Incentive Plan" of Boubyan Bank takes into consideration:
- Both financial and risk measures
- Link to long term targets (Strategic Objectives)
- Sensitivity to time horizons of risks
- Claw back feature

Board Remuneration

As per the by-laws and Article of Associations and in line with the Companies' Laws of the State of Kuwait, the Board of Directors may propose annual remuneration up to 10% of annual Net Profit after deducting the following appropriations:
- 10% of Net Profit as Statutory Reserves
- 10% of Net Profit as Voluntary Reserves
- 1% of Net Profit as Contribution to KFAS
- 5% of capital as preliminary dividends to the Shareholders

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

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

For year 2014, the Board has proposed annual remuneration of KD 240 thousands to be allocated among the Board Directors as follows: KD 40 thousands to the Chairman, KD 30 thousands for each member of the Board Executive Committee, and KD 20 thousands for each other Board Directors. This proposal is subject to the approval of the shareholders.

Employee Remuneration

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

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

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

The following table details the remuneration paid to certain employee categories for year ended 31 December 2014:

Employees Categories	Number of Employees	Fixed Remuneration KD'000	Variable Remuneration KD'000		Total KD'000
			Cash	ESOP	
Senior Management	34	3,458	684	673	4,815
Material Risk Takers	23	2,216	491	486	3,193
Financial and Risk Control	12	730	76	74	880

Categories Definitions:

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

The five senior executives who received the highest remuneration packages, plus the heads of Financial Control, Internal Audit and Risk Management groups (i.e., 8 executives in total) received together as a group remuneration package of KD 2,326 thousand for the year ended 31 December 2014.

Major Shareholders

As of December 31, 2014, the major shareholders owning or controlling more than 5% of capital were as follows:

Name of Shareholder	Percentage of Ownership
National Bank of Kuwait S.A.K	58.3%
The Commercial Bank of Kuwait S.A.K	12.7%

Boubyan Bank's Social Responsibility

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

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

During the period extending from 2010 through the end of 2014, the Bank sponsored and participated in over 450 different activities targeting different social groups including youth and people with special needs.

As per the recent report of the Kuwait Banking Association ("KBA") on the corporate social responsibility of Kuwaiti banks, the value of the donations and social contributions of the Bank amount to KD 2.6 million which comprised of charitable, social and humanitarian contributions and donations in addition to the contribution to the Kuwait Society for the Advancement of Science, local manpower support as well as other contributions.

Boubyan Bank's Most Prominent Social Campaigns in 2014

The Blood Donation Campaign

Boubyan Bank was the first private sector entity to respond to the invitation of the Kuwait Central Blood Bank directed to citizens and residents to make up for the shortage of blood stock. Boubyan Bank launched a campaign for its staff and customers over two days that witnessed the participation of over 200 employees in addition to a number of customers.

Boubyan Bank's participation in making up the shortage of the Kuwait Central Blood Bank emanated from the role the Bank plays in the society and out of the Bank's keenness on responding to any humanitarian appeals, particularly those that affect the health and lives of others.

Steps Campaign

In 2014, the Bank organized the Steps Campaign during the Holy month of Ramadan in cooperation with Project 5 Miles, aiming to support cancer patients at Hayatt Centre by encouraging everyone to exercise walking at Al-Hamra tower in Kuwait. The Bank donated KD 1 for every 5 laps completed by the participants.
This campaign was the most distinguished among its peers since it combined both walking during the holy month of Ramadan along with its positive impact on the health of those who exercise it, with the humanitarian goal of the campaign represented in supporting patients suffering from cancer.
The campaign succeeded to attract 2500+ participants from various ages over 20 days, managing by that to alleviate the pains of the cancer patients via the Bank's donations.

Taste of Boubyan

The Bank organized Boubyan Tasting Festival in 2014, the first of its kind in Kuwait. Through this festival, the participants achieved more than one goal. First, they highlighted the abilities and talent of young Kuwaitis. Second, they supported a social and humanitarian goal by donating the proceeds of the festival to autism patients as part of their responsibility towards the society.

Boubyan Tasting Festival, organized in collaboration with Kuwait Concierge, was a unique experience and was the first of its kind in Kuwait where a group of professional Kuwaiti young chefs specialist in various cuisines were invited. The proceeds of the event were donated to autism patients.

Boubyan Bank's Social Responsibility

Boubyan Bank Volunteers Projects Award

Last June, Boubyan Bank organized the closing ceremony for Boubyan Bank Volunteers Projects Award 2014 under the patronage of the Minister of Social Affairs and Labor and the Minister of State Development and Planning, Her Excellence, Ms. Hind Sabih Al Sabeeh. During the event, the names of the winning teams and groups were announced.

The idea of Boubyan Bank Volunteers Projects Award revolved around choosing the best volunteering team and groups in Kuwait and providing them with financial and moral support. The Bank allocated rewards for the winners with a value in excess of KD 20,000.

The launch of this award was the fruit of studies and research for the voluntary work in Kuwait and the increase of awareness about the importance of voluntary work and social service since many voluntary teams and groups with Kuwaiti young participants have come under the spotlight in the recent years.

The Big Tree Society

For the 3rd year in a row, Boubyan Bank organized the Big Tree Society Competition in collaboration with the United Nations Educational, Scientific and Cultural Organization (UNESCO) under the patronage of the Minister of Education and Minister of Higher Education, His Excellence Mr. Ahmed Al Mulaifi. More than 200 schools participated in the competition and 128 of them reached the final stages.

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

The competition urges students, of different ages and at all school levels, to shape their future. The program gives the students an opportunity to take part in a competition whose goal is to improve environmental awareness and be influential as regards environmental matters.

The Ideal Driver Campaign

Boubyan Bank launched this awareness campaign titled "Because of You, Kuwait is Better, Thank Your for Being an Ideal Driver", in collaboration with the General Department of Traffic and the Security Media Department at the Ministry of Interior.

The campaign succeeded in achieving many goals and most importantly, highlighting the importance of complying with the laws that protect the lives of people and maintain order. This campaign will be organized on an annual basis with activities being expanded to achieve all goals.

The campaign was originally launched in an attempt to spread the awareness about complying with the laws and traffic rules, and to select a number of ideal drivers in order to be honored. The campaign was part of the continued collaborative and cooperative efforts between public and private sector entities in an attempt to motivate citizens and residents to comply with the laws and regulations organizing traffic in the state of Kuwait in a manner that guarantees safety for everybody.

The campaign comprised of many activities and events which were held in one of the most famous malls in Kuwait at a week end in order for the campaign to be more effective and fruitful. All the details about the campaign were communicated to the public and they were encouraged to register in order to participate in the competition. Furthermore, various brochures and publications were distributed in different languages.

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

Risk Managment
For the year ended 31 December 2014

1. INRODUCTION AND OVERVIEW

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

2. REGULATORY SCOPE OF CONSOLIDATION

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

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, unless otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2 and 3.1 of the Group's consolidated financial statements for the year ended 31 December 2014.

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

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

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

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

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

3. CAPITAL STRUCTURE

The Group's regulatory capital comprises:

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

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

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

The Bank's share capital as at 31 December 2014 comprised **1,965,001,500** issued and fully-paid up equity shares.

The regulatory capital for the Group is detailed below:

Table 1	**2014**
	KD'000
Regulatory Capital	
Common Equity Tier 1 Capital	**229,050**
Additional Tier 1 Capital	**731**
Tier 1 Capital	**229,781**
Tier 2 Capital	**15,148**
Total Regulatory Capital	**244,929**

4. CAPITAL ADEQUACY RATIOS

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

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

Table 2	**2014**	
	MCR*	**CAR**
Common Equity Tier 1 Capital (CET1	**8.50%**	**16.88%**
Tier 1 Capital (Tier 1)	**10.00%**	**16.94%**
Total Regulatory Capital	**12.00%**	**18.05%**

* includes a 2.5% capital conservation buffer which is to be met through CET1 capital.

The countercyclical capital Buffer has not been required for the year ended 31 December 2014 in the MCR. The MCR including capital conservation buffer is to be increased to 13% through a transitional phased-in period until 2016.

5. PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

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

5.1 Credit risk

The capital charge in respect of credit risk as at was **KD 141,474 thousand** as detailed below:

Table 3	Gross credit exposure	Risk weighted assets	Capital charge
	KD'000	KD'000	KD'000
Cash	24,555	-	-
Claims on sovereigns	171,279	-	-
Claims on international organisations	38,099	-	-
Claims on public sector Entities	6,613	-	-
Claims on banks	405,199	60,107	7,213
Claims on corporates	794,502	345,675	41,481
Regulatory retail exposure	771,959	484,972	58,197
Past due exposure	15,691	7,523	903
Investments in real estate	25,637	51,275	6,153
Investments and financing to customers	337,252	99,735	11,968
Sukuk exposures	27,037	18,324	2,199
Other exposures*	103,638	111,337	13,360
	2,721,461	1,178,948	141,474

*"Other exposures" above includes Threshold Deduction of **KD 25,823 thousand** and an amount of **KD 21,204 thousand** negative representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk-Weighted Assets, which is allowed in arriving at Tier 2 Capital.

5.2 Market risk:

The total capital charge in respect of market risk was **KD 5,803** thousand arising only from foreign exchange risk.

5.3 Operational Risk:

The capital charge in respect of operational risk was **KD 15,515 thousand**. This capital charge was computed using the Basic Indicator Approach by multiplying the three-year average gross income by a pre-defined beta factor.

6. RISK MANAGEMENT

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

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

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

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

The key features of the Bank's comprehensive risk management policy are:

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

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

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

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

6.1 Scope and nature of risk reporting tools

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

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

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

6. RIAK MANAGEMENT (CONTINUED)

6.2 Risk management processes

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

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

6.2.1 Credit risk

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

6.2.2 Credit risk management strategy

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

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

6.2.3 Credit risk management structure and governance

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

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

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

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

6.2.4 Key features of corporate credit risk management

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

6. RIAK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.5 Key features of consumer credit risk management

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

6.2.6 Bank's credit risk monitoring

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

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

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

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

6.2.7 Bank's credit risk mitigation strategy

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

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

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

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.8 Management of credit collateral and valuation

The main types of collateral accepted by the Bank include:

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

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

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

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

Table 4	**Gross credit exposure**	**Eligible Credit Risk Mitigation**
	KD'000	**KD'000**
Cash	**24,555**	**-**
Claims on sovereigns	**171,279**	**-**
Claims on international organisations	**38,099**	**-**
Claims on public sector Entities	**6,613**	**-**
Claims on banks	**405,199**	**915**
Claims on corporates	**794,502**	**290,990**
Regulatory retail exposure	**771,959**	**-**
Past due exposure	**15,691**	**3,395**
Investments in real estate	**25,637**	**-**
Investments and financing to customers	**337,252**	**231,416**
Sukuk exposures	**27,037**	**-**
Other exposures	**103,638**	**-**
	2,721,461	**526,716**

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.9 Gross, average and net credit exposures

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

Table 5	**Gross credit exposure KD'000**	**Self-funded exposure KD'000**	**Funded through investments accounts exposure KD'000**
Cash	**24,555**	**6,298**	**18,257**
Claims on sovereigns	**171,279**	**50,000**	**121,279**
Claims on international organisations	**38,099**	**38,099**	**-**
Claims on public sector Entities	**6,613**	**1,696**	**4,917**
Claims on banks	**405,199**	**114,667**	**290,532**
Claims on corporates	**794,502**	**267,852**	**526,650**
Regulatory retail exposure	**771,959**	**197,984**	**573,975**
Past due exposure	**15,691**	**4,024**	**11,667**
Investments in real estate	**25,637**	**25,637**	**-**
Investments and financing to customers	**337,252**	**86,495**	**250,757**
Sukuk exposures	**27,037**	**27,037**	**-**
Other exposures	**103,638**	**83,975**	**19,663**
	2,721,461	**903,764**	**1,817,697**

Table 6	**Average credit exposure * KD'000**	**Self-funded exposure KD'000**	**Funded through investments accounts exposure KD'000**
Cash	**29,714**	**9,153**	**20,561**
Claims on sovereigns	**103,679**	**33,361**	**70,318**
Claims on international organisations	**20,573**	**20,573**	**-**
Claims on public sector Entities	**7,006**	**2,104**	**4,902**
Claims on MDB's	**960**	**960**	**-**
Claims on banks	**439,394**	**146,433**	**292,961**
Claims on corporates	**778,355**	**291,996**	**486,359**
Regulatory retail exposure	**716,807**	**212,699**	**504,108**
Past due exposure	**18,485**	**5,628**	**12,857**
Investments in real estate	**21,663**	**21,663**	**-**
Investments and financing to customers	**332,813**	**99,679**	**233,134**
Sukuk exposures	**26,765**	**26,765**	**-**
Other exposures	**99,364**	**80,694**	**18,670**
	2,595,578	**951,708**	**1,643,870**

* Based on quarterly average balances

Boubyan Bank

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.8 Gross, average and net credit exposures (Continued)

Table 7	Net credit exposure KD'000	Self-funded exposure KD'000	Funded through investments accounts exposure KD'000
Cash	24,555	6,298	18,257
Claims on sovereigns	171,279	50,000	121,279
Claims on international organisations	38,099	38,099	-
Claims on public sector Entities	6,613	1,696	4,917
Claims on banks	404,284	114,430	289,854
Claims on corporates	503,512	187,838	315,674
Regulatory retail exposure	771,959	197,984	573,975
Past due exposure	12,296	3,154	9,142
Investments in real estate	25,637	25,637	-
Investments and financing to customers	105,836	27,144	78,692
Sukuk exposures	27,037	27,037	-
Other exposures	103,638	83,975	19,663
	2,194,745	763,292	1,431,453

As at 31 December 2014, **28.15%** of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), as detailed below:

Table 8	Net credit exposure KD'000	Rated exposure KD'000	Unrated exposure KD'000
Cash	24,555	-	24,555
Claims on sovereigns	171,279	171,279	-
Claims on international organisations	38,099	38,099	-
Claims on public sector Entities	6,613	-	6,613
Claims on banks	404,284	381,366	22,918
Claims on corporates	503,512	-	503,512
Regulatory retail exposure	771,959	-	771,959
Past due exposure	12,296	-	12,296
Investments in real estate	25,637	-	25,637
Investments and financing to customers	105,836	-	105,836
Sukuk exposures	27,037	27,037	-
Other exposures	103,638	-	103,638
	2,194,745	617,781	1,576,964

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

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.9 Gross, average and net credit exposures (Continued)

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

Table 9	Middle east and North Africa	North America	Europe	Asia	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Cash	24,555	-	-	-	24,555
Claims on sovereigns	163,112	-	5,216	2,951	171,279
Claims on international organisations	-	-	-	38,099	38,099
Claims on public sector Entities	6,613	-	-	-	6,613
Claims on banks	337,228	3,164	57,662	7,145	405,199
Claims on corporates	791,608	-	2,894	-	794,502
Regulatory retail exposure	771,959	-	-	-	771,959
Past due exposure	13,617	-	-	2,074	15,691
Investments in real estate	19,864	-	5,773	-	25,637
Investments and financing to customers	335,721	-	1,531	-	337,252
Sukuk exposures	24,163	-	2,873	-	27,036
Other exposures	85,084	32	-	18,523	103,639
	2,573,524	3,196	75,949	68,792	2,721,461

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

Table 10	Up to 3 months	3 – 6 months	6 – 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
Cash	24,555	-	-	-	24,555
Claims on sovereigns	98,094	48,394	24,790	-	171,278
Claims on international organisations	38,099	-	-	-	38,099
Claims on public sector Entities	-	3,502	-	3,111	6,613
Claims on banks	390,304	5,048	1,930	7,917	405,199
Claims on corporates	385,600	211,846	102,917	94,138	794,501
Regulatory retail exposure	5,938	624	3,592	761,805	771,959
Past due exposure	15,692	-	-	-	15,692
Investments in real estate	-	-	-	25,637	25,637
Investments and financing to customers	267,698	55,922	13,067	566	337,253
Sukuk exposures	-	-	4,354	22,683	27,037
Other exposures	5,558	-	5,386	92,694	103,638
	1,231,538	325,336	156,036	1,008,551	2,721,461

6. RISK MANAGEMENT (CONTINUED)

6.2 Risk management processes (Continued)

6.2.10 "Past-due" and impairment provisions

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

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

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

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

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

The Group's impaired finance portfolio as at 31 December 2014 was **KD 20,275 thousand** against which a specific provision of **KD 5,380 thousand** has been made, as detailed below:

Table 11	**Impaired finance facilities**	**Related specific provision**	**Net balance**
	KD'000	**KD'000**	**KD'000**
Claims on corporates	16,654	3,756	12,898
Regulatory retail exposure	3,621	1,624	1,997
	20,275	**5,380**	**14,895**

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

Table 12	**Middle east and north Africa**	**Asia**	**Total**
	KD'000	**KD'000**	**KD'000**
Past due and impaired financing	**17,093**	**3,182**	**20,275**
Related specific provision	**4,126**	**1,254**	**5,380**

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

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

The Bank's total provision as at 31 December 2014 was **KD 41,584 thousand** inclusive of a general provision of **KD 36,204 thousands** as detailed below:

Table 13	**2014**
	KD'000
Claim on corporates	**28,430**
Regulatory retail exposure	**7,774**
	36,204

The total general provision above includes **KD 1,495 thousand** relating to "non-cash" facilities in accordance with CBK regulations.

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

Table 14	**2014**
	KD'000
Middle east and north Africa	**34,665**
Europe	**44**
	34,709

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

6. RISK MANAGEMENT (CONTINUED)

6.3 "Market" risk

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

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

The strategy for controlling market risk includes:

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

6.3.1 Market-risk management framework

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

6.4 Operational risk

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

6.4.1 Operational-risk management framework

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

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

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

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

6.5 Liquidity risk

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

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

6. RISK MANAGEMENT (CONTINUED)

6.6 Reputation and fiduciary risk

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

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

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

During the year, Assets under Management at the Group increased by **26.5%** to reach **KD 99,804 thousands** on 31 December 2014.

7. COMPLIANCE WITH SHARI'A PRINCIPLES

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

According to the law no 46/2003 related to Zakat should be paid by listed companies, the Bank will pay **KD 289 thousands** for the year ended 31 December 2014 and it is subject to auditing procedures by external consultant and approval by Ministry of Finance.

The violations related to compliance of Sharia's principles for the year ended 31 December 2014 is **Nil**.

The Shari's Supervisor Board's remuneration for the year ended 31 December 2014 is **KD 66 thousands**.

8. INVESTMENT ACCOUNTS

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

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

Saving Investment Accounts

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

Fixed-Term Deposit Investment Accounts

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

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

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

9. COMPOSITION OF CAPITAL

9.1 Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

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

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

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

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

The below table summarizes the composition of capital and ratios:

Table 15	**2014** **KD'000**
Common Equity Tier 1 Capital before regulatory adjustments	286,965
Less:	
Total regulatory adjustments to Common Equity Tier 1	28,731
Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	29,184
Common Equity Tier 1 Capital (CET1)	**229,050**
Additional Tier 1 Capital (AT1)	731
Tier 1 Capital (T1 = CET1 + AT1)	**229,781**
Tier 2 Capital (T2)	15,148
Total Capital (TC = T1 + T2)	**244,929**
Total risk-weighted assets	1,356,592
Capital ratios and buffers	
Common Equity Tier 1 Capital (as percentage of risk-weighted assets)	16.88%
Tier 1 Capital (as percentage of risk-weighted assets)	16.94%
Total Regulatory Capital (as percentage of risk-weighted assets)	18.05%
National minima	
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	12.00%
Tier 1 minimum ratio	10.00%
Total capital minimum ratio excluding CCY and D-SIB buffers	8.50%

A detailed breakdown of the Group's regulatory capital position under the Common Disclosures template as stipulated under the Pillar 3 section of the CBK Basel III Capital Adequacy framework is presented in Table 24.

10. RECONCILIATION REQUIREMENTS

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

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

Table 16 - Step 1 and 2 of Reconciliation requirements	Balance sheet as in published financial statements **KD'000**	Under regulatory scope of consolidation **KD'000**	Reference
Assets			
Cash and cash equivalent	314,821	314,821	
Due from banks	263,593	263,593	
Islamic financing to customers	1,805,115	1,805,115	
of which general provisions(netted above) capped for Tier 2 inclusion	15,002	15,002	A
Financial assets at fair value through profit or loss	12,738	12,738	
Available for sale investments	113,852	113,852	
Investment in associates	85,728	85,728	
of which goodwill	27,968	27,968	B
of which investments in the capital of banking entities above the threshold deduction that are outside the scope of regulatory consolidation	29,184	29,184	C
Investment properties	25,637	25,637	
Other assets	10,944	10,944	
Property and equipment	15,502	15,502	
Total assets	**2,647,930**	**2,647,930**	
Liabilities			
Due to banks	226,739	226,739	
Depositors' accounts	2,082,854	2,082,854	
Other liabilities	37,235	37,235	
Total liabilities	**2,346,828**	**2,346,828**	
Equity			
Share capital	196,500	196,500	D
Share premium	62,896	62,896	E
Proposed bonus shares	9,825	9,825	F
Treasury shares	(763)	(763)	G
Statutory reserve	6,283	6,283	H
Voluntary reserve	6,015	6,015	I
Share based payment reserve	864	864	J
Fair value reserve	5,082	5,082	K
Foreign currency translation reserve	(6,468)	(6,468)	L
Retained earnings	5,978	5,978	M
Proposed cash dividends	9,815	9,815	N
Equity attributable to equity holders of the Bank	**296,027**	**296,027**	
Non-controlling interests	**5,075**	**5,075**	
of which limited recognition eligible as CET1 Capital			
of which limited recognition eligible as AT1 Capital	731	731	O
of which limited recognition eligible as Tier 2 Capital	146	146	P
Total equity	**301,102**	**301,102**	
Total liabilities and equity	**2,647,930**	**2,647,930**	

10. RECONCILIATIN RFQUIREMENTS (CONTINUED)

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

Relevant row number in common disclosure template	Table 17: Step 3 of Reconciliation requirements	Component regulatory capital KD'000	Source based on reference letters of the balance sheet from step2 KD'000
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	196,500	D
2	Retained earnings	5,978	M
3	Accumulated other comprehensive income (and other reserves)	84,487	E+H+I+J+K+L+N
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	-	
5	**Common Equity Tier 1 Capital before regulatory adjustments**	**286,965**	
	Common Equity Tier 1 Capital : regulatory adjustments		
6	Goodwill	27,968	B
7	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
8	Investments in own shares	763	G
9	Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	29,184	C
10	**Total regulatory adjustments to Common Equity Tier 1**	**57,915**	
11	**Common Equity Tier 1 Capital (CET1)**	**229,050**	
	Additional Tier 1 capital : instruments		
12	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	731	O
13	**Additional Tier 1 capital before regulatory adjustments**	**731**	
	Additional Tier 1 Capital : regulatory adjustments		
14	Additional Tier 1 Capital (AT1)	731	
15	**Tier 1 Capital (T1 = CET1 + AT1)**	**229,781**	
	Tier 2 Capital : instruments and provisions		
16	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	146	P
17	General Provisions included in Tier 2 Capital	15,002	A
18	**Tier 2 Capital before regulatory adjustments**	**15,148**	
21	Total capital (TC = T1 + T2)	**244,929**	

11. LAVERAGE RATIO

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

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

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

The Leverage Ratio for the Group at consolidated level is:

Table 18

	2014
Tier 1 Capital (KD 000s)	229,050
Total Exposures (KD 000s)	2,773,981
Leverage Ratio (%)	**8.26%**

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

Table 19

	2014 KD'000
On-balance sheet exposures	2,590,786
Off-balance sheet items	183,195
Total Exposures	**2,773,981**

Table 25 provides details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework

11.1 Leverage Ratio Reconciliation

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

Summary comparison of accounting assets vs leverage ratio exposure measure

Table 20

Item	2014 KD'000
Total consolidated assets as per published financial statements	2,647,930
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(57,144)
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
Adjustments for derivative financial instruments	-
Adjustment for securities financing transactions (ie repos and similar secured lending)	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	183,195
Other adjustments	-
Leverage ratio exposure	**2,773,981**

12. REMUNERATION DISCLOSURE

12.1 Qualitative Information

12.1.1 Governance bodies

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

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

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

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

Senior Management: includes all employees in the positions of Assistant General Manager and above and staff whose hiring are subject to approval of regulators. The number of employees in this category as at 31 December 2014 was **29 employees**.

Material Risk Takers: includes all employees whose activities and decisions have a material impact on the risk profile of the Bank. The number of employees in this category as at 31 December 2014 was **23 employees**.

Financial and Risk Control: includes all head of divisions and head of groups in Financial Control, Risk Management, Compliance, Internal Audit and Anti-Money Laundering functions. The number of employees in this category as at 31 December 2014 was **12 employees**.

12.1.2 Remuneration Structure and design

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

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

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

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

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

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

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

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

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

12. REMUNERATION DISCLOSURE (CONTINUED)

12.1 Qualitative Information (Continued)

12.1.3 An Overview on the Key Performance Indicators

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

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

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

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

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

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

12.1.4 Remuneration Adjustments

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

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

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

12.1.5 Types of Remuneration Components

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

The fixed component (salaries, benefits) is on cash basis, while the variable component (bonuses and other incentives) is on equity basis (ESOP).

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

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

12. REMUNERATION DISCLOSURE (CONTINUED)

12.2 Quantitative Information

During the year, the Board Nomination and Remuneration Committee met **4 times**. The total remuneration paid to the Committee members was **Nil**. The quantitative disclosures detailed below cover only senior management and other material risk takers.

The number of employees having received a variable remuneration award during 2014 was **42 employees** and they represent **6.8%** of the total number of employees received a variable remuneration.

The number of employees who received sign-on awards or guaranteed bonuses during 2014 was **Nil**.

The total amount of end-of-service benefit paid during 2014 was **KD 8 thousand**; this is related to **1 employee**.

The total amount of outstanding deferred remuneration as at 31 December 2014 was **KD 1,250**

Total amount of deferred remuneration paid during 2014 was **KD 445 thousands.**

Total salaries & remuneration granted during reported period

Senior Management

Table 21	**Unrestricted KD'000**	**Deferred KD'000**
Fixed remuneration:		
- Cash	3,097	-
- Others (Note 1)	-	361
Variable remuneration:		
- Cash	684	-
- ESOP	-	673

Material Risk Taker*

Table 22	**Unrestricted KD'000**	**Deferred KD'000**
Fixed remuneration:		
- Cash	2,008	-
- ESOP	-	208
Variable remuneration:		
- Cash	496	-
- ESOP	-	486

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

Employees Category

Table 23	**Number of employees**	**Remuneration Fixed and Variable KD'000**
Senior Management	34	4,815
Material Risk Takers*	23	3,193
Financial and Risk Control	12	880

* Material Risk Takers are identify as Senior Management

13. OTHER DISCLOSURES

13.1 Regulatory Capital Composition: Common Disclosure Template

Row Number	Table 24	KD 000s
	Common Equity Tier 1 Capital: instruments and reserves	
1	Directly issued qualifying common share capital plus related stock surplus	259,395
2	Retained earnings	5,978
3	Accumulated other comprehensive income (and other reserves)	21,592
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	-
5	Common Equity Tier 1 capital before regulatory adjustments	**286,965**
	Common Equity Tier 1 Capital : regulatory adjustments	
6	Goodwill (net of related tax liability)	(27,968)
7	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(763)
8	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	(29,184)
9	**Total regulatory adjustments to Common Equity Tier 1**	**(57,915)**
10	Common Equity Tier 1 Capital (CET1)	**229,050**
	Additional Tier 1 Capital : instruments	
11	Additional Tier 1 instruments (and CET1 instruments not included in row 4) issued by subsidiaries and held by third parties (amount allowed in group AT1)	731
12	**Additional Tier 1 Capital before regulatory adjustments**	**731**
	Additional Tier 1 Capital : regulatory adjustments	
13	Additional Tier 1 capital (AT1)	731
14	**Tier 1 Capital (T1 = CET1 + AT1)**	**229,781**
	Tier 2 Capital : instruments and provisions	
15	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	146
16	General Provisions included in Tier 2 Capital	15,002
17	**Tier 2 capital before regulatory adjustments**	**15,148**
	Tier 2 Capital: regulatory adjustments	
18	National specific regulatory adjustments	-
19	Total regulatory adjustments to Tier 2 Capital	-
20	Tier 2 Capital (T2)	15,148
21	**Total Capital (TC = T1 + T2)**	**244,929**
22	Total risk-weighted assets	**1,356,592**
	Capital ratios and buffers	
23	Common Equity Tier 1 (as percentage of risk-weighted assets)	16.94%
24	Tier 1 (as percentage of risk-weighted assets)	16.88%
25	Total capital (as percentage of risk-weighted assets)	18.05%
	National minima	
26	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	8.50%
27	Tier 1 minimum ratio	10.00%
28	Total capital minimum ratio excluding CCY and D-SIB buffers	12.00%

Boubyan Bank

13. OTHER DISCLOSURES (CONTINUED)

13.1 Leverage Ratio: Common Disclosure Template

Table 25

	Item	KD 000's
	On-balance sheet exposures	
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	2,647,930
2	(Asset amounts deducted in determining Basel III Tier 1 Capital)	(57,144)
3	**Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)**	**2,590,786**
	Exposures to Sharia compliant hedging contracts	
4	Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	-
6	Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the Bank's accounting policy.	-
7	(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	-
8	(Bank's exposures to exempted Central counter parties "CCP")	-
9	**Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)**	**-**
	Other off-balance sheet exposures	
10	Off-balance sheet exposure (before any adjustment for credit conversion factors)	1,085,500
11	(Adjustments for conversion to credit equivalent amounts)	(902,305)
12	**Off-balance sheet items (sum of lines 10 and 11)**	**183,195**
	Capital and total exposures	
13	**Tier 1 Capital**	**229,050**
14	**Total exposures (sum of lines 3, 9,12)**	**2,773,981**
	Leverage ratio	
15	**Leverage ratio (Tier 1 Capital (13)/total exposures (14))**	**8.26%**

Report of Fatwa & Shari'a Supervisory Board

Report of Fatwa & Shari'a Supervisory Board

Date: 14 Rabi' Al-Awwal 1436 A.H.
Corresponding to: 04 January 2015

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

Report of the Fatwa and Shari'a Supervisory Board From 01.01.2014 to 31.12.2014

To the Shareholders of Boubyan Bank
Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Folk, and Companions All.

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

We, at the Fatwa and Shari'a Supervisory Board of Boubyan Bank, have reviewed the principles adopted and the contracts pertinent to the transactions of the Bank for the period from 1/1/2014 to 31/12/2014. We have observed the due review and revision necessary to express our opinion on the Bank's compliance with the rulings and principles of the Noble Islamic Shari'a as well as its compliance with the Fatwa, resolutions, principles and guidelines previously issued or set by the Board. The management of the Bank is entrusted with implementation of such rulings, principles and Fatwa while the Board's responsibility is limited to expressing an independent opinion in light of the transactions submitted and presented to it.

We have exercised proper observation and review that covered review of contracts and procedures followed in the Bank by testing each type of transactions, and we have obtained all the information and explanations necessary to express an opinion on the extent to which the Bank's activities are in compliance with the rulings of the Noble Islamic Shari'a. In our opinion, Boubyan Bank's contracts, documents and operations during the period from 1-1-2014 to 31-12-2014, presented to us, have all been concluded as per the rulings and principles of the Noble Islamic Shari'a.

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

Peace and blessings be upon our Prophet, Muhammad, his Folk and Companions All.

Sheikh Dr. Ajeel J. Al-Nashmi

Sheikh Dr. Abdul Aziz K. Al-Qassar

Sheikh Dr. Essam K. Al-Enezi

Sheikh Dr. Mohammed O. Al-Fazie

Sheikh Dr. Ibrahim A. Al-Rashed

BOUBYAN BANK K.S.C. AND SUBSIDIARIES

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

INDEX

Deloitte.

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Al-Wazzan & Co.

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boubyan Bank Kuwait K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Deloitte.

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Bank or on its consolidated 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 2014 that might have had a material effect on the business of the Bank or on its consolidated financial position.

Bader A. Al-Wazzan
Licence No. 62A
Deloitte & Touche
Al-Wazzan & Co.

Waleed A. Al Osami
License No. 68A
EY
Al-Aiban, Al-Osaimi and Partners

Kuwait
6 January 2015

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2014

	Notes	2014 KD'000	2013 KD'000
Income			
Murabaha and other Islamic financing income		**83,692**	70,969
Distribution to depositors	5	**(15,961)**	(8,527)
Murabaha cost		**(1,523)**	(1,700)
Net financing income		**66,208**	60,742
Net investment income	6	**4,986**	962
Net fees and commission income	7	**5,935**	3,632
Share of results of associates	16	**(247)**	726
Net foreign exchange gain		**1,352**	1,010
Other Income		**171**	-
Operating income		**78,405**	67,072
Staff costs		**(20,833)**	(18,767)
General and administrative expenses		**(12,411)**	(10,062)
Depreciation		**(2,178)**	(1,699)
Operating expenses		**(35,422)**	(30,528)
Operating profit before provision for impairment		**42,983**	36,544
Provision for impairment	8	**(12,952)**	(23,081)
Operating profit before deductions		**30,031**	13,463
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(261)**	(127)
National Labour Support Tax ("NLST")		**(736)**	(348)
Zakat		**(289)**	(133)
Board of directors' remuneration		**(240)**	(135)
Net profit for the year		**28,505**	12,720
Attributable to:			
Equity holders of the Bank		**28,239**	13,408
Non-controlling interests		**266**	(688)
Net profit for the year		**28,505**	12,720
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	9	**14.39**	6.83

The notes from 1 to 32 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014	2013
	KD'000	KD'000
Net profit for the year	**28,505**	12,720
Other comprehensive income		
Other comprehensive income to be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of available for sale investments	**947**	(2,230)
Net gains on available for sale investments transferred to consolidated statement of profit and loss	**(86)**	(449)
Impairment losses on available for sale investments transferred to consolidated statement of profit and loss	**1,364**	2,115
Foreign currency translation adjustments	**1,278**	(2,873)
Other comprehensive income/(loss) for the year	**3,503**	(3,437)
Total comprehensive income for the year	**32,008**	9,283
Attributable to:		
Equity holders of the Bank	**31,742**	9,971
Non-controlling interests	**266**	(688)
Total comprehensive income for the year	**32,008**	9,283

The notes from 1 to 32 form an integral part of these consolidated financial statements.

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

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 KD'000	2013 KD'000
Assets			
Cash and cash equivalents	10	**314,821**	205,622
Due from banks	11	**263,593**	298,871
Islamic financing to customers	12	**1,805,115**	1,478,701
Financial assets at fair value through profit or loss	13	**12,738**	5,866
Available for sale investments	14	**113,852**	63,044
Investments in associates	16	**85,728**	85,691
Investment properties	17	**25,637**	30,245
Other assets	18	**10,944**	11,516
Property and equipment		**15,502**	12,430
Total assets		**2,647,930**	2,191,986
Liabilities and Equity			
Liabilities			
Due to banks		**226,739**	236,018
Depositors' accounts		**2,082,854**	1,657,398
Other liabilities	19	**37,235**	29,083
Total liabilities		**2,346,828**	1,922,499
Equity			
Share capital	20	**196,500**	183,645
Share premium	21	**62,896**	62,896
Proposed bonus shares	22	**9,825**	12,855
Treasury shares	23	**(763)**	(1,100)
Statutory reserve	24	**6,283**	3,306
Voluntary reserve	25	**6,015**	3,167
Share based payment reserve	26	**864**	860
Fair value reserve		**5,082**	2,857
Foreign currency translation reserve		**(6,468)**	(7,746)
Retained earnings		**5,978**	3,204
Proposed cash dividends	22	**9,815**	-
Equity attributable to equity holders of the Bank		**296,027**	263,944
Non-controlling interests		**5,075**	5,543
Total equity		**301,102**	269,487
Total liabilities and equity		**2,647,930**	2,191,986

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 32 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	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	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
Balance at 1 January 2014	**183,645**	**62,896**	**12,855**	**(1,100)**	**3,306**	**3,167**	**860**	**2,857**	**(7,746)**	**3,204**	**-**	**263,944**	**5,543**	**269,487**
Total comprehensive income for the year	-	-	-	-	-	-	-	**2,225**	**1,278**	**28,239**	-	**31,742**	**266**	**32,008**
Transfer to reserves	-	-	-	-	**2,977**	**2,848**	-	-	-	**(5,825)**	-	-	-	-
Issue of bonus shares	**12,855**	-	**(12,855)**	-	-	-	-	-	-	-	-	-	-	-
Capital redemption of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	**(734)**	**(734)**
Share based payment (note 26)	-	-	-	-	-	-	**4**	-	-	**257**	-	**261**	-	**261**
Sales of treasury shares	-	-	-	**337**	-	-	-	-	-	**(257)**	-	**80**	-	**80**
Proposed bonus shares (note 22)	-	-	**9,825**	-	-	-	-	-	-	**(9,825)**	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	**(9,815)**	**9,815**	-	-	-
Balance at 31 December 2014	**196,500**	**62,896**	**9,825**	**(763)**	**6,283**	**6,015**	**864**	**5,082**	**(6,468)**	**5,978**	**9,815**	**296,027**	**5,075**	**301,102**
Balance at 1 January 2013	174,824	62,896	8,741	(1,024)	1,891	1,813	537	3,421	(4,873)	5,424	-	253,650	2,514	256,164
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(564)	(2,873)	13,408	-	9,971	(688)	9,283
Transfer to reserves	-	-	-	-	1,415	1,354	-	-	-	(2,769)	-	-	-	-
Issue of bonus shares	8,745	-	(8,741)	-	-	-	-	-	-	(4)	-	-	-	-
Proposed bonus shares	-	-	12,855	-	-	-	-	-	-	(12,855)	-	-	-	-
Issue of share capital	76	-	-	(76)	-	-	-	-	-	-	-	-	-	-
Share based payment (note 26)	-	-	-	-	-	-	323	-	-	-	-	323	-	323
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	3,717	3,717
Balance at 31 December 2013	183,645	62,896	12,855	(1,100)	3,306	3,167	860	2,857	(7,746)	3,204	-	263,944	5,543	269,487

The notes from 1 to 32 form an integral part of these consolidated financial statements.

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

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	Notes	2014 KD'000	2013 KD'000
OPERATING ACTIVITIES			
Net profit for the year		**28,505**	12,720
Adjustments for:			
Provision for impairment	8	**12,952**	23,081
Depreciation		**2,178**	1,699
Foreign currency translation adjustments		**(1,487)**	(1,270)
Net loss/(gain) from available for sale investments		**10**	(314)
Net losses from financial assets at fair value through profit or loss		**547**	876
Share of results of associates		**247**	(726)
Dividend income		**(1,112)**	(1,397)
Net unrealized (gain)/loss from change in fair value of investment properties		**(2,441)**	1,712
Net (gain)/loss on sale of investment properties		**(270)**	34
Share based payment reserve		**261**	323
Operating profit before changes in operating assets and liabilities		**39,390**	36,738
Changes in operating assets and liabilities:			
Due from banks		**35,278**	(47,246)
Islamic financing to customers		**(338,678)**	(242,762)
Other assets		**572**	(5,683)
Due to banks		**(9,279)**	28,885
Depositors' accounts		**425,456**	260,609
Other liabilities		**8,001**	4,672
Dividend income received		**1,112**	1,397
Net cash generated from operating activities		**161,852**	36,610
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(8,765)**	(966)
Proceeds from sale of financial assets at fair value through profit or loss		**1,451**	6,453
Purchase of available for sale investments		**(95,211)**	(7,660)
Proceeds from sale of available for sale investments		**48,488**	6,504
Dividends received from associates		**359**	286
Acquisition of associates		**-**	(3,436)
Purchase of investment properties		**(6,916)**	(3,155)
Proceeds from sale of investment properties		**13,845**	5,744
Purchase of property and equipment		**(5,250)**	(4,288)
Net cash used in investing activities		**(51,999)**	(518)
FINANCING ACTIVITES			
Capital redemption of non-controlling interest		**(734)**	-
Proceeds from exercise of share options		**80**	-
Net cash used in financing activities		**(654)**	-
Net increase in cash and cash equivalents		**109,199**	36,092
Cash and cash equivalents at the beginning of the year		**205,622**	169,530
Cash and cash equivalents at the end of the year	10	**314,821**	205,622

The notes from 1 to 32 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

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

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

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

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 **1081** employees as at 31 December 2014 (901 employees as at 31 December 2013).

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 6 January 2015 and the shareholders have the power to amend these consolidated financial statement 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 3.10.

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 investment securities, available for sale investments, financial asset at fair value through profit or loss and investment properties.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars, 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 New standards, interpretations and amendments effective from 1 January 2014

The accounting policies applied are consistent with those used in the previous year. The following amendments to IFRSs effective for the annual periods beginning on or after 1 January 2014 did not have any impact on the accounting policies, financial position or performance of the Group.

Investment Entities (Amendment to IFRS 10, IFRS 12 and IAS 27)

Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32)

Novation of Derivatives and Continuation of Hedge Accounting (Amendment to IAS 39)

Recoverable Amount Disclosure for Non-Financial Assets (Amendment to IAS 36)

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted

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

IFRS 9 Financial Instruments

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect 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. The Group is in the process of quantifying the impact of this standard on the Group's financial statements, when adopted.

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 July 2017)

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. 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 would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C. and Boubyan Capital Investment Company K.S.C., 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
- The Group's voting rights and potential voting rights

The Group measures goodwill at the acquisition date as:

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

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

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

3.1.2 *Non-controlling interests*

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

3.1.3 *Subsidiaries*

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

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 right.

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

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

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

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

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

3.1.6 *Transactions eliminated on consolidation*

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

3.2 Foreign currency

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.1 *Financial assets (Continued)*

Recognition and derecognition of financial assets

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

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

Offsetting

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

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

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

Cash and cash equivalents

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

Due from banks and Islamic financing to customers

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

Murabaha

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

Wakala

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

Leased assets - the Group as a lessor

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.1 *Financial assets (Continued)*

Renegotiated finance facilities

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

Financial assets at fair value through profit or loss

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

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

Available for sale investment

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

Available for sale investment is 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 3.10) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.2 *Financial liabilities (Continued)*

ii) 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.

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 Derivative

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment (Continued)

3.9.2 *Non-financial assets*

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

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

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

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

3.10 Provisions

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

3.11 Contingent liabilities and contingent assets

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

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

3.12 Share based payment

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

3.16 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

3.17 National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 finance facilities

The Group reviews its irregular 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.

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

4.2 Key sources of estimation uncertainty (Continued)

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. 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

	2014	2013
	KD'000	KD'000
Sukuk coupon income	**1,487**	1,545
Dividend income	**1,112**	1,397
Net rental income from investment properties	**233**	328
Net losses from financial assets at fair value through profit or loss	**(547)**	(876)
Net (loss)/gains from available for sale investments	**(10)**	314
Net gain /(loss) on sale of investment properties	**270**	(34)
Unrealized gain/(loss) from changes in fair value of investment properties	**2,441**	(1,712)
	4,986	962

7. NET FEES AND COMMISSION INCOME

	2014	2013
	KD'000	KD'000
Gross fees and commission income	**8,385**	5,271
Fees and commission expenses	**(2,450)**	(1,639)
	5,935	3,632

8. PROVISION FOR IMPAIRMENT

	2014	2013
	KD'000	KD'000
Provision for impairment of finance facilities	**11,497**	17,852
Impairment of investments	**1,455**	2,115
Provision for impairment of other assets	**-**	3,114
	12,952	23,081

8. PROVISION FOR IMPAIRMENT (CONTINUED)

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

	Specific KD'000	General KD'000	Total KD'000
Balance at 1 January 2013	4,261	28,685	32,946
Provided during the year	13,448	4,404	17,852
Recovery of written off balances	3,779	-	3,779
Written off balances during the year	(17,781)	-	(17,781)
Balance at 31 December 2013	3,707	33,089	36,796
Provided during the year	**8,382**	**3,115**	**11,497**
Recovery of written off balances	**971**	**-**	**971**
Written off balances during the year	**(7,680)**	**-**	**(7,680)**
Balance at 31 December 2014	**5,380**	**36,204**	**41,584**

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

	Islamic finance to customers KD'000	Non-cash facilities KD'000	Total KD'000
Balance at 1 January 2013	31,551	1,395	32,946
Provided during the year	17,903	(51)	17,852
Recovery of written off balances	3,779	-	3,779
Written off balances during the year	(17,781)	-	(17,781)
Balance at 31 December 2013	35,452	1,344	36,796
Provided during the year	**11,346**	**151**	**11,497**
Recovery of written off balances	**971**	**-**	**971**
Written off balances during the year	**(7,680)**	**-**	**(7,680)**
Balance at 31 December 2014	**40,089**	**1,495**	**41,584**

At 31 December 2014, non-performing finance facilities are amounted to **KD 14,895 thousand**, net of provision of **KD 5,380 thousand** (31 December 2013: KD 25,071 thousand, net of provision of KD 3,707 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 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.

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.

	2014	2013
Net profit for the year attributable to the equity holders of the Bank (KD'000)	**28,239**	13,408
Weighted average number of shares outstanding during the year (thousands of shares)	**1,962,922**	1,962,232
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**14.39**	6.83

Earnings per share for the year ended 31 December 2013 was 7.29 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

10. CASH AND CASH EQUIVALENTS

	2014	2013
	KD'000	KD'000
Cash on hand	**24,555**	19,846
Balances with Central Bank of Kuwait – current account	**-**	682
Balances with banks – current accounts	**9,653**	7,674
Placement with banks maturing within seven days	**280,613**	177,420
	314,821	205,622

The fair values of cash and cash equivalents do not differ from their respective carrying values.

11. DUE FROM BANKS

The geographical distribution of balances due from banks is as follows:

	2014	2013
	KD'000	KD'000
Kuwait & Middle East	**206,816**	266,884
Europe	**56,777**	31,987
	263,593	298,871

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**
2014				
Corporate banking	**1,050,485**	**4,423**	**3,329**	**1,058,237**
Consumer banking	**786,967**	**-**	**-**	**786,967**
	1,837,452	**4,423**	**3,329**	**1,845,204**
Less: provision for impairment	**(38,791)**	**(44)**	**(1,254)**	**(40,089)**
	1,798,661	**4,379**	**2,075**	**1,805,115**

	Kuwait & Middle East	Europe	Asia	Total
2013	KD'000	KD'000	KD'000	KD'000
Corporate banking	930,151	4,550	3,099	937,800
Consumer banking	576,353	-	-	576,353
	1,506,504	4,550	3,099	1,514,153
Less: provision for impairment	(35,376)	(46)	(30)	(35,452)
	1,471,128	4,504	3,069	1,478,701

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

	Specific		General		Total	
	2014	2013	**2014**	2013	**2014**	2013
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**3,707**	4,261	**31,745**	27,290	**35,452**	31,551
Provided during the year	**8,382**	13,448	**2,964**	4,455	**11,346**	17,903
Recovery of written off balances	**971**	3,779	**-**	-	**971**	3,779
Written off balances during the year	**(7,680)**	(17,781)	**-**	-	**(7,680)**	(17,781)
Balance at end of the year	**5,380**	3,707	**34,709**	31,745	**40,089**	35,452

12. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

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

	Corporate banking		Consumer banking		Total	
	2014	2013	**2014**	2013	**2014**	2013
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**2,369**	2,461	**1,338**	1,800	**3,707**	4,261
Provided during the year	**7,581**	12,638	**801**	810	**8,382**	13,448
Recovery of written off balances	**690**	3,619	**281**	160	**971**	3,779
Written off balances	**(6,884)**	(16,349)	**(796)**	(1,432)	**(7,680)**	(17,781)
Balance at end of the year	**3,756**	2,369	**1,624**	1,338	**5,380**	3,707

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:

	2014	2013
	KD'000	KD'000
Islamic financing to customers	**20,275**	28,778
Specific provision for impairment	**(5,380)**	(3,707)
	14,895	25,071

At 31 December 2014 management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 23,800 thousand** (31 December 2013: KD 23,280 thousand).

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	2013
	KD'000	KD'000
Investment in unquoted securities	**2,995**	3,932
Investment in unquoted funds	**9,743**	1,934
	12,738	5,866

14. AVAILABLE FOR SALE INVESTMENTS

	2014	2013
	KD'000	KD'000
Investment in Sukuk	**77,982**	31,289
Investment in unquoted funds	**22,046**	18,383
Investment in unquoted securities	**11,906**	11,159
Investment in quoted securities	**1,918**	2,213
	113,852	63,044

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	**2014 proportion of ownership interest and voting power %**	2013 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	**67.63**	67.63	Takaful insurance
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	**99.55**	99.55	Islamic investments

16. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	**2014 proportion of ownership interest and voting power %**	2013 proportion of ownership interest and voting power %	Principal activity
United Capital Bank	Republic of Sudan	**21.67**	21.67	Islamic commercial banking
Ijarah Indonesia Finance Company	Indonesia	**33.33**	33.33	Islamic financing services
Saudi Projects Holding Group	Kuwait	**25.00**	25.00	Real Estate
Bank of London and the Middle East (“BLME”)	United Kingdom	**25.62**	25.62	Islamic commercial banking
Bank Syariah Muamalat Indonesia Tbk (“BSMI”)	Indonesia	**22.00**	22.00	Islamic commercial banking

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

	2014 KD’000	2013 KD’000
Total assets	**585,845**	528,745
Total liabilities	**(473,602)**	(418,620)
Net assets	**112,243**	110,125
Group’s share of net assets	**28,757**	28,214

	2014 KD’000	2013 KD’000
Total revenue	**21,918**	11,762
Net profit	**2,447**	461
Group’s share of results	**627**	-

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	2014	2013
	KD'000	KD'000
Total assets	**1,444,575**	1,241,918
Total liabilities	**(1,351,408)**	(1,140,734)
Net assets	**93,167**	101,184
Group's share of net assets	**20,497**	22,260
Group's share of contingent liabilities	**5,817**	6,305

	2014	2013
	KD'000	KD'000
Total revenue	**42,776**	56,590
Net profit	**(6,563)**	12,507
Group's share of results	**(1,445)**	-

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

	2014	2013
	KD'000	KD'000
Total assets	**123,610**	112,440
Total liabilities	**(61,584)**	(77,878)
Net assets	**62,026**	34,562
Group's share of net assets	**14,036**	7,631
Group's share of contingent liabilities	**5,422**	8,136

	2014	2013
	KD'000	KD'000
Total revenue	**10,045**	9,519
Net profit	**2,737**	3,117
Group's share of results	**571**	726

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2014 KD'000	2013 KD'000
Balance at the beginning of the year	**30,245**	17,904
Additions during the year	**6,916**	21,808
Disposals during the year	**(13,575)**	(8,048)
Net unrealized gain/(loss) from change in fair value of investment properties	**2,441**	(1,712)
Foreign currency translation adjustments	**(390)**	293
Balance at the ending of the year	**25,637**	30,245

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 2014.

18. OTHER ASSETS

	2014 KD'000	2013 KD'000
Accrued income	**943**	616
Prepayments	**4,443**	4,394
Others	**5,558**	6,506
	10,944	11,516

19. OTHER LIABILITIES

	2014 KD'000	2013 KD'000
Creditors and accruals	**8,518**	6,223
Accrued staff benefits	**7,804**	6,434
Clearing accounts	**6,040**	7,642
General provision on non-cash facilities	**1,495**	1,344
Margin accounts	**2,500**	3,085
Others	**10,878**	4,355
	37,235	29,083

20. SHARE CAPITAL

	2014		2013	
	Shares	**KD'000**	Shares	KD'000
Shares authorised, issued and paid up of 100 fils each comprised of 1,661,802,886 shares (2013: 1,661,802,886 shares) fully paid in cash and 303,198,614 shares (2013: 174,647,114 shares) issued as bonus shares	**1,965,001,500**	**196,500**	1,836,450,000	183,645

21. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Companies Law.

22. PROPOSED DIVIDEND

The board of directors recommended distribution of a cash dividends of **5 fills** per share (2013: Nil) and bonus shares of **5%** (2013: 7% the increase in capital was mark in commercial register dated on 17 March 2014) on outstanding shares as at 31 December 2014. The proposed dividends, if approved by the shareholders' general assembly shall be payable to the shareholders registered in the bank's records as of the date of the regulatory approval for distribution of dividends.

23. TREASURY SHARES

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

	2014	2013
Number of treasury shares	**1,930,589**	2,603,669
Treasury shares as a percentage of total issued shares - %	**0.0983%**	0.1418%
Cost of treasury shares – KD thousand	**763**	1,100
Market value of treasury shares – KD thousand	**792**	1,458
Weighted average of market value per share (fils)	**0.512**	0.620

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

24. STATUTORY RESERVE

In accordance with the Companies Law No. 25 of 2012, as amended 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. SHARED BASED PAYMENT RESERVE

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

The fair value of options granted during the year as determined using the Black-Scholes valuation model was **476 fils** (2013: 546 fils). The significant inputs into the model were a share price of **570 fils** (2013: 640 fils) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of **19%** (2013: 26%), option life disclosed above and annual risk free rate of 2%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The weighted average remaining life of the share options was **481 days** (2013: 575 days) and the weighted average fair value of share options granted was **500 fils** (2013: 530 fils).

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

	2014 Number of share options	2013 Number of share options
Outstanding at 1 January	**2,369,156**	**1,900,216**
Granted during the year	**1,259,683**	**897,233**
Cancelled during the year	**(418,814)**	**(428,293)**
Exercised during the year	**(799,380)**	**-**
Outstanding at 31 December	**2,410,645**	**2,369,156**

The expense accrued on account of share based compensation plans for the year amounts to **KD 406 thousand** (31 December 2013: KD 323 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 **799,380 shares** and these shares have been issued from treasury shares held by the Bank.

27. RELATED PARTY TRANSACTIONS

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

	Number of board member or executive officers		Number of related parties			
	2014	2013	**2014**	2013	**2014**	2013
					KD'000	KD'000
Islamic financing to customers	**10**	7	**1**	2	**4,650**	5,745
Depositors' accounts	**15**	11	**8**	9	**32,932**	29,465
Letters of guarantee and letters of credit	**1**	1	**-**	-	**18**	18
Revenues					**103**	202
Expenses					**(17)**	(173)
Parent Company						
Due from banks					**8,366**	92,401
Due to banks					**42,554**	87,612
Revenues					**271**	279
Expenses					**(290)**	(150)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 4,770 thousand** as at 31 December 2014 (31 December 2013: KD 1,271 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2014	2013
	KD'000	KD'000
Short-term benefits	**1,780**	1,904
Post-employment benefits	**283**	299
Share based compensation	**279**	226
	2,342	2,429

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

28. CONTINGENCIES AND COMMITMENTS

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

	2014	2013
	KD'000	KD'000
Guarantees	**172,768**	166,952
Acceptances and letters of credit	**43,120**	26,872
Capital commitments (projects under construction)	**914**	411
	216,802	194,235

29. SEGMENT REPORTING

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

Business Segments

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

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

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

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

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

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

2014	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	**Total KD'000**
Net financing income/(loss)	**36,952**	**24,572**	**(1,895)**	**4,980**	**1,599**	**66,208**
Share of results of associates	**-**	**-**	**(247)**	**-**	**-**	**(247)**
Operating income/(loss)	**38,440**	**29,476**	**5,899**	**6,332**	**(1,742)**	**78,405**
Depreciation	**(1,248)**	**(57)**	**(54)**	**(9)**	**(810)**	**(2,178)**
Net profit/ (loss) for the year	**20,548**	**18,447**	**118**	**5,983**	**(16,591)**	**28,505**
Total assets	**791,539**	**1,176,156**	**192,601**	**520,509**	**(32,875)**	**2,647,930**
Total liabilities	**782,442**	**190,718**	**19,115**	**1,344,421**	**10,132**	**2,346,828**

2013	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Net financing income/(loss)	30,347	23,642	(3,787)	8,076	2,464	60,742
Share of results of associates	-	-	726	-	-	726
Operating income/(loss)	30,799	27,817	(1,585)	9,052	989	67,072
Depreciation	(987)	(44)	(47)	(15)	(606)	(1,699)
Net profit/(loss) for the year	16,365	11,829	(9,341)	8,641	(14,774)	12,720
Total assets	584,980	987,148	183,256	477,174	(40,572)	2,191,986
Total liabilities	650,861	158,846	19,460	1,092,695	637	1,922,499

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.

2014	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	**Total KD'000**
Assets	**2,425,562**	**3,195**	**131,830**	**87,343**	**2,647,930**
Non-current assets (excluding financial instruments)	**46,309**	**-**	**5,774**	**-**	**52,083**
Liabilities and equity	**2,644,560**	**-**	**3,370**	**-**	**2,647,930**
Segment income/(expenses)	**78,736**	**285**	**917**	**(1,533)**	**78,405**

2013	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
Assets	2,047,169	1,253	100,040	43,524	2,191,986
Non-current assets (excluding financial instruments)	49,730	-	4,461	-	54,191
Liabilities and equity	2,188,007	30	3,803	146	2,191,986
Segment income/(expenses)	69,112	-	(2,157)	117	67,072

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

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

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

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

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

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

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

30.2 Credit risk

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

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

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

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

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

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

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

	2014		2013	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000	**KD'000**	KD'000	KD'000
Islamic financing to customers	**1,805,115**	**1,157,148**	1,478,701	978,066
Contingent liabilities	**216,802**	**182,624**	194,235	186,130

Collateral and other credit enhancements

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.2 *Risk Concentration of the maximum exposure to credit risk*

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

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2014 are **22.1%** (2013: 25.6%).

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

2014	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	**Total KD'000**
Cash and cash equivalents (excluding cash on hand)	**265,623**	**3,164**	**18,321**	**3,158**	**290,266**
Due from banks	**224,431**	**-**	**39,162**	**-**	**263,593**
Islamic financing to customers	**1,797,440**	**-**	**4,423**	**3,252**	**1,805,115**
Available for sale investments (Sukuk)	**28,842**	**-**	**8,090**	**41,050**	**77,982**
Other assets (excluding accrued income and prepayments)	**5,558**	**-**	**-**	**-**	**5,558**
	2,321,894	**3,164**	**69,996**	**47,460**	**2,442,514**
Contingent liabilities	**208,377**	**-**	**371**	**7,140**	**215,888**
Commitments	**914**	**-**	**-**	**-**	**914**
Total credit risk exposure	**2,531,185**	**3,164**	**70,367**	**54,600**	**2,659,316**

2013	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
Cash and cash equivalents (excluding cash on hand)	176,301	1,206	8,022	247	185,776
Due from banks	266,883	-	31,988	-	298,871
Islamic financing to customers	1,471,227	-	4,446	3,028	1,478,701
Available for sale investments (Sukuk)	29,084	-	2,205	-	31,289
Other assets (excluding accrued income and prepayments)	6,506	-	-	-	6,506
	1,950,001	1,206	46,661	3,275	2,001,143
Contingent liabilities	185,487	-	313	8,024	193,824
Commitments	27,744	-	7,095	-	34,839
Total credit risk exposure	2,163,232	1,206	54,069	11,299	2,229,806

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

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

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

	2014	2013
	KD'000	KD'000
Trading	**145,864**	134,362
Manufacturing	**73,327**	76,872
Banking and other financial institutions	**600,315**	520,150
Construction	**33,503**	40,525
Real Estate	**503,037**	394,106
Retail	**764,658**	557,084
Government	**182,914**	106,086
Others	**138,896**	171,958
	2,442,514	2,001,143

30.2.3 *Credit quality per class of financial assets*

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

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

	Neither past due nor impaired		Past due or	
	High	Standard	impaired	**Total**
	KD'000	KD'000	KD'000	**KD'000**
2014				
Cash and cash equivalents (excluding cash on hand)	**290,266**	**-**	**-**	**290,266**
Due from banks	**263,593**	**-**	**-**	**263,593**
Islamic financing to customers	**1,663,270**	**138,771**	**43,163**	**1,845,204**
Available for sale investments (Sukuk)	**77,982**	**-**	**-**	**77,982**
Other assets (excluding accrued income and prepayment)	**5,558**	**-**	**-**	**5,558**
	2,300,669	**138,771**	**43,163**	**2,482,603**
2013				
Cash and cash equivalents (excluding cash on hand)	185,776	-	-	185,776
Due from banks	298,871	-	-	298,871
Islamic financing to customers	1,290,782	177,514	45,857	1,514,153
Available for sale investments (Sukuk)	31,289	-	-	31,289
Other assets (excluding accrued income and prepayment))	6,506	-	-	6,506
	1,813,224	177,514	45,857	2,036,595

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.3 Credit quality per class of financial assets (Continued)

Ageing analysis of past due or impaired financial assets:

	Corporate banking		Consumer banking		**Total**	
	Past due and not impaired KD'000	Past due and impaired KD'000	Past due and not impaired KD'000	Past due and impaired KD'000	**Past due and not impaired KD'000**	**Past due and impaired KD'000**
2014						
Up to 30 days	**5,883**	**-**	**9,132**	**-**	**15,015**	**-**
31 – 60 days	**779**	**-**	**3,587**	**-**	**4,366**	**-**
61 – 90 days	**1,709**	**-**	**1,798**	**-**	**3,507**	**-**
91 – 180 days	**-**	**-**	**-**	**2,393**	**-**	**2,393**
More than 180 days	**-**	**16,654**	**-**	**1,228**	**-**	**17,882**
	8,371	**16,654**	**14,517**	**3,621**	**22,888**	**20,275**
2013						
Up to 30 days	5,151	-	8,260	-	13,411	-
31 – 60 days	6	-	2,239	-	2,245	-
61 – 90 days	163	-	1,260	-	1,423	-
91 – 180 days	-	-	-	1,475	-	1,475
More than 180 days	-	26,404	-	899	-	27,303
	5,320	26,404	11,759	2,374	17,079	28,778

At 31 December 2014 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to **KD 24,665 thousand** (31 December 2013: KD 24,411 thousand).

30.3 Market risk

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

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

Foreign currency risk

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

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 Market 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.

		2014		2013	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000	**KD'000**	KD'000	KD'000
US Dollar	+5	**96**	**-**	(132)	-
Sterling Pound	+5	**(1)**	**-**	2	-
Euro	+5	**-**	**-**	1	-
Indonesian Rupiah	+5	**-**	**1,994**	-	2,012
Sudanese Pound	+5	**33**	**251**	14	224
Japanese Yen	+5	**-**	**-**	-	-
Others	+5	**24**	**-**	9	-

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

Equity price risk

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

For such investments classified as available for sale, a five percent increase in stock prices as at 31 December 2014 would have increased equity by **KD 691 thousand** (31 December 2013: an increase of KD 669 thousand). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of **KD 150 thousand** (31 December 2013: an increase of KD 197 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk

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

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

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

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 Months KD'000	Over 1 year KD'000	**Total KD'000**
2014					
Assets					
Cash and cash equivalents	**314,821**	**-**	**-**	**-**	**314,821**
Due from banks	**186,718**	**52,085**	**24,790**	**-**	**263,593**
Islamic financing to customers	**639,047**	**257,104**	**101,445**	**807,519**	**1,805,115**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**12,738**	**12,738**
Available for sale investments	**40,016**	**-**	**4,354**	**69,482**	**113,852**
Investments in associates	**-**	**-**	**-**	**85,728**	**85,728**
Investment properties	**-**	**-**	**-**	**25,637**	**25,637**
Other assets	**5,558**	**-**	**5,386**	**-**	**10,944**
Property and equipment	**-**	**-**	**-**	**15,502**	**15,502**
Total assets	**1,186,160**	**309,189**	**135,975**	**1,016,606**	**2,647,930**
Liabilities and Equity					
Due to banks	**201,221**	**5,006**	**20,512**	**-**	**226,739**
Depositors' accounts	**1,247,238**	**493,890**	**341,715**	**11,061**	**2,082,854**
Other liabilities	**16,915**	**-**	**11,018**	**9,302**	**37,235**
Equity	**-**	**-**	**-**	**301,102**	**301,102**
Total liabilities and equity	**1,465,374**	**498,896**	**373,245**	**310,415**	**2,647,930**

	Up to three months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	**Total KD'000**
2013					
Assets					
Cash and cash equivalents	205,622	-	-	-	205,622
Due from banks	222,492	72,865	3,514	-	298,871
Islamic financing to customers	587,699	236,008	80,650	574,344	1,478,701
Financial assets at fair value through profit or loss	-	-	-	5,866	5,866
Available for sale investments	2,213	5,718	-	55,113	63,044
Investments in associates	-	-	-	85,691	85,691
Investment properties	-	-	-	30,245	30,245
Other assets	6,506	-	5,010	-	11,516
Property and equipment	-	-	-	12,430	12,430
Total assets	1,024,532	314,591	89,174	763,689	2,191,986
Liabilities and Equity					
Due to banks	202,437	7,730	-	25,851	236,018
Depositors' accounts	1,010,366	329,081	293,427	24,524	1,657,398
Other liabilities	11,992	-	9,309	7,782	29,083
Equity	-	-	-	269,487	269,487
Total liabilities and equity	1,224,795	336,811	302,736	327,644	2,191,986

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk (Continued)

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

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	**Total**
2014	KD'000	KD'000	KD'000	KD'000	**KD'000**
Financial Liabilities					
Due to banks	**201,264**	**5,031**	**20,832**	**-**	**227,127**
Depositors' accounts	**1,249,795**	**498,050**	**342,907**	**200**	**2,090,952**
	1,451,059	**503,081**	**363,739**	**200**	**2,318,079**
2013					
Financial Liabilities					
Due to banks	202,479	8,634	-	28,024	239,137
Depositors' accounts	1,011,095	329,621	295,428	24,927	1,661,071
	1,213,574	338,255	295,428	52,951	1,900,208

30.5 Operational risk

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

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

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

30.6 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values at 31 December due to the 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 table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

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 re-priced immediately based on market movement in profit rates.

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

Financial assets	Fair value as at **31 December 2014**	31 December 2013	Fair value Hierarchy 2014	Sector
Financial assets at fair value through profit or loss - *Unquoted securities*	**-**	1,026	Level 3	Financial Institutions
	2,995	2,906	Level 3	Real Estate
Financial assets at fair value through profit or loss - *Unquoted funds*	**9,743**	1,934	Level 2	Financial Institutions
Available for sale investments - *Sukuk*	**19,802**	16,967	Level 1	Government
	58,180	14,322	Level 1	Financial Institutions
Available for sale investments - *Unquoted funds*	**9,064**	9,232	Level 2	Financial Institutions
	6,468	3,851	Level 2	Real Estate
	6,514	5,300	Level 2	Services
Available for sale investments - *Unquoted securities*	**2,018**	2,273	Level 3	Financial Institutions
	3,487	3,169	Level 3	Real Estate
	-	346	Level 3	Construction
	6,401	5,371	Level 3	Services
Available for sale investments - *Quoted securities*	**1,348**	1,643	Level 1	Real Estate
	570	570	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).

2014	**Level 1 KD'000**	**Level 2 KD'000**	**Level 3 KD'000**	**Total KD'000**
Financial assets at fair value through profit or loss	**-**	**9,743**	**2,995**	**12,738**
Available for sale investments	**79,900**	**22,046**	**11,906**	**113,852**
	79,900	**31,789**	**14,901**	**126,590**

2013	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Financial assets at fair value through profit or loss	-	1,934	3,932	5,866
Available for sale investments	33,502	18,383	11,159	63,044
	33,502	20,317	15,091	68,910

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

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

	At 1 January 2014	**Change in fair value**	**Impairment**	**Additions**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2014**
	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	**3,932**	**89**	**-**	**-**	**(1,026)**	**-**	**2,995**
Available for sale investments							
Unquoted securities	**11,159**	**995**	**(662)**	**929**	**(634)**	**119**	**11,906**
	15,091	**1,084**	**(662)**	**929**	**(1,660)**	**119**	**14,901**

	At 1 January 2013	Change in fair value	Impairment	Additions	Sale/ redemption	Exchange rate movements	At 31 December 2013
	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	3,547	-	-	385	-	-	3,932
Available for sale investments							
Unquoted securities	45,396	331	(1,336)	7,501	(40,745)	12	11,159
	48,943	331	(1,336)	7,886	(40,745)	12	15,091

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 2014 are as shown below:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	**Sensitivity of the input to fair value**
Financial assets at fair value through profit or loss – *unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 30 thousand**.
Available for sale investments – *unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 119 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. An increase in the fair value would only impact equity (through Other Comprehensive Income) and, would not have an effect on profit or loss.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

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

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

30.7 Capital management

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

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

The Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2014 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:

	2014 **KD'000**
Risk weighted assets	**1,356,592**
Capital required	**162,791**
Capital available	
Tier 1 capital	**229,050**
Tier 2 capital	**15,879**
Total capital	**244,929**
Tier 1 capital adequacy ratio	**16.88%**
Total capital adequacy ratio	**18.05%**

For the year ended 31 December 2013, the Group followed Basel II regulations and the Group's regulatory capital and capital adequacy ratios as calculated in accordance with Central Bank of Kuwait circular number 2/RBA/244/2009 dated 15 June 2009 are shown below.

	2013 KD'000
Risk weighted assets	1,149,157
Capital required	137,899
Capital available	
Tier 1 capital	200,264
Tier 2 capital	-
Total capital	200,264
Tier 1 capital adequacy ratio	17.43%
Total capital adequacy ratio	17.43%

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.7 Capital management (Continued)

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

	2014 KD'000
Tier 1 capital	**229,050**
Total exposure	**2,773,982**
Financial leverage ratio	**8.26%**

The Group has disclosed the financial leverage ratio for the first time in the consolidated financial statements for the year ended 31 December 2014.

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 2014 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

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

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

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

The positive fair value of forward foreign exchange contracts outstanding as of 31 December 2014 is **KD 3 thousand** (2013: KD 10 thousand) and their notional amounts outstanding as of 31 December 2014 are **KD 43 thousand** (2013: KD 365 thousand)

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

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 99,804 thousand** (31 December 2013: KD 78,905 thousand) and the related income from these assets amounted to **KD 307 thousand** (31 December 2013: KD 294 thousand).