



بنك وربة
WARBA BANK
نتميز بالحلول

ANNUAL REPORT
2015

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In The Name of Allah The Most Gracious The Most Merciful

«A Muslim is as useful as a palm tree»



{وَفِي السَّمَاءِ رِزْقُكُمْ وَمَا تُوعَدُونَ}

صدق الله العظيم
الذاريات (22)

{.. and in the heaven is your sustenance
and whatever you are promised.}

True are the words of Allah the Almighty
(Surat Alzaryat Verse 22)



H. H. Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
Amir 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

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PROFILE, VISION AND MISSION

PROFILE

Warba Bank was established on February 17th, 2010 by virtue of the Amiri Decree No. 289/2009, and was officially enrolled in the Central Bank of Kuwait's Register of Islamic Banks on April 7th, 2010. The State of Kuwait, represented by Kuwait Investment Authority (KIA), owns 24% Direct and 1.2% Indirect of the Bank's total shares; The Public Institution for Social Security (PIFSS) 7.247% Indirect. Warba Bank's overarching objective is to be a world-class Bank, especially in terms of Islamic banking. It offers a full-fledged and integrated range of banking and investment services in compliance with the principles of Islamic Sharia. Warba seeks to grow and expand by introducing innovative banking products and unique services, thereby gaining the confidence of customers from various walks of life.

VISION

To be the Bank of Choice in Kuwait.

MISSION

To provide customer-centric, innovative, genuinely Sharia-compliant solutions, with unparalleled service quality, delivered by exceptional people.

RETAIL BANKING BRANCHES:

9 branches, **10** branch ATMs and **11** offsite ATMs

Hawalli	Bin Khaldoun St – Next to Buraq Complex and Mastoura
Al Qibla	Fahad Al Salem St – Awtad Mall – Next to Muthanna Complex
Al Salmiya	Laila Gallery Complex – Next to Ruby Tuesday Restaurant
Al Sharq	Ahmed Al Jaber St - Next to the Police Station Roundabout
Al Farwaniya	Habib Al Monawir St – Next to Metro Complex and Muzaini Exchange
Avenues Mall	Grand Avenues – By the Entrance, next to Al Hamra Restaurant
Al Jahra	Old Jahra - Marzoug AlMeteb St. - Next to Sahara Mall
Al Fahaheel	Remal Complex - Balat Al-Shuhadaa St.
Al Egaila	Arabiya Mall - in front of Sama Mall

CHAIRMAN MESSAGE

In the Name of Allah, the Most Beneficent and Most Merciful

All praise to Allah, the Lord of the universe, and peace and blessings be upon the best of all messengers, Prophet Muhammad (PBUH), his family and companions.

Valued Shareholders,

Peace, mercy and blessings of Allah be upon you.

It gives me a great pleasure, on behalf of my dear colleagues, the respected members of the board of directors, to present to you the Fifth Annual Report and the Audited Financial Statements of Warba Bank for the fiscal year ending on December 31st 2015, comprising all our key activities and achievements across various sectors.

Warba Bank continues to apply its strategic medium-term plan (2015-2017), based on the foundations of a set of objectives that have taken into account the rapid economic and legislative changes faced by the global economy, particularly the Arabian Gulf region in light of the sharp decline in oil prices. This plan has proven the solidity of the Bank's infrastructure, its strong competitiveness and marking its position among Islamic banks in the local market. This gives us more confidence and determination to achieve future goals and incentivizes us for exerting more efforts for bringing Warba Bank to the leading position we desire.

During 2015, the Bank's business - with all thanks to God Almighty and the efforts of our dedicated team - yielded a net profit of one million Kuwaiti Dinars compared to 115 thousand Kuwaiti Dinars for the same period 2014 at a growth rate of 770%. The Bank's total assets grew by 30% reaching 776.1 million Kuwaiti Dinars, compared to 594.8 million Kuwaiti Dinars for December 31, 2014. This is achieved thanks to the balanced risk management strategy that helps achieve moderate growth of the financing and investment portfolio while maintaining the asset quality. The Bank's financing portfolio increased at growth rate of 40% reaching 543.8 million Kuwaiti Dinars at the end of 2015 compared to 388.2 million Kuwaiti Dinars at the end of 2014.

Despite the Bank's infancy in terms of the years of operation and in light of the regional and international political and economic turmoil that drives international rating agencies to be more reserved in assigning ratings to banks and other financial institutions. Warba Bank was assigned its first time rating during 2015 by the Moody's Investors Services Agency at Baa2 / Prim-2 for local and foreign currency deposit with a stable outlook. We are proud of this achievement which reflects the Bank's promising future, God willing.

In terms of activities of the business groups, our Retail Banking Group seeks geographical expansion and presence through the branch network across the State of Kuwait. Thanks to Allah, by the end of 2015 we successfully managed to open two branches in Ahmadi Governorate, thus Warba Bank has a presence in all governorates through nine branches. This step will enhance our efforts to meet different customer segment needs, while taking into account how to simplify and speed up transactions by continuously improving electronic channels and developing new products.

With regard to Corporate Banking Group: In consistent with the Bank's strategy, we continue diversifying the financing portfolio through funding all sectors such as the industrial, real estate, commercial, services, oil and gas, construction sectors, etc., in addition to providing support to small and medium enterprises.

Warba Bank strives to maintain asset quality by employing a portion of the assets in a more diversified portfolio of investments, including Sukuk investment, and seizing lucrative low-risk financing opportunities locally and internationally to deliver strong revenues that fuels the Bank's future growth, enhances the Bank's competitiveness and raises its market share in Islamic banking that has recently witnessed growing popularity and intense competition.

I would like to pay tribute to the efficient and positive role of various sectors at the Bank as well as human resources who are the cornerstone and point of contact with the Bank's customer segments of individuals, corporate, traders, various institutions, and persons in charge of medium and small size projects as we encourage and support them and work hard to gain their trust. I would like also to mention that the Bank is working very hard to participate in many initiatives to contribute and promote corporate social responsibility for the benefit of our society.

The awards achieved in 2015 by Warba have been named the "Fastest Growing Bank in Kuwait" "by" Banker Middle East" magazine, in recognition of the Bank's excellence in the Islamic banking sector Outstanding results and achievements are reflected in its financial statements and key performance indicators as well as rapid business execution at all levels. Furthermore, Warba has been selected as the "Best Bank in Kuwait" in the corporate finance sector "by" the same magazine, in recognition of the Bank's excellence in the corporate finance sector and achieving outstanding results on the funding level as well as at the level of innovative services provided in this area.

On this occasion I would like, on behalf of myself and my fellow board members, to extend our utmost sincere gratitude to H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, the Amir of the State of Kuwait; H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown Prince; and H.H. Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, the Prime Minister, may Allah bless them all, for their continuous support to the banking sector in Kuwait. I would also like to praise the efforts of the relevant regulatory authorities and government agencies, particularly the Central Bank of Kuwait, Capital Markets Authority, Kuwait Stock Exchange, the Ministry of Commerce and Industry and the General Authority for Investment for their positive and effective role in supporting the Bank.

In conclusion, I would like to express my sincere thanks and appreciation to our valued customers and shareholders for their trust and confidence in the Bank, whose achievements and contributions are the source of pride. I also extend my thanks and appreciation to the revered chairman and members of the Bank's Fatwa and Sharia Supervisory Board, the members of the Board of Directors, the executive management team and all Warba Bank employees for their concrete commitment, dedication and eagerness to the advancement of the Bank and the standard of services offered.

Emad Abdullah Al Thaqeb
Chairman



BOARD OF DIRECTORS





Emad A. Al Thaqeb
Chairman



Jassar D. Al Jassar
Vice Chairman and CEO



Jamal A. Dashti
Board Member



AbdulAziz S. Al Bader
Board Member



Abdulwahab A. Al Houti
Board Member



Dr. Mahmoud A. Abdulrahman
Board Member



Hisham Al Rezouqi
Board Member

EXECUTIVE MANAGEMENT



Jassar D. Al Jassar
Vice Chairman and CEO



Shaheen H. Al Ghanem
Deputy CEO Investment
and Treasury



Basel J. Al-Obeid
Chief Corporate Banking
Officer



Khaled H. Hafez
Chief Financial Officer



Simon L. Clements
Chief Operations Officer



Feroz Noorani
Chief Risk Officer



Mahmoud M. Yousef
Chief Internal Auditor



Haytham A. Al-Terkait
Chief Technology Officer

FATWA AND SHARIA SUPERVISORY BOARD MEMBERS



Sheikh Dr. Issa Zaki Issa
Chairman



**Sheikh Dr. Abdulaziz
Khalifa Al-Qassar**
Member, SSB



**Sheikh Dr. Issam
Khalaf Al-Enezi**
Member and Rapporteur, SSB

FATWA AND SHARIA SUPERVISORY BOARD REPORT

WARBA BANK

Report of Fatwa and Sharia Supervisory Board For the fiscal year ending on 31 December 2015

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

Praise be to Allah the Lord of the universe, and all blessings and peace on our master Muhammad, his family, and companions

Valued Warba Shareholders,

Peace, Mercy and blessings of Allah be upon you

According to the General Assembly's resolution to appoint Fatwa and Sharia Supervisory Board (FSSB) for Warba Bank; a responsibility that has been entrusted to us, we present to you the following report:

At FSSB of Warba Bank, we have monitored and reviewed the Bank's principles and contracts relevant to the products offered by the Bank during the fiscal year ending on 31/12/2015. We applied due diligence to express our opinion on whether or not the Bank is in compliance with the provisions and principles of the Islamic Sharia, as well as the Fatwas, resolutions, principles and guidelines issued by FSSB.

We have conducted a compliance review that included examining the contracts and procedures used by the Bank, on basis of examining each type of transactions separately. In addition, we have obtained all the information and explanations required to form an opinion on the extent of compliance of the Bank's activities with the provisions of the Islamic Sharia.

It is noteworthy that the responsibility for executing such provisions, principles and Fatwas lies with the Bank's Management, while our responsibility is to express an independent opinion based on the relevant information that has been presented to us which we reviewed.

We believe that the contracts, documents and transactions introduced by the Bank during the fiscal year ending on 31/12/2015, which we have reviewed, have been concluded in compliance with the provisions and principles of the Islamic Sharia.

It is important to note that Warba Bank does not pay Zakat on behalf of shareholders, and the FSSB's responsibility is limited to calculation of the amount of due Zakat per share.

Finally, we supplicate Allah, the Almighty, to support the Bank's management endeavors in serving our holy religion and beloved country, and to guide and support us all.

Peace, Mercy and blessings of Allah be upon you.



Sheikh Dr. Abdulaziz Khalifa Al-Qassar
Member, SSB



Sheikh Dr. Issa Zaki Issa
Chairman, SSB



Sheikh Dr. Issam Khalaf Al-Enezi
Member and Rapporteur, SSB

MANAGEMENT DISCUSSION and ANALYSIS REPORT

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INTRODUCTION

Warba Bank has taken strides in applying sound practices of management controls through the development and roll-out of comprehensive frameworks for Corporate Governance, Risk Management and Compliance standards, whilst bearing in mind the regulatory requirements and globally accepted industry best practices. Application of these standards is a significant component of the Bank's success to enhance the efficiency and effectiveness of Internal Controls and Risk Management with a view to safeguard the shareholders' equity and the depositors' trust.

In compliance with the Corporate Governance instructions issued by Central Bank of Kuwait (CBK) for mandatory application from July 2013, Warba Bank has established Board level committees to enhance the Board of Directors' effective oversight on the Bank's activities. Committees that have been set-up comprising members of the Board of Directors include the Board Governance Committee, Board Nominations and Remunerations Committee, Board Risk Committee and Board Audit Committee. The Committees meet at determined intervals and submit periodic reports to the Board of Directors including summary of their findings, recommendations and views.

RISK MANAGEMENT PHILOSOPHY

Warba Bank has embedded risk culture across the organization in its endeavor to ensure that the broad spectrum of risk types are managed effectively in its business and operational activities. The Risk Management framework is geared to raise risk awareness throughout the organization. Risk Management Group (RMG) headed by Chief Risk Officer (CRO) operates independent of all business lines to provide oversight on the Enterprise-wide Risk Management and Internal Controls, reporting to the Board Risk Committee (BRC). Risk Management is viewed as a strategic partner in achieving appropriate balance between risk and reward objectives.

RMG coordinates and engages with each line of business through-out the business cycle for optimum risk control over Assets and Liabilities. The identification of risks, its measurement, monitoring, mitigation and reporting thereof is adhered to maintain integrity of the Bank's financial position and to maximize its capability to realize business objectives within the approved risk appetite and risk tolerance limits.

RISK FRAMEWORK

Warba Bank has established comprehensive framework for managing all material risks identified under Basel guidelines, including Credit, Market, Operational, Legal, Franchise, Information Security, Regulatory Compliance Risks. The Bank complies with all guidelines for managing risks as advised by CBK. RMG has established effective risk management processes to create a dynamic link between risk appetite and return target, within the framework of regulatory controls applicable to the Bank and the Capital Adequacy Ratio (CAR) requirements, and is responsible for recommending bank-wide appropriate Risk Appetite Limits that is approved by the Board of Directors.

Risk Management Group adopts a proactive approach in managing risks. This approach helps in analyzing macro-economic environments, early detection of impacts and potential risks, conducting stress tests of associated risks encountered by the Bank such that RMG can provide guidance to business activities, advise the Executive Management, inform the Board Committees and the Board of Directors on the Bank's position and performance within approved risk appetite or recommend the need for fine-tuning the risk profile of the Bank due to impeding risks.

RETAIL BANKING GROUP

Throughout 2015, following the Strategic Plan set by Warba Bank, the Banking Group has been able to step towards further progress and achieve enduring successes that keep pace with local market requirements on the sector of retail financing and private banking services. Among the highlight

of activities during the year was the opening of new branches in Fahaheel and Egaila areas, where business had commenced providing all banking and financing services in integrated branches at the highest technical standards with well-versed and trained banking care, offering perfect banking services through two windows designed for males and females.

Warba Bank is keen on implementing the branching plan with more geographic expansion of the branches network, in the hopes to open other branches in major areas in Kuwait under the expansion plan set for next year.

In terms of financing services, The Bank's relations network has been expanded with a new group of suppliers to further promote our financing services, in addition to sourcing more innovative means to market our financing products, targeting a segment of the market customers to meet their financing and banking needs in compliance with the rules of Islamic Sharia. Financial services have also been provided to a number of car agencies, well-known in the local market, through a dedicated team located in the showrooms to serve our customers. Our team will be present at the remaining car agencies as planned and for next year.

Warba Bank has also been active in expanding its Debit/Credit card services and benefits, offering additional services to Warba cardholders of all categories and segments. We have introduced new online banking services on our website to keep pace with the evolution of banking facilities which cover all needs of our online customers. In addition, we have updated the smart phone application packages for both iPhone iOS and Androids to provide more electronic services to our users securely and simply. At the very beginning of the year, the Retail Banking Group launched several offers to attract salary-transfer customers and participated in the events and visits to several government institutions and some business sectors to introduce publicize and advertise the Bank's identity and brand by all possible means in accordance with the instructions of the Central Bank of Kuwait.

The Bank provides banking and financing services under sound banking standards, strictly under established supervisory controls, guidelines and regulations in this regard, and within the highest levels of business integrity, quality assurance and service quality control under full compliance with the regulations set by the Central Bank of Kuwait and other regulators.

Therefore, The Retail Banking Group will have a new vision and innovations for 2016 for providing a wide array of banking and financing services in order to deep root the Bank's slogan "Marked by Solutions" to attract new potential customers. We will also head towards opening new branches to get closer to our valued customers.

CORPORATE BANKING GROUP

The Business of the Corporate Banking Group "CBG" is mainly focussed on providing trade financing services both in cash and non-cash forms to companies and individuals at the various sectors of economic activities. By providing these services through CBG, the Bank seeks to achieve its objectives as a banking institution contributing in the growth and stability of the domestic economy and achieving profit. Despite the economic challenges experienced in the past years, CBG has succeeded in confronting the challenges and achieving positive results in 2015. CBG managed to grow its credit portfolio at 40% compared to last year while maintaining the highest credit quality standards, mitigating and diversifying risks by means of allocating CBG business across key economic sectors with safer and more profitable operational revenues to the Bank. CBG also succeeded in expanding its customer base in the domestic market and promoted and enhanced relations with existing customers. The key results of that success is indicated by CBG, in cooperation with the Investment Department, arranging a syndicated finance of KD 105 million for National Industries Company leading to a high positive impact on the Bank.

For enhancing other aspects of business quality, its worthy to mention that CBG has been awarded Best Corporate Financing Award in Kuwait.

Finally, CBG was able to strengthen its human resources by attracting a larger number of national talents with competencies and diverse expertise in the finance sector to achieve further expansion, growth and continue the process of achieving the set goals in the Bank's macro strategy.

INVESTMENT AND TREASURY GROUP

INVESTMENT DEPARTMENT

In 2015, the Investment Department witnessed a year of notable growth and noteworthy achievements across the entire spectrum of its activities. Through its investments in international real estate, public and private equity, and fixed income securities, Warba Bank was able to sustain, if not enhance, the quality of its assets whilst maintaining a healthy risk adjusted return from its investment portfolio despite the persistence of turbulent global market conditions and regional economic volatility as observed in the oil commodity and foreign exchange markets.

With a strong focus on expanding investment and its real estate investments, the Investment Department focused its real estate investments on real assets across diversified property sectors, strategies and geographies for its investments, alongside reputable and longstanding property managers and developers in the U.S. and Europe. Through its participation in WAFRA RESIDENTIAL VALUE INVEST I, L.P. Warba Bank invested in Class A multifamily residential properties focused on transit-oriented, infill assets located in metropolitan areas, like New York City and Atlanta, with attractive demographics.

The Bank made a concerted effort to lead transactions regionally and globally and was successful in securing multiple Mandated Lead Arranger and Bookrunner roles in notable transactions. As of October 2015 Warba Bank possess market share of 2.5% of the syndicated finance market and is ranked 13th out of 27 underwriters as per Bloomberg's EMEA Islamic Finance Bookrunner League Tables. Among the transactions successfully arranged by Warba Bank in 2015 was the National Industries Group K.S.C.P. KWD 105 MM equivalent, dual currency syndicated financing facility, where Warba Bank lead a consortium of local and regional banks in its capacity as the Sole Mandated Lead Arranger and Bookrunner.

The structured finance infrastructure and foundation set in 2014 allowed Warba to close a landmark transaction, the first receivables securitization financing for a Kuwaiti corporate (Al Mulla Group) by an Islamic bank in Kuwait. The transaction involved the acquisition of retail auto financing portfolio from Al Mulla International Finance Company K.S.C.P. in multiple tranches for an aggregate amount of KD 30 MM. The transactions demonstrate Warba Bank's commitment to providing innovative and bespoke financial solutions to its corporate clients.

Adopting an expansionary but cautious mind-set, the Investment Department was able to grow the Bank's fixed income (Sukuk) portfolio by 54% as compared to year-end 2014 through its trading activity in both the primary and secondary Sukuk. Furthermore, Warba Bank took on a leading role, amongst other reputable international banks, in arranging the first Sukuk issued by an Indonesian corporate. Along with other international banks Warba Bank successfully arranged USD 500 million inaugural Sukuk for the Indonesia's national flag carrier PT Garuda. The offering was structured as a Wakala Sukuk based on Rights to Travel using an orphan-based SPV, Garuda Indonesia Global Sukuk Limited as the issuer. It was a landmark Sukuk debut in that it was the first non-sovereign USD Sukuk out of Indonesia – paving the way for other Indonesian SOEs and Corporates to tap this market.

TREASURY DEPARTMENT

During 2015, the treasury department grew in terms of building the assets and liabilities of the Bank by maintaining and building new relationships with local and foreign Banks as well as government and Quasi Government institutions which generated new money market lines as well as diversified FX and Sukuk portfolio.

The Treasury department maintains the highest standard of dealing with professional manpower and having the latest and updated dealing systems both Reuters and Bloomberg.

In 2016, Treasury department has a positive outlook on further expanding the Sukuk business and generate higher return for the stakeholders of the Bank.

OPERATIONS GROUP

During 2015 the Group has streamlined core processes which have ensured that the increasing transaction volumes have been processed with no additional resources. The quality of processing has been maintained at a superior level. This has been reflected in the results of the Service Level Agreements (SLAs) that are in place with all business lines. Under these SLAs, the business lines "score" the performance of the Operations Group every quarter according to agreed criteria. The Group has consistently exceeded the expectations of the business lines during 2015.

A new organizational structure has reduced spans of control and consequently has provided greater focus on key areas of activity within the Group. Our aggressive cross training strategy is developing a multi skilled Group which has increased our capacity as well as developing our staff as part of their career progression.

During 2015 the Group led the revisions and updating of all procedural documentation across the Bank, ensuring that all current processes are properly documented. These procedures are available to all staff online. In January, a Change Management Unit was established to support the ongoing process improvement in the Retail Banking Group. Branch processes have been considerably enhanced, improving the quality and speed of service to our retail customers. In addition the Group successfully led and completed a project that digitized all Bank records, facilitating faster document retrieval and facilitating process automation for increased efficiencies. In the last quarter, a sophisticated card fraud monitoring system was implemented in support of our growing retail card business.

INFORMATION TECHNOLOGY GROUP

Information Technology Group "ITG" is working on both aspects of development and business continuity. For development, and in line with the ongoing implementation of the Strategic Plan, ITG has focused on three key factors under Warba Bank's General Policy. These are namely governance, business transformation and infrastructure. For governance, several projects have been implemented and more enhancements introduced to various systems in line with instructions and regulations issued by regulatory authorities.

In terms of business transformation, ITG has managed to implement key projects in the Bank's Plan for 2015, which contribute in providing better service for both Warba Bank's customers as well as concerned departments through several systems and electronic channels.

As for business continuity and support systems, ITG thrived in raising the efficiency of operational services in terms of infrastructure and technical support, in addition to information systems management and providing concerned departments with periodic reports and data. ITG has also achieved high standards of business continuity and availability of technical systems and services.

CORPORATE CAPABILITIES

Warba Bank is constantly keen on contributing effectively to the future development plans of the State of Kuwait through attracting high levels of competencies and leading banking expertise. This comes in line with the Bank's strong belief in the viability of investing in human resources, given the

importance of the human factor in realizing successes. Human resources can deliver innovation, brilliant achievements, excellence and clear imprint on the performance of the Islamic banking sector since Warba has provided its human resources with all the means of academic and practical training and qualifications on the Bank's sophisticated systems and various business areas. For developing the national cadres of fresh graduates, a special program has been designed to prepare them for the banking sector especially in the branches sector in line with the Bank's expansion plan in the branch network. This year, the executive management began prepping cadres and give greater opportunities for career development, whilst prioritizing job vacancies for more experienced and more capable staff to fill new vacancies. Also this year, the Bank exceeded the prescribed Kuwaitization ratio, reaching 66% of Kuwaiti national efficient labor. As well, the ratio reached up to 80% in some sectors such as Corporate Banking and Retail Banking Groups.

CORPORATE SOCIAL RESPONSIBILITY

For promoting the spirit of social solidarity and under the framework of its social responsibility and strategy in supporting events and society service, Warba Bank has participated in the Woman's Health Awareness Day organized by Abdullah Yousuf Al-Abdulahdi Medical Center, under the slogan, "Your Health after Diagnosis," in order to raise awareness on breast cancer disease.

Also, within the framework of the Bank's leading strategy for social responsibility, a religious awareness seminar was organized addressing the virtues of the holy month of Ramadan and the conducts and values that should be upheld. The Seminar witnessed participation of more than 50 elite society ladies, customers and branches' employees.

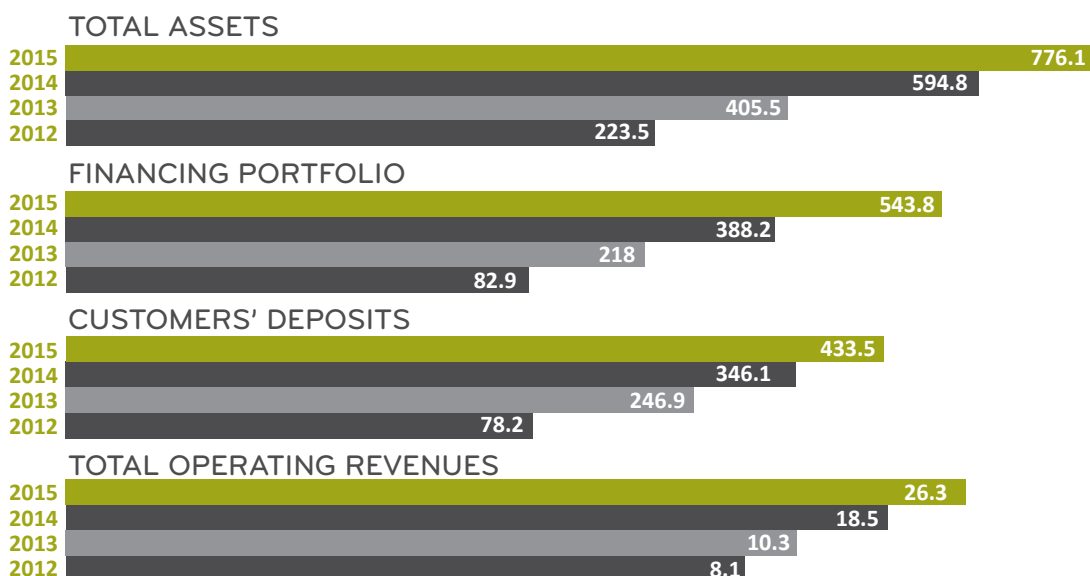
Continuing the series of social initiatives that Warba Bank has been adopting, a team from the Bank made a tour covering a number of Kuwait primary, intermediate and secondary schools in all governorates under "Appreciation and Recognition" Campaign for the management staff, examiners and testers for their hard efforts during the year end examinations.

Among its activities, aiming at deeply rooting the social responsibility concept, Warba Bank sponsored the closing ceremony of the Faculty of Basic Education. This sponsorship of the ceremony demonstrates the Bank's role in supporting youth, its keenness in participation in such educational activities aiming at developing national calibers. This is driven by Warba's strong belief in the significance of science and education and their key role in pushing economic growth and development.

Confirming a social solidarity strategy, Warba Bank participated in "Together Let's Create a Smile" Festival during the Arab Orphans Day organized by the Ministry of Social Affairs and Labor. Driven by their feelings of responsibility towards the society and humanitarian activities and aiming to make a smile on orphans' faces and achieve part of their dreams, the Bank's employees participated and gave gifts to orphans.

Warba Bank also contributed in Kuwait National Diabetes Conference under the umbrella of the Bank's health activities that aim at raising the standard of health awareness for men and women alike. Warba Bank has invited Lamar and Safwa customers to attend the event in embodiment of the strong relationship between the Bank and its customers aside from the atmosphere of financial transactions.

KEY FINANCIAL RESULTS



Warba Bank realized total operating income of KD 26.3 million for the year 2015 with a growth rate of 42% compared to 2014, while the Bank's total assets grew by 30% as at the end of 2015, reaching KD 776.1 million. Meanwhile, customers' deposits reached KD 433.5 million as at the end of 2015 at a growth rate of 25%. The Bank achieved profit of KD 1 million in 2015. Warba's Capital Adequacy Ratio reached 26.07% while the minimum requirement mandated by CBK is 12.5%. This reflects the Bank's robust and solid financial position and capacity to expand its assets base in future.

FUTURE OUTLOOK

2016 FUTURE GOALS FOR THE BANK

The long-term growth strategy of the Bank has started to reap its fruits and has led to an unrivalled performance and evolution in the fiscal year 2015. In 2016, the Bank will continue to focus on sustainable profitable growth and strive to be the 'Bank of Choice' through its revamped corporate values of transparency, unity, Sharia compliance, modernity, and innovation. The key strategic goals of the Bank include accelerated acquisition of market-share, domestic expansion of distribution network and enhanced digital footprint, and ramp-up of the Banks overall Brand.

The Retail Banking Group will launch a breadth of unique and bespoke customer-centric products and services, while leveraging technology to drive innovation and enrichment of customer experience, along with smart expansion of the Banks distribution network through a hybrid between the conventional brick and mortar model, direct distribution and digital self-service channels.

The Corporate Banking Group will re-align its product-mix based on types and industries of its customers through packaging a range of segment-driven funded and non-funded facilities. Apart from enrichment of product offerings, a core focus would be around customer experience and speed of service along with competitive pricing to deliver an expansive value proposition for the corporate of varying sizes and industries.

The Investment Group shall continue to pursue international opportunities that are aligned with the bank's risk and return objectives for operational leasing, structured and syndicated financing, Sukuk trading, and diversification of Bank's proprietary book through other investment asset classes.

THE GOVERNANCE REPORT

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CORPORATE GOVERNANCE

INTRODUCTION

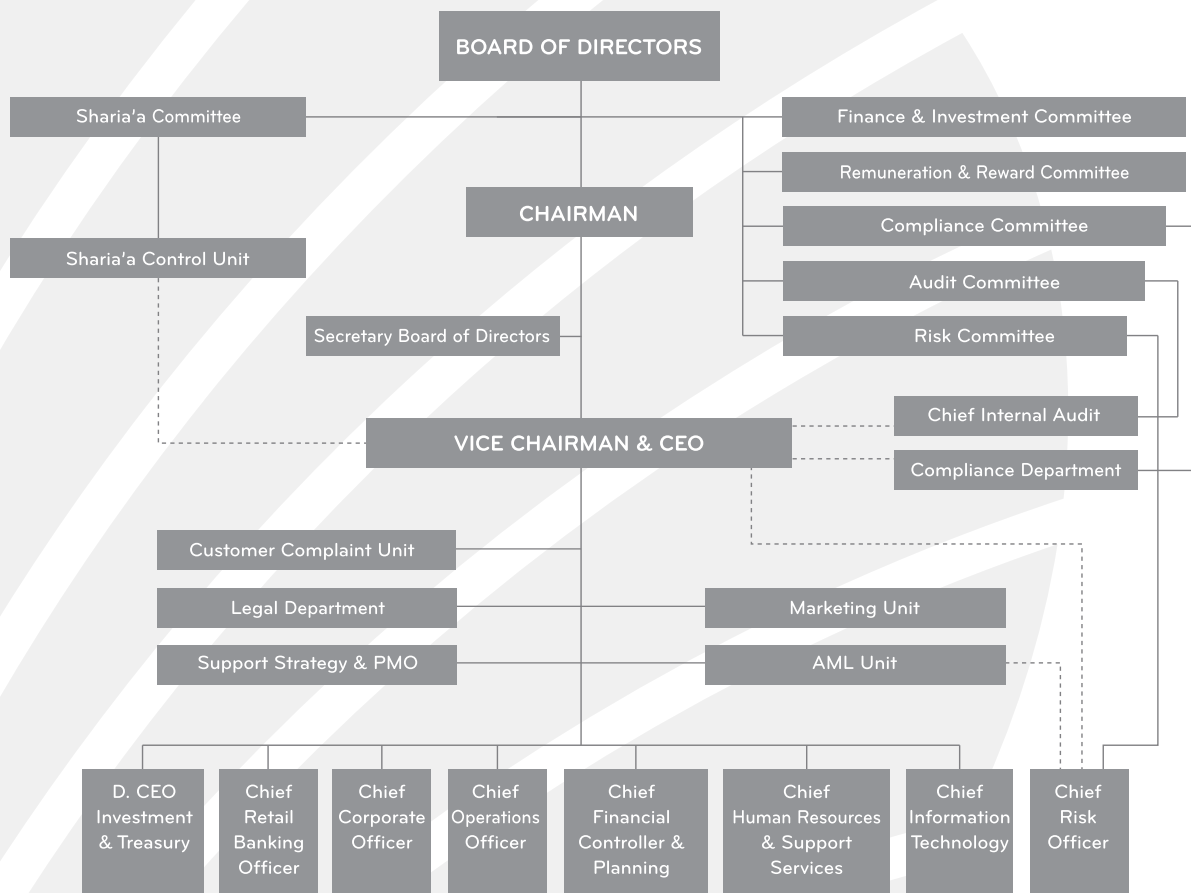
Warba Bank has been established as a public shareholding company on 17/02/2010 by virtue of the Amiri Decree No. 289/2009. Warba Bank was officially registered in the Central Bank of Kuwait's Register for Islamic Banks on 07/04/2010 then listed in Kuwait Stock Exchange on 03/09/2013.

Warba Bank's key shareholders (5% and above)

Name	Shareholding percentage
Kuwait Investment Authority	24% Direct - 1.2% Indirect
The Public Institution for Social Security (PIFSS)	7.247% Indirect

ORGANIZATIONAL STRUCTURE

The Bank's organizational structure has been designed in order to take into consideration maintenance of transparency and clarity to facilitate decision making and taking processes, achieve sound corporate governance and define responsibility limits that clearly sets key responsibilities and authorities of the Board of Directors, executive management and heads of supervisory and control functions in the Bank.



BOARD OF DIRECTORS

ROLES AND RESPONSIBILITIES

The Board of Directors continues to assume full responsibilities stipulated in the Articles of Association and Corporate Governance instructions issued by the Central Bank of Kuwait on 20/6/2012, which

generally focuses on preserving the interests of depositors, shareholders, creditors and employees. As part of its compliance with the Corporate Governance rules and instructions, the Board of Directors has approved all corporate governance policies, set new ones and ensures putting them into practice in addition to approving the Corporate Governance Manual and loading it to the Bank's website.

The Board of Directors is responsible for reviewing and approving the Bank's Strategic Plan, setting the budget and comparing it with actual results and setting business priorities. The Board of Directors also monitors the implementation of such strategies. It sets and approves the policies covering the Bank's various activities.

The Board of Directors is responsible for monitoring the Bank's vulnerabilities to ensure having in place the proper structures for managing risks and internal controls; reviewing the adequacy and availability of systems in light of the laws and regulations applicable on the Bank; ensuring having written policies covering the Bank's various activities, that are reviewed annually for enhancement and amendment. The Board of Directors, in cooperation with the Executive Management, reviews the policies and regulatory controls on a regular basis, including internal and supervisory functions, in order to identify and tackle weaknesses and risk areas for improvements; and ensures that control and supervision functions are performed satisfactorily, have the required functional support and perform effectively and independently.

BOARD MEMBERS TRAINING DURING 2015

Warba Bank pays utmost care to training programs provided to members of the Board of Directors as these programs are critical in developing leadership skills. During 2015, the Bank in coordination with prestigious training and advisory bodies has conducted a training program on anti-money laundering and terrorist financing, in addition to another training program about corporate governance from an IT perspective.

BOARD MEMBERS FOR THE SECOND SESSION (2013 – 2015)

At the Ordinary General Assembly meeting held on 14 August 2013, a representative for Kuwait Investment Authority was appointed for the second session on the board, and six members were elected.

BRIEFS ON BOARD MEMBERS

Emad Abdullah Al Thaqeb - Chairman (elected)

Al Thaqeb holds BA degree in Accounting from Kuwait University in 1983. He is the Chairman of Warba's Board of Directors since 2013. He commenced his career in Kuwait Finance House from 1983 until 1993 and moved on to work as the Director of the Real Estate Department in Awqaf Public Foundation during the period from 1993 until 1998. Then he held the position of General Manager in Real Estate Asset Management Company (REEM) from 1998 until 2001. After that, he assumed the position of Assistant General Manager of the Finance Sector at KFH from 2001 until 2012. He was a board member in a number of companies, most notably Nakheel United Real Estate Company, Kuwait Manager Company, and Jenan Real Estate Company – Saudi Arabia. Furthermore, he participated in many seminars and forums.

Jassar Dakheel Al-Jassar- Vice Chairman and CEO (elected)

Al Jassar holds BA degree in Business Administration from Helwan University – Egypt in 1978 and Master of Business Administration from USA in 1980. He was the Chairman and Managing Director of Warba Bank from 2010 until 2013 then Vice Chairman and Chief Executive Officer since 2013 to date. He has long experience in Islamic banking, finance and investment sectors as he worked for 25 years with Kuwait Finance House (KFH), holding several posts the last of which continued for five years as a General Manager. In addition, he served as a board member in several local, GCC and international banks and companies like Boubyan Bank, Sharjah Islamic Bank, KFH Malaysia, Al Salam International Hospital, ALAFCO Aviation Lease and Finance Company and Kuwait Petroleum Corporation. He also participated in numerous seminars and forums in various fields.

Jamal Abdullah Dashti - Board Member (elected)

Dashti holds BA degree in Economics from the American University of Washington in 1993. He has been a Board Member in Warba Bank since 2010 to date. He contributed to the establishment of several local companies in various sectors. He is the founder of Cosmo Entertainment Company where he holds the position of CEO since 2006. In the banking sector, he worked in the area of local and international corporate financing for 13 years. Further, he participated in specialized training courses in top international banks in the area of corporate risk management. He is a board member in a number of financial companies like Credit One Holding Company and others.

AbduAziz Saud Al Bader - Board Member (elected)

Al Bader holds BA degree in accounting from Kuwait University in 1980 and Master of business administration in Finance in 1987 from The University of Scranton Pennsylvania – USA; Board Member in Warba Bank from 2014 to date. He began his career as an accountant in the Kuwaiti Fund for Arab Economic Development and moved on to work in the Ministry of Finance as the Director of the Minister's Office. In 1988, he held the position of Chief Financial Officer in the Public Warehousing Company "PWC". By the end of 1989, he was appointed as the Manager of Financial and Administrative Affairs Department at Kuwait Investment Authority "KIA". In 2000, he was delegated to fill the position of Deputy Chief Executive Officer at KIA Office in London. He was appointed in the position of Executive Director, Operations Department at KIA in Kuwait on 1st February 2014. Throughout his career, he held many memberships in the board of directors at a number of companies in various sectors both at local and international levels.

Abdulwahab Abdullah Al Houti - Board Member (elected)

Al Houti holds BA in Business Administration from Kuwait University in 1976, and Master of Business Administration from the University of New Haven – USA in 1979. He has been a Board Member in Warba Bank since 2013 to date. Currently, he works as an Advisor for the Chairman of the International Islamic Charity Organization from 2009. He commenced his career as a teacher of commercial subjects in the Ministry of Education during the period from 1979 to 1983, and then assumed the position of Department Manager and Assistant Undersecretary in Ministry of Awqaf and Islamic Affairs from 1983 to 1994. Al Houti then became the Deputy Secretary-General of Waqfi Channels at the General Secretariat of Awqaf from 1994 until 2004. He worked as a board member in a number of companies and banks, namely Boubyan Bank, Islamic Bank of Bangladesh, Captives Investment Bank and Real Estate Asset Management Company (REEM).

Dr. Mahmoud Ahmad Abdulrahman -Board Member

Representative of Kuwait Public Investment Authority

Abdulrahman holds BA degree in Law from Kuwait University in 1988, and PH.D. in Commercial Law from University of Exeter - UK in 1994. He has been a Board Member at Warba Bank since 2013 to date. Currently, he is the Manager of Legal Affairs Department of Kuwait Investment Authority from 2005 till date. He commenced his career in 1989 as a Delegation Member Assistant Lecturer in Faculty of Law - Kuwait University, then lecturer, Assistant Professor and Assistant Dean for Students Affairs in Faculty of Law in 2003. Currently, he is the Chairman of VIVA Telecommunication Company and Board Member in Medical Insurance Hospitals Company since 2015 to date.

Hisham Abdul Razzaq Al Rezouqi- Board Member (elected)

Al Razzuqi holds BA degree in Public Administration from the American University in Beirut in 1973, and Senior Management Program organized by Harvard University in 1988. He has been a Board Member in Warba Bank from 2013 to date. He commenced his career in Kuwait Foreign Trading

- Mr. Jamal Abdullah Dashti Chairman
- Mr. Hisham Abdul Razzaq Al Rezouqi Vice Chairman
- Mr. Abdul Aziz Saud Al Bader Member
- Mr. Emad Abdullah Al Thaqeb Member

BOARD RISK COMMITTEE (BRC)

The Committee assists the Board of Directors to perform its duties and responsibilities in respect of strategies, risk appetite and risks associated with financing and investment activities. The Committee is also responsible for highlighting and developing the Bank's Risk Strategy, Risk Appetite and other risk related measures; reviewing the reports of the Risk Management Group; reviewing the Bank's Risk and Control policies and recommends their approval by the Board of Directors. The Committee is composed of the following members;

- Mr. Abdul Aziz Saud Al Bader Chairman
- Mr. Abdulwahab Abdullah Al Houti Vice Chairman
- Dr. Mahmoud Ahmad Abdulrahman Member

BOARD NOMINATIONS AND REMUNERATIONS COMMITTEE (BNRC)

The Committee assists the Board of Directors in determining the eligibility of the nominees to the board membership, the nominees for CEO, CEO's deputies and assistants. It also ensures the efficiency and application of the Nomination Policy and its consistency with the Bank's objectives, ensures the efficiency and integrity of compensation and rewards policies and practices in the Bank and reviews succession plans of key executive management positions and the Bank's recruitment policies. The Committee is composed of the following members;

- Dr. Mahmoud Ahmad Abdulrahman Chairman
- Jamal Abdullah Dashti Vice Chairman
- Mr. Abdulwahab Abdullah Al Houti Member

ATTENDANCE AT MEETINGS OF THE BOARD AND THE BOARD COMMITTEES FOR 2015

Second Session's Board – (2013-2015)						
Member / Board and Board Committees	Board meetings	BCIC committee meetings	Audit committee meetings	Risk committee meetings	Governance committee meetings	Nomination and Remuneration Committee meetings
Emad A. Al Thaqeb – Chairman	10 (12)	25 (30)			6 (6)	
Jassar D. Al Jassar – Vice Chairman and CEO	12 (12)	24 (30)				
Jamal A. Dashti	11 (12)	28 (30)			6 (6)	3 (3)
AbdulAziz S. Al Bader	9 (12)		6 (7)	6 (6)	6 (6)	
Abdulwahab A. Al Houti	11 (12)		6 (7)	4 (6)		2 (3)
Dr. Mahmoud A. Abdulrahman	10 (12)		7 (7)	5 (6)		3 (3)
Hisham A. Al Rezouqi	11 (12)	23 (30)			5 (6)	
Total Number of Meetings	12	30	7	6	6	3

*Numbers between brackets in the above table refer to the meetings held by the Board and Board Committees during 2015.

MANAGEMENT COMMITTEES – DUTIES AND RESPONSIBILITIES

The Board of Directors has approved the formation of certain Executive level Committees for performing specified tasks and responsibilities in order to assist the CEO in efficient administration of the Bank. All the committees are chaired by Vice Chairman and Chief Executive Officer, Mr. Jassar Dakheel Al Jassar.



EXECUTIVE CREDIT AND INVESTMENT COMMITTEE (ECIC)

ECIC is authorized to consider all credit financing and investment proposals. The Committee is delegated with appropriate authority to approve such proposals or refer them to the Board Credit and Investment Committee. The ECIC is responsible for monitoring the Bank's financing and investment portfolio, reviewing portfolio and taking appropriate action to ensure performance of financing and investment assets of the Bank.

ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

ALCO is responsible for all matters related to managing and controlling the balance sheet including all aspects of assets and liabilities, asset allocation, liabilities structure, liquidity requirements and all other matters in respect of capital adequacy and managing market risks and liquidity risk to which the Bank is exposed. The Committee is responsible for supervising all aspects of optimal balance of assets and liabilities on the short, medium and long term to ensure business growth and profitability while maintaining compliance with the regulatory and financial requirements.

PROVISIONING COMMITTEE

The Provisioning Committee is responsible for analyzing and evaluating all outstanding exposures under approved financing facilities and investments, for the purpose of determining whether or not an exposure is impaired or has any signs of irregularity; warranting provisions in accordance with the internationally accepted financial reporting standards and Central Bank of Kuwait regulatory requirements. In addition, the committee is delegated to review debt write-offs and provide relevant recommendations to the Board Audit Committee and the Board of Directors.

MANAGEMENT COMMITTEE

The Committee is responsible for developing and implementing the Bank's Vision and Strategy. It convenes regularly to ensure information flow as well as consensus views of the Executive Management on decisions affecting the organization of the Bank. The Committee's scope of work includes, but not limited to matters pertaining to the Bank's Business Plans, Policies, Processes and Procedures, new Products and Services Programs, Special Projects, Human Resources, and Information Technology. It also tackles and decides on all other issues which do not fall within the remit of any specific committee.

BRIEF ON THE EXECUTIVE MANAGEMENT

Jassar Dakheel Al-Jassar

Vice Chairman and Chief Executive Officer (VC and CEO)

Al Jassar holds BA degree in Business Administration from Helwan University – Egypt in 1978 and Master of Business Administration from USA in 1980. He was the Chairman and Managing Director

of Warba Bank from 2010 until 2013, and then Vice Chairman and CEO since 2013 to date. He has a long experience in Islamic banking, finance and investment sectors as he worked for 25 years with Kuwait Finance House (KFH), holding several posts the last of which continued for five years as a General Manager. In addition, he served as a board member in several local, GCC and international banks and companies like Boubyan Bank, Sharjah Islamic Bank, KFH Malaysia, Al Salam International Hospital, ALAFCO Aviation Lease and Finance Company and Kuwait Petroleum Corporation. He also participated in numerous seminars and forums in various fields.

Shaheen Hamad Al Ghanem **Deputy CEO Investment and Treasury**

Mr. Shaheen is the Deputy Chief Executive Officer for Investment and Treasury. He holds a master degree in Business Administration from Maastricht University in 2008, a Bachelor's degree in accounting from Kuwait University in 1994 and a Certified Management Accountant from the United States in 2001. In addition, he attended a course on the Executive Management from Harvard University in USA 2007. He has a wide range of experience in the Banking and investment sector. He began his career in the oil sector from 1988 to 1999, and then moved to the financial and investment services sector where he served as Assistant Chief Financial Officer at The International Investor Company in 1999. He then moved in 2001 to Kuwait Finance House where he held many positions at various departments, of which the latest Mr. Al Ghanem was the General Manager of International Banks Department in 2012, and then he was assigned the position of Acting Chief Investment Officer in 2013 in addition to his position as the General Manager, International Banks Department. He held the positions of chairman and board member in a number of banks and companies inside and outside the State of Kuwait. Mr. Al Ghanem moved to Warba Bank in March 2014 to assume the position of Deputy CEO for Investment and Treasury till date.

Basel Jasem Al Obeid **Chief Corporate Banking Officer**

Al Obeid obtained BA degree in Finance from the Faculty of Commerce and Political Sciences in 1987, and has more than 28 years of experience in the banking and financial sector. He commenced his career in 1987 at Ahli United Bank (previously known as Bank of Kuwait and The Middle East) where he assumed several posts, the last of which was the Head of Corporate Banking, Commercial and International Operations Division in 1998. Then, he moved in 2002 to The Securities House Company where he assumed several posts, the last of which was Assistant Managing Director for Credit and Treasury. In January 2012, he joined Warba Bank as a Chief Corporate Banking Officer, and still is holding this position. In addition, he was a board member in a number of institutions and also a member of Kuwaiti Defaulters' Remedial Fund.

Khaled Hasan Hafez **Chief Financial Officer**

Hafez obtained a BA degree in Accounting from Cairo University in 1994. In addition, he is a fellow member of the Chartered Accountants Association in USA, and holder of CPA from the Accounting Council of California, and a Diploma in Islamic Economy from Faculty of Sharia – Kuwait University. Hafez has over 20 years of experience in the area of Islamic Banks and financial institutions and auditing. He worked with a number of the world's biggest audit and consultancy firms like Ernst and Young, and PricewaterhouseCoopers, and held an executive position in Kuwait Finance House. He worked as a lecturer for a number of professional and academic certificates, and participated in numerous conferences and forums on Banking business and Islamic economy. Furthermore, he worked in the area of consultancy, offering advisory services on restructuring, acquisitions and Asset Assessment. He then joined Warba, incorporating and contributing to the setting of the Bank's infrastructure and structure. Currently, he holds the position of Chief Financial Control and Planning Group.

Mahmoud Mohammad Yousof**Chief Internal Auditor**

Mr. Mahmoud is certified in Risk and Information Systems Control (CRISC) from the Information Systems Audit and Control Association (ISACA), USA. He is also certified as a Chartered Internal Auditor, holding the designation (CMIIA) from the Chartered Institute of Internal Auditors (IIA) in the UK and Ireland and earned the Qualification in Internal Audit Leadership (QIAL) from the Institute of Internal Auditors Global (IIA Global) in USA. He graduated from Brooklands Technical College, Weybridge, Surrey, England (1978 – 1982) and holds HNC in Computer Studies in addition to an 'A' Level in Computer Science. He worked at National Bank of Kuwait (NBK) from 1983 for 28 years in the positions of Assistant General Manager and Deputy Chief Internal Auditor. During this period, he was able to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations. In addition, he participated in various projects' steering committees in the Head Office and conducted on-site audit reviews of all NBK's international branches and subsidiaries. He joined Warba Bank as a Chief Internal Auditor at the end of 2011 to date during which he managed to set up a strong and effective Internal Audit function.

Feroz Noorani**Chief Risk Officer**

Feroz Noorani obtained a Masters degree in Business and Finance in 1986 from Mumbai University, and also obtained Bachelor degree in Law and Accounting as well as a number of professional certifications in areas of Bank Management, Compliance, Corporate Governance, and holds accreditation of Risk Management in Banks from INSEAD, France. He has 33 years of experience in the area of Banking and Financial Institutions services, of which the last 17 years in GCC and Middle East region having held several senior positions in Commercial, Investment and Islamic Banks, as well as Risk, Governance and Compliance. In 2011, Noorani joined Warba Bank as its first Chief Risk Officer. His responsibilities included managing the Bank's-wide risks and focusing on having in place robust and effective Risk Management, Control and Governance frameworks, ensuring compliance with regulations and maintaining an acceptable risk appetite and tolerance for Warba Bank.

Haytham Abdulazeez Al Terkait**Chief Information Technology Officer**

Al Terkait has obtained a Bachelor of Science in Mechanical Engineering from Metro State - Denver, Colorado - USA in 1988. He attended many significant and specialized training courses on IT sciences. Al Terkait has over 26 years of experience in this field acquired throughout his career, as he worked for Kuwait Finance House and Kuwait Institute for Scientific Research. He joined Warba Bank in 2012 as Chief Information Technology Officer for his professional efficiency and long experience in the information technology field in the banking sector.

Simon Larby Clements**Chief Operations Officer**

Holding a Business degree from the UK, Clements has well over 39 years of experience in financial services in Europe, Asia and the Middle East region. He has previously held senior executive positions at a number of leading Banks where he headed the Operations and Technology Group. He has in-depth experience of all Operations functions as well as all the support areas in the Bank. In addition to this he has successfully managed the retail business of two mid – sized Kuwaiti Banks in recent years. As a senior executive, Clements has developed and implemented strategies at several institutions with significant success. He joined Warba Bank in July 2014.

EXECUTIVE MANAGEMENT

	Name	Title	Experience	Nationality	Education
1	Jassar Dakheel Al Jassar	Vice Chairman and CEO	31 years	Kuwait	University degree
2	Shaheen Hamad Al Ghanem	Deputy CEO -Investment & Treasury	27 years	Kuwait	Master
3	Basel Jasem Al Obeid	Chief Corporate Banking Officer	29 years	Kuwait	University degree
4	Khaled Hasan Hafez	Chief Financial Officer	22 years	Egypt	University degree
5	Mahmoud Mohammad Yousof	Chief Internal Auditor	35 years	Egypt	University degree
6	Feroz Noorani	Chief Risk Officer	33 years	India	Master
7	Haytham Abdulazeez Al Terkait	Chief Information Technology Officer	27 years	Kuwait	University degree
8	Simon Larby Clements	Chief Operations Officer	40 years	British	University degree

COMPENSATION POLICY (SALARY AND REMUNERATION)

Warba has a compensation policy that provides fair, equitable and competitive compensation for its employees; encouraging and rewarding high performance; attracting individuals of the right caliber, qualifications and experience for the jobs in the Bank. The policy also ensures flexibility to adapt to market changes and imperatives in a structured and standardized manner.

The compensation package includes a number of items given to the employees. Such items are divided into two categories:

- Basic salary and allowances paid monthly to the employee and determined according to the staff member's evaluation rating and the Bank's grading system.
- Other benefits and rewards like: travel tickets, health insurance, tuition allowance, end of service benefits as well as the remunerations approved by the Board of Directors in coordination with the Nominations and Remunerations Committee.

DISCLOSURES OF SALARIES AND REMUNERATIONS AS PER CBK CORPORATE GOVERNANCE INSTRUCTIONS:

FIRST: BOARD MEMBERS' REMUNERATIONS

The remunerations paid to the members of the board of directors during 2015 amounted KD 42 Thousand.

SECOND: COMPENSATIONS PAID TO THE BANK'S HIGHEST PAID EXECUTIVES:

The total compensations and remunerations paid to six key executives who received the highest compensation package for 2015 including the CEO, CFO, CRO, CIA amounted KD 1,288 Thousand. This amount includes basic salaries, allowances, entitlements and end of service benefits.

THIRD: COMPENSATIONS AS PER WARBA'S VARIOUS CATEGORIES OF EMPLOYEES:

Total compensations paid to the executive management for 2015 (CEO and his deputies and / or other senior executives whose appointment is subject to the approval of the regulatory and supervisory bodies, i.e., ten individuals) amounted KD 1,758 Thousand inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the Financial Control and Risk employees, i.e., 9 employees, amounted to KD 715 Thousand inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the risk takers employees i.e., 14 employees, amounted KD 1,716 Thousand inclusive of basic salaries, allowances, entitlements and end of service benefits. This category includes the Top Management, Groups and Departments Heads, with financial authorities who delegate responsibilities to their staff members but have the ultimate responsibility and accountability for the risks.

ANTI-MONEY LAUNDERING

Warba Bank is fully committed to its responsibility as a Financial Institution in mitigating and controlling financial threats arising as risk of transactions that could emanate from Money Laundering and other Financial Crimes including Financing of Terrorism. The Bank is in compliance with all guidelines and regulations of the Central Bank of Kuwait (CBK) on Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT).

The related guidelines and requirements under the AML/CFT Law 106/2013 and its Executive Regulation 37/2013 of the State of Kuwait and CBK Instructions 308/2013 and related ministerial resolutions for UN Sanctions have been incorporated in the policies and procedures, thereby ensuring compliance with all regulatory requirements. The Bank undertakes Risk Assessment of its customers and their transactions with respect to possible money laundering and/or financing of terrorism.

Additionally, the Know-Your-Customer (KYC) principle is adopted through all stages of the customer relationship. The Bank also endeavors conformity with other International guidelines and processes on AML/CFT to monitor and controls financial risks to the Bank and eventually protecting the interest of its customers and shareholders.

In order to effectively implement the related policies and procedures Warba Bank ensures that its personnel and systems operate efficiently in identifying possible irregular or suspicious transactions. To support this, all staff members of the Bank are provided with annual awareness training and also provided with tools and guides for handling any such situation.

Warba Bank has put in place all the requirements for compliance with US FATCA guidelines and is in readiness to report through the Kuwait Ministry of Finance under an Inter-Governmental Agreement signed between US Internal Revenue Service and the State of Kuwait.

COMPLIANCE

In line with the regulatory bodies' instructions in respect of the fundamental principles of compliance, the Bank has given due care for the independency and required staffing, skills and experience of the Compliance Department. The Bank has in place comprehensive policies and procedures to ensure full compliance with CBK's instructions and other regulatory authorities. Compliance Department applies best international standards and sound practices to enhance compliance culture at the Bank, improve Compliance control over the banking systems and maintain full compliance with instructions from regulatory authorities.

CODE OF BUSINESS CONDUCT AND ETHICS

Warba Bank's practices and businesses are governed by the standards of behavioral ethical conduct that apply to all Warba staff members working for the Bank or representing the Bank and its interests.

DISCLOSURE AND TRANSPARENCY

In line with CBK, CMA and KSE instructions, Corporate Governance rules and standards stipulate enhancement of accurate and timely disclosure processes on all matters and significant information about the Bank. The Bank has set an ad-hoc unit for disclosure and transparency dedicated for disclosure of the Bank's significant information to KSE and CMA. The Bank's Website constitutes a significant part of the disclosure channels, plus the board reports, financial statements and notes, information related to the Bank's activities like the main products and services and regular press releases published by media.

ADEQUACY OF INTERNAL CONTROL SYSTEMS

Based on CBK's instructions, an independent auditor has prepared a report on the Bank's internal controls for 2014. The report was presented to the Board Audit Committee and the Board of Directors in the Meeting held on 24/6/2015. The report, submitted to the regulatory authority on 16/7/2015, indicated that the Bank has set internal controls and processes as per the regulatory requirements. The issues raised in the report have no material impact on the financial statements of the Bank for 2014. The actions taken by the Bank, for remedy of the issues raised in the report including issues from previous years, are satisfactory.



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Kuwait

The Board of Directors
Warba Bank
P.O.Box 1220, Safat 13013
State of Kuwait

24 June 2015

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 2 April 2015 for Warba Bank K.S.C. ('the Bank'), we have examined the accounting and other records and internal control systems of the Bank, for the year ended 31 December 2014:

We covered the following areas of the Bank:

- Financial Control and Planning
- Investment and Treasury
- Human Resources, Support Services and Administration
- Risk Management
- Compliance
- AML
- Corporate Banking
- Retail Banking
- Sharia'h Control
- Customer Complaints Unit
- Strategic, Support & PMO
- Legal
- Information Technology
- Internal Audit
- Operations

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) letter dated 22 February 2015 considering the requirements contained in the Manual of General Directives issued by the CBK on 15 June 2003, Pillar IV of corporate governance instructions in respect of risk management and internal controls 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 Bank.



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 and 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.

With the exception of the matters set out in the accompanying report, and having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2014, and the materiality and risk rating of our findings, in our opinion:

- a) The accounting and other records and internal control systems of the Bank established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 15 June 2003 and letter issued by CBK on 22 February 2015,
- 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 Bank for the year ended 31 December 2014, and
- c) The actions taken by the Bank to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Qais M. Al Nisf', written over a horizontal line.

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

CAPITAL ADEQUACY DISCLOSURES

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Public Disclosure Requirements (Basel III)

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Capital Adequacy Standard (Basel III) for Islamic Banks licensed in the State of Kuwait, vide circular reference 2/RB/RBA/336/2014 dated June 24, 2014 and Leverage Ratio Standard circular reference 2/RBA/343/2014 dated October 21, 2014.

Disclosures related to Capital Adequacy Standards under Basel III are based on calculating the minimum capital required to cover credit and market risks using the Standardized Approach, and the minimum capital required to cover operational risk using the Basic Indicator Approach.

First: Bank Structure

Warba Bank K.S.C.P. (the "Bank") is engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari'a to various customer and industry segments. The Bank has no subsidiaries to be fully consolidated into the Bank's financial statements nor any associates to be accounted for.

Second: Capital Structure

The Bank's capital comprises Tier 1 capital, which demonstrates the Bank's underlying strength and includes share capital and reserves according to applicable rules and regulations.

The Bank's capital does not include either structured instruments or complex equity instruments.

As at 31 December 2015, Tier 1 "Core Capital" amounted to KD 92,280 thousand (2014: KD 91,865 thousand, and Tier 2 "Supplementary Capital" amounted to KD 4,273 thousand (2014: KD 3,578 thousand) as detailed below:

	Capital Structure	2014 (KD' 000)	2015 (KD' 000)
Tier (1) Core Capital			
A	Common Equity Tier 1 (CET1)		
	1- Common Shares	100,000	100,000
	2- Eligible Minority Interest in Consolidated Subsidiaries	-	-
	3- Retained earnings (loss)	(8,373)	(7,373)
	4- Other reserves	238	(347)
	Total (A) CET1 before deductions	91,865	92,280
	Deductions from CET1		
	1- Treasury shares	-	-
	2- Dividends (Declared but not incurred)	-	-
	3- Goodwill	-	-
	4- Other deductions	-	-
	Total (A) CET1 after deductions	91,865	92,280
B	Additional Tier 1 (AT1)	-	-
	Deduction from AT1	-	-
	Total (B) AT1 after deductions	-	-
Total (A+B) Tier 1 after Deductions		91,865	92,280
Tier (2) Supplementary Capital			
	1- Capital Eligible as T2	-	-
	2- General provisions	3,578	4,273

	Capital Structure	2014 (KD' 000)	2015 (KD' 000)
	Total Tier (2) Supplementary Capital before deductions	3,578	4,273
	Deduction from Tier (2) Supplementary Capital	-	-
	Total Tier (2) Supplementary Capital after deductions	3,578	4,273
	Total Available Capital (Tier 1 and Tier 2) before adjustments	95,443	96,553
	Other Adjustments	-	-
	Total Available Capital (Tier 1 and Tier 2) after adjustments	95,443	96,553

As at 31 December 2015, Profit Equalization Reserve and Investment Risk Reserve amounted to KD Nil (2014: KD Nil).

1- Common Disclosures Template

The common disclosure template demonstrated below is presented with the objective of disclosing a detailed breakdown of the Bank's regulatory capital in a consistent and clear format, thus enhancing the consistency and comparability of the disclosed elements of capital between banks and across jurisdictions.

Item		2014 (KD' 000)	2015 (KD' 000)
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	100,000	100,000
2	Retained earnings	(8,373)	(7,373)
3	Accumulated other comprehensive income (and other reserves)	238	347
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	91,865	92,280
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	-
8	Goodwill (net of related tax liability)	-	-
9	Other intangibles (net of related tax liability)	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	-	-
13	Taskeek gain on sale	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity of banks, FIs, and insurance entities	-	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold of Bank's CET1 capital)	-	-

Item	2014 (KD' 000)	2015 (KD' 000)
19	-	-
20	-	-
21	-	-
22	-	-
23	-	-
24	-	-
25	-	-
26	-	-
27	-	-
28	-	-
29	91,865	92,280
Additional Tier 1 capital: instruments		
30	-	-
31	-	-
32	-	-
33	-	-
34	-	-
35	-	-
36	-	-
Additional Tier 1 capital: regulatory adjustments		
37	-	-
38	-	-
39	-	-
40	-	-
41	-	-
42	-	-
43	-	-
44	-	-
45	91,865	92,280
Tier 2 capital: instruments and provisions		
46	-	-

Item		2014 (KD' 000)	2015 (KD' 000)
47	Directly issued capital instruments subject to phase-out from Tier 2	-	-
48	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)	-	-
49	of which: instruments issued by subsidiaries subject to phase-out	-	-
50	General provisions included in Tier 2 capital	3,578	4,273
51	Tier 2 capital before regulatory adjustments	3,578	4,273
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	3,578	4,273
59	Total capital (TC = T1 + T2)	95,443	96,553
60	Total risk weighted assets (after applying 50% additional weighting)	308,712	370,332
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	29.76%	24.92%
62	Tier 1 (as a percentage of risk weighted assets)	29.76%	24.92%
63	Total capital (as a percentage of risk weighted assets)	30.92%	26.07%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	8.50%	9.00%
65	of which: capital conservation buffer requirement	2.50%	2.50%
66	of which: bank specific countercyclical buffer requirement	0.00%	0.00%
67	of which: D-SIB buffer requirement	0.00%	0.00%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	21.42%	16.07%
Minimum limits			
69	Common Equity Tier 1 minimum ratio: 2015: 9% (2014: 8.5%)	26,241	33,330
70	Tier 1 minimum ratio: 2015: 10.5% (2014: 10%)	30,871	38,885
71	Total capital minimum ratio excluding CCY and DSIB: 2015: 12.5% (2014: 12%)	37,045	46,292
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financial institutions	-	-
73	Significant investments in the common stock of financial institutions	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-

Item		2014 (KD' 000)	2015 (KD' 000)
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	4,843	6,813
77	Cap on inclusion of provisions in Tier 2 under standardized approach	3,578	4,273
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

2- Reconciliation Requirements

As at 31 December 2015, Common Equity Tier 1 (CET1) amounted to KD 92,280 thousand (31 December 2014: KD 91,865 thousand), which is the same as total equity presented in the Bank's financial statements, furthermore the Bank did not have any instruments eligible for inclusion in additional Tier 1 capital.

The Bank's issued capital comprises of Common Shares which were subscribed and paid-up at the time of inception of the Bank, no further capital has been issued. The Bank has also not issued any other form of regulatory capital instruments to-date.

Third: Capital Adequacy Ratios

The Bank actively manages its capital with the objective of maintaining adequate levels in order to cover all risks inherent in the business. The capital base is assessed to support the current and future growth of the business and the capital allocation is determined on the basis of financing and investments growth expectations for each business lines.

The Bank is currently operating well above the minimum regulatory capital ratios, with ability to cover any eventuality and intervene at an early stage in situation of any stress. The business growth forecast is based on available capital, as allocated for different business lines to ensure that the Bank's internal capital targets are consistent with the approved Risk Appetite of the Bank to maximize shareholders' value on risk-adjusted basis.

1- Capital Adequacy Ratios are as follows:

2015
(KD' 000)

Ser	Ratio Description	Total Required Capital (%)	Available Capital (%)
1	Total Capital Adequacy Ratio	12.50%	26.07%
2	Tier 1 Capital Adequacy Ratio	10.50%	24.92%
3	CET1 Capital Adequacy Ratio	9.00%	24.92%

2014
(KD' 000)

Ser	Ratio Description	Total Required Capital (%)	Available Capital (%)
1	Total Capital Adequacy Ratio	12.00%	30.92%
2	Tier 1 Capital Adequacy Ratio	10.00%	29.76%
3	CET1 Capital Adequacy Ratio	8.50%	29.76%

The Bank ensures the fulfillment of Central Bank of Kuwait requirements in relation to capital adequacy.

2- Financial Leverage Ratio:

The below table depicts information regarding the calculation of the Financial Leverage Ratio, as per the applicable CBK regulations:

Item		2014 KD' 000	2015 KD' 000
No.	On-balance sheet exposures		
1	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	599,574	782,744
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)	599,574	782,744
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)	14,791	34,867
11	(Adjustments for conversion to credit equivalent amounts)	(8,006)	(20,745)
12	Off-balance sheet items (sum of lines 10 and 11)	6,785	14,122
Capital and total exposures			
13	Tier 1 capital	91,865	92,280
14	Total exposures (sum of lines 3, 9 and 12)	606,359	796,866
Leverage ratio			
15	Leverage ratio (Tier 1 Capital (13)/total exposures (14))	15.15%	11.58%

As stated above, the Bank's leverage ratio for the present period is 11.58% compared to 15.15% in the previous year. The reduction in the leverage ratio is mainly ascribed to on-balance and off-balance sheet exposures compared to the previous period, which was due to the increase in the Bank's assets in addition to the increase in the number of the letters of guarantees and documentary credits issued for the customers.

Summary comparison of accounting assets versus leverage ratio exposure measure:

Item		2014 KD' 000	2015 KD' 000
No.	On-balance sheet exposures		
1	Total assets as per published financial statements	594,805	776,107
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the Bank accounting policy but excluded from the gross leverage ratio exposure measure.	-	-
4	Exposures to Sharia compliant hedging contracts	-	-
5	Off-balance sheet exposures (i.e. equivalent credit amounts)	6,785	14,122
6	Other exposures	4,769	6,637
7	Total exposures in calculation of leverage ratio (sum of the above items).	606,359	796,866

Fourth: Risk weighted assets and capital required**1. Credit risk**

The minimum required capital for credit risk exposures as at 31 December 2015 was KD 42,413 thousand (31 December 2014: KD 34,196 thousand) as detailed below:

2015
(KD' 000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash item	1,005	1,005	-	-
2	Claims on sovereigns	81,010	81,010	2,612	326
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	18,379	18,379	8,985	1,123
5	Claims on multilateral development banks	-	-	-	-
6	Claims on banks	103,274	103,274	17,861	2,233
7	Claims on corporates	311,685	240,618	145,017	18,127
8	Regulatory retail exposure	128,547	128,528	74,649	9,331
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	3,359	3,356	1,869	234
11	Goods and commodities positions	-	-	-	-
12	Real estate investments	15,127	15,127	17,571	2,196
13	Investment and financing with customers	105,777	60,247	51,859	6,482
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties	-	-	-	-
16	Other exposures	28,703	28,703	18,877	2,361
Total		796,866	680,247	339,300	42,413

2014
(KD' 000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash item	1,816	1,816	-	-
2	Claims on sovereigns	90,859	90,859	2,728	328
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	4,704	4,704	575	69
5	Claims on multilateral development banks	-	-	-	-
6	Claims on banks	84,995	84,995	18,733	2,248
7	Claims on corporates	226,795	201,746	125,669	15,080
8	Regulatory retail exposure	69,809	69,809	42,650	5,118
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	267	267	82	10
11	Goods and commodities positions	-	-	-	-
12	Real estate investments	15,340	15,340	18,744	2,249
13	Investment and financing with customers	91,081	66,565	60,669	7,280
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties	-	-	-	-
16	Other exposures	20,693	20,693	15,118	1,814
Total		606,359	556,794	284,968	34,196

The minimum required capital for financing receivable as at 31 December 2015 was KD 33,877 thousand (31 December 2014: KD 27,354 thousand) as detailed below:

2015
(KD' 000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on public sector institutions	7,588	7,588	4,469	559
2	Claims on banks	7,598	7,598	2,238	280
3	Claims on corporates	297,563	226,935	133,571	16,696
4	Regulatory retail exposure	128,547	128,528	75,693	9,462
5	Qualifying residential housing financing facilities	-	-	-	-
6	Past due exposures	3,359	3,356	1,895	237
7	Investment and financing with customers	105,777	60,247	53,148	6,643
Total		550,432	434,252	271,014	33,877

2014
(KD' 000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on public sector institutions	-	-	-	-
2	Claims on banks	11,763	11,763	5,474	657
3	Claims on corporates	220,010	195,272	119,077	14,289
4	Regulatory retail exposure	69,809	69,809	42,650	5,118
5	Qualifying residential housing financing facilities	-	-	-	-
6	Past due exposures	267	267	82	10
7	Investment and financing with customers	91,081	66,565	60,669	7,280
Total		392,930	343,676	227,952	27,354

2. Market Risk

Market Risk-weighted exposure during the financial year 2015 amounted to KD 4,407 thousand (31 December: KD 3,769 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 551 thousand (31 December 2014: KD 452 thousand).

3. Operational Risk

Operational Risk-weighted exposures calculated during the year 2015 amounted to KD 26,625 thousand (31 December 2014: KD 19,975 thousand) as per the Basic Indicator Approach. The minimum required capital for operational risk exposures amounts to KD 3,328 thousand (31 December 2014: KD 2,397 thousand).

Fifth: Risk Management

Risk is inherent in all activities of a Bank and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's financial health and continuing profitability. The Bank's business generates exposure to the following broad risk types from its financial transactions, use of financial instruments and its operations:

- Credit risk
- Market risk
- Liquidity Risk
- Operational risk

In addition, there are other risk areas that are to be monitored and controlled. This note presents information about the Bank's exposure to each of the risks, the Bank's objectives, framework of policies, models and processes for measuring, mitigating and managing risks, and the Bank's management of capital.

1- Risk Management Structure

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Bank's Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's Risks and Control related requirements.

For specific risk types like credit, market and liquidity risks, the Board has further set up a Board Credit and Investment Committee ("the BCIC"). At the management-level, the following committees the Executive Credit and Investment Committee (the 'ECIC'); Assets and Liabilities Management Committee (the 'ALCO'); and the Provisioning Committee; are set-up to assist it in fulfilling its responsibilities.

An independent Risk Management Group (the 'RMG') headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for Enterprise-wide Risk, so as to assists it in carrying out the oversight responsibility of the Board.

2- Risk Management Framework

The Board Risk Committee (the 'BRC') sets the framework and monitors the Risks and Control functions of the Bank.

The Board has also established a Board Audit Committee (the 'BAC'), as required by Central Bank of Kuwait (the 'CBK'), which amongst other functions is also required to monitor adherence with the Bank's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management Framework.

The Assets and Liabilities Management Committee (the 'ALCO') is responsible for all matters related to the Bank's Balance Sheet management including all assets and liabilities, asset allocation, liability structure, funding diversification and cost-effectiveness, asset and liability maturity profile, net return margin, as well as all other issues related to capital adequacy with respect to market and liquidity risk management.

The Executive Credit and Investment Committee (the 'ECIC') is the executive management decision making body which is empowered to consider all financing and investment proposals for approval within its delegated authorities and/or recommendations to the Board Credit and Investment Committee for final approval.

The Provisioning Committee is responsible for reviewing the entire financing and investment portfolio of the Bank, to assess against actual delinquency or potential impairment and recommend the required level of provisioning as the Central Bank of Kuwait (CBK) regulations and financial/accounting standards.

3- Risk Management Systems

In order to manage risks in a holistic manner and to measure risks on a consolidated basis, the Bank has a formal Risk Governance Framework, which provides detailed guidelines for a sound framework for Enterprise-wide Risk management. The objectives of risk management are supported by various risk policies that are reviewed and updated regularly. The risk policies, in general, cater to detailed planning for various risks based on business strategies, past performance, future expectations, economic conditions, and internal as well as external regulations. The policies also require comprehensive analysis of a set of pre-determined parameters prior to introduction of new products or instruments. The policies have put in place internal limits (nominal as well as risk based) for continuous monitoring and ensuring that risks are maintained within the Bank's Risk Appetite. Periodical reporting of risks to various authorities including the ALCO, ECIC, BCIC and the BRC ensures that the Board and the executive management are continuously kept aware of positions thereby enabling informed decision-making.

The Risk Management policies are established to identify, quantify, control, mitigate, and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and ensure adherence to the risk appetite limits. Risk Management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Bank.

4- Types of Risks

Following are the main risks which the Bank is exposed to:

4.1 Credit Risks

Credit risk is the risk of financial loss to the Bank if any counterparty to a financial obligation or instrument fails or delays to meet its contractual obligations, and arises principally from the Bank's receivables from Islamic financing activities, Ijara and Investments, etc. For risk management control purposes, the Bank considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about riskiness of an exposure.

Credit Risk Framework

The Bank's Board has approved Financing and Investment Policies for various business groups and investment asset types. The Board has also approved the Executive Credit and Investment Committee (the 'ECIC') Charter which is empowered for initial screening of proposals and approval within its delegated authorities. The Board has also constituted the Board Credit and Investment Committee (the 'BCIC') which by virtue of its Charter is the next level of authority which provides guiding principles and approve the various financing and investment proposals on behalf of the Board of the Bank. Risk Management provides independent opinion and assessment of risk for every financing and investment proposal marketed and presented to the approving authorities for decision making.

In addition, the Bank endeavors to manage the credit exposure by obtaining security where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Bank's credit risk exposure.

Net Credit Exposures (Rated or Unrated)

2015
(KD' 000)

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	1,005	-	1,005
2	Claims on sovereigns	81,010	81,010	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	18,379	7,588	10,791
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	103,274	83,532	19,742
7	Claims on corporates	240,618	-	240,618
8	Regulatory retail exposure	128,528	-	128,528
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	3,356	-	3,356
11	Goods and commodities positions	-	-	-
12	Real estate investments	15,127	-	15,127
13	Investment and financing with customers	60,247	-	60,247
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	28,703	-	28,703
Total		680,247	172,130	508,117

2014
(KD' 000)

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	1,816	-	1,816
2	Claims on sovereigns	90,859	90,859	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	4,704	-	4,704
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	84,995	71,375	13,620
7	Claims on corporates	201,746	-	201,746
8	Regulatory retail exposure	69,809	-	69,809
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	267	-	267
11	Goods and commodities positions	-	-	-
12	Real estate investments	15,340	-	15,340
13	Investment and financing with customers	66,565	-	66,565
14	Sukuk and taskeek exposures	-	-	-
15	.Claims on central counterparties	-	-	-
16	Other exposures	20,693	-	20,693
Total		556,794	162,234	394,560

Total Credit Risk exposures

(Self-Financed or Financed from Investment Accounts):

2015
(KD' 000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	1,005	1,005	-
2	Claims on sovereigns	81,010	13,275	67,735
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	18,379	2,969	15,410
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	103,274	18,884	84,390
7	Claims on corporates	311,685	62,207	249,478
8	Regulatory retail exposure	128,547	20,772	107,775
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	3,359	543	2,816
11	Goods and commodities positions	-	-	-
12	Real estate investments	15,127	2,444	12,683
13	Investment and financing with customers	105,777	17,093	88,684
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	28,703	14,133	14,570
Total		796,866	153,325	643,541

2014
(KD' 000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	1,816	1,816	-
2	Claims on sovereigns	90,859	20,715	70,144
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	4,704	1,044	3,660
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	84,995	21,638	63,357
7	Claims on corporates	226,795	55,604	171,191
8	Regulatory retail exposure	69,809	15,490	54,319
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	267	59	208
11	Goods and commodities positions	-	-	-
12	Real estate investments	15,340	3,404	11,936
13	Investment and financing with customers	91,081	20,210	70,871
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	20,693	12,076	8,617
Total		606,359	152,056	454,303

Average exposures (Self-Financed or Financed from unrestricted Investment Accounts) on a quarterly basis:

2015
(KD' 000)

SN	Description of Credit Risk Exposures	Average Credit Risk Exposures	Average Self Financed Exposures	Average Financed Exposures From Investment Accounts
1	Cash item	1,009	1,009	-
2	Claims on sovereigns	73,736	14,687	59,049
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	10,064	1,836	8,228
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	92,307	19,524	72,783
7	Claims on corporates	277,775	62,331	215,444
8	Regulatory retail exposure	103,030	19,692	83,338
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	1,908	343	1,565
11	Goods and commodities positions	397	83	314
12	Real estate investments	15,209	2,961	12,248
13	Investment and financing with customers	98,219	19,007	79,212
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties	-	-	-
16	Other exposures	25,675	14,274	11,401
Total		699,329	155,747	543,582

2014
(KD' 000)

SN	Description of Credit Risk Exposures	Average Credit Risk Exposures	Average Self Financed Exposures	Average Financed Exposures From Investment Accounts
1	Cash item	1,901	1,901	-
2	Claims on sovereigns	64,654	15,410	49,244
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	4,792	1,126	3,666
5	Claims on multilateral development banks	161	39	122
6	Claims on banks	85,802	22,529	63,273
7	Claims on corporates	200,696	50,977	149,719
8	Regulatory retail exposure	61,722	14,440	47,282
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	198	46	152
11	Goods and commodities positions	125	30	95
12	Real estate investments	18,382	4,335	14,047
13	Investment and financing with customers	85,540	20,048	65,492
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties	-	-	-
16	Other exposures	18,646	12,481	6,165
Total		542,619	143,362	399,257

Excess Risk Concentrations

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting similarly connected counterparties.

Geographical Distributions for Credit Risk Exposure

2015
(KD' 000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Total
1	Cash item	1,005	-	-	-	1,005
2	Claims on sovereigns	72,019	-	8,991	-	81,010
3	Claims on international organizations	-	-	-	-	-
4	Claims on public sector entities	3,635	-	-	14,744	18,379
5	Claims on multilateral development banks	-	-	-	-	-
6	Claims on banks	99,773	704	2,747	50	103,274
7	Claims on corporates	292,706	-	9,851	9,128	311,685
8	Regulatory retail exposure	128,547	-	-	-	128,547
9	Qualifying residential housing financing facilities	-	-	-	-	-
10	Past due exposures	3,359	-	-	-	3,359
11	Goods and commodities positions	-	-	-	-	-
12	Real estate investments	15,127	-	-	-	15,127
13	Investment and financing with customers	105,777	-	-	-	105,777
14	Sukuk and taskeek exposures	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-
16	Other exposures	22,825	5,878	-	-	28,703
Total		744,773	6,582	21,589	23,922	796,866

2014
(KD' 000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Total
1	Cash item	1,816	-	-	-	1,816
2	Claims on sovereigns	81,611	-	8,714	534	90,859
3	Claims on international organizations	-	-	-	-	-
4	Claims on public sector entities	4,704	-	-	-	4,704
5	Claims on multilateral development banks	-	-	-	-	-
6	Claims on banks	66,731	2,025	10,334	5,905	84,995
7	Claims on corporates	197,568	-	7,496	21,731	226,795
8	Regulatory retail exposure	69,809	-	-	-	69,809
9	Qualifying residential housing financing facilities	-	-	-	-	-
10	Past due exposures	267	-	-	-	267
11	Goods and commodities positions	-	-	-	-	-
12	Real estate investments	15,340	-	-	-	15,340
13	Investment and financing with customers	91,081	-	-	-	91,081
14	Sukuk and taskeek exposures	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-
16	Other exposures	20,693	-	-	-	20,693
Total		549,620	2,025	26,544	28,170	606,359

2015
(KD' 000)

Maturities of total Credit Risk exposures

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	1,005	-	-	1,005
2	Claims on sovereigns	52,610	5,002	23,398	81,010
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	-	7,588	10,791	18,379
5	Claims on multilateral development banks	-	-	-	-
6	Claims on banks	90,535	3,242	9,497	103,274
7	Claims on corporates	157,941	146,333	7,411	311,685
8	Regulatory retail exposure	9	1,634	126,904	128,547
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	3,359	-	-	3,359
11	Goods and commodities positions	-	-	-	-
12	Real estate investments	-	-	15,127	15,127
13	Investment and financing with customers	73,524	31,700	553	105,777
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	1,617	337	26,749	28,703
Total		380,600	195,836	220,430	796,866

2014
(KD' 000)

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	1,816	-	-	1,816
2	Claims on sovereigns	26,241	37,352	27,266	90,859
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	-	-	4,704	4,704
5	Claims on multilateral development banks	-	-	-	-
6	Claims on banks	69,712	8,855	6,428	84,995
7	Claims on corporates	123,896	97,836	5,063	226,795
8	Regulatory retail exposure	275	120	69,414	69,809
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	267	-	-	267
11	Goods and commodities positions	-	-	-	-
12	Real estate investments	-	-	15,340	15,340
13	Investment and financing with customers	69,594	20,733	754	91,081
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	543	96	20,054	20,693
Total		292,344	164,992	149,023	606,359

Main sectors of total Credit Risk exposures

2015
(KD' 000)

SN	Description of Credit Risk Exposures	Manu- factur- ing and Trade	Banks and Financial Institu- tions	Con- struction and Real Estate	Govern- ment	Others	Total
1	Cash item	-	-	-	-	1,005	1,005
2	Claims on sovereigns	-	-	-	81,010	-	81,010
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	-	-	-	10,791	7,588	18,379
5	Claims on multilateral development banks	-	-	-	-	-	-
6	Claims on banks	-	103,274	-	-	-	103,274
7	Claims on corporates	89,105	6,423	166,500	-	49,657	311,685
8	Regulatory retail exposure	-	-	-	-	128,547	128,547
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	-	-	-	-	3,359	3,359
11	Goods and commodities position	-	-	-	-	-	-
12	Real estate investments	-	-	15,127	-	-	15,127
13	Investment and financing with customers	-	-	105,777	-	-	105,777
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	28,703	28,703
Total		89,105	109,697	287,404	91,801	218,859	796,866

2014
(KD' 000)

SN	Description of Credit Risk Exposures	Manu- facturing and Trade	Banks and Financial Institutions	Con- struction and Real Estate	Govern- ment	Others	Total
1	Cash item	-	-	-	-	1,816	1,816
2	Claims on sovereigns	-	-	-	90,859	-	90,859
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	-	-	-	4,704	-	4,704
5	Claims on multilateral development banks	-	-	-	-	-	-
6	Claims on banks	-	84,995	-	-	-	84,995
7	Claims on corporates	82,502	10,025	92,107	-	42,161	226,795
8	Regulatory retail exposure	-	-	-	-	69,809	69,809
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	-	-	-	-	267	267
11	Goods and commodities position	-	-	-	-	-	-
12	Real estate investments	-	-	15,340	-	-	15,340
13	Investment and financing with customers	-	-	91,081	-	-	91,081
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	20,693	20,693
Total		82,502	95,020	198,528	95,563	134,746	606,359

4.1.1 Irregular and past due credit facilities

Irregular and past due credit facilities, and impaired exposures are defined in accordance with the relevant CBK regulations. Specific and general provisions are computed in accordance with CBK regulations on provisioning as well as the applicable accounting standards. The CBK regulations pertaining to specific provisioning differentiate between facilities for corporate, retail and sovereign and specific rules and principles are accordingly applied for performing and non-performing facilities.

In addition, minimum general provision has to be carried at 1% of the cash credit facilities and 0.5% for non-cash credit facilities, where no specific provision has been taken, in accordance with these regulations.

Irregular and past due financing facilities exposures in accordance with standard portfolios:

On December 31, 2015, the value of the irregular financing facilities (impaired), including the Bank's accounts receivable, is amounted at KD 5,167 thousand (31 December 2014: KD 1,015 thousand) after excluding the deferred revenues and KD 5,164 thousand (31 December 2014: KD 1,012 thousand) after excluding the acceptable collaterals as per the instructions of the Central Bank of Kuwait for the purpose of specific provisions computation.

As of 31 December 2015, the Bank's provisions are KD 8,621 thousand (31 December 2014: KD 5,587 thousand) including a general provision of KD 6,813 thousand (31 December 2014: KD 4,842 thousand).

2015
(KD' 000)

Irregular and past due exposures as per standard portfolios:

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Claims on banks	-	-	-	-	-
2	Claims on corporates	4,369	4,369	1,395	2,974	6,896
3	Regulatory retail exposures	798	795	413	382	3,644
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
Total		5,167	5,164	1,808	3,356	10,540

2014
(KD' 000)

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Claims on banks	-	-	-	-	-
2	Claims on corporates	579	579	579	-	461
3	Regulatory retail exposures	436	433	166	267	2,595
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
Total		1,015	1,012	745	267	3,056

2015
(KD' 000)

Irregular and past due exposures as per geographical location:

SN	Description of geographical location	Impaired	Specific Provision	Net Facilities	Past Due
1	MENA	5,167	1,808	3,356	10,540
2	Europe	-	-	-	-
3	Asia	-	-	-	-
Total		5,167	1,808	3,356	10,540

2014
(KD' 000)

SN	Description of geographical location	Impaired	Specific Provision	Net Facilities	Past Due
1	MENA	1,015	745	267	2,595
2	Europe	-	-	-	-
3	Asia	-	-	-	461
Total		1,015	745	267	3,056

Irregular and past due exposures by industrial sector:

2015
(KD' 000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing and Trade	4,369	1,395	2,974	-
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	-	-	-	6,896
4	Others	798	413	382	3,644
Total		5,167	1,808	3,356	10,540

2014
(KD' 000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing and Trade	579	579	-	461
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	-	-	-	-
4	Others	436	166	267	2,595
Total		1,015	745	267	3,056

Aging of Irregular and past due exposures:

2015
(KD' 000)

SN	Description of Irregular and past due exposures	Up to 3 months	From 3 months to 6 months	From 6 months to 12 months	More than 1 Year	Total
1	Impaired	-	4,174	175	818	5,167
2	Past Due	10,540	-	-	-	10,540
Total		10,540	4,174	175	818	15,707

2014
(KD' 000)

SN	Description of Irregular and past due exposures	Up to 3 months	From 3 months to 6 months	From 6 months to 12 months	More than 1 Year	Total
1	Impaired	-	298	58	659	1,015
2	Past Due	3,056	-	-	-	3,056
Total		3,056	298	58	659	4,071

General Provisions Balance:

SN	Distribution of General Provisions to credit risk exposures	2014 (KD' 000)	2015 (KD' 000)
1	Claims on public sector institutions	-	76
2	Claims on banks	118	76
3	Claims on corporates	3,115	4,318
4	Regulatory retail exposures	698	1,285
5	Qualifying residential housing financing facilities	-	-
6	Investment and financing with customers	911	1,058
Total		4,842	6,813

SN	Distribution of General Provisions to geographical location	2014 (KD' 000)	2015 (KD' 000)
1	MENA	4,432	6,547
2	Europe	134	99
3	Asia	276	167
Total		4,842	6,813

4.1.2 Applicable Risk Mitigation Methods

The Credit Policy of the Bank lays down guidelines for collateral valuation and management which includes, minimum coverage requirement for different categories of collateral, revaluation, frequency and basis of revaluation, documentation, takaful, custodial requirements etc. According to the credit policy, the frequency of revaluing the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also in cases where the collateral is in a different currency than the exposure. This process is handled by a department independent of the business groups to ensure objectivity.

Acceptable collateral includes cash, bank guarantees, shares, real estate etc. subject to specific conditions on eligibility, margin requirements etc., laid down in the credit policy. The credit risk mitigation used for capital adequacy computation includes collateral in the form of cash and shares as well as guarantees in accordance with the CBK's rules and regulations concerning capital adequacy standard.

Credit Risk Exposures, Eligible Collaterals and Banking Guarantees

2015
(KD' 000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	1,005	-	-
2	Claims on sovereigns	81,010	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	18,379	-	-
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	103,274	-	-
7	Claims on corporates	311,685	71,067	-
8	Regulatory retail exposure	128,547	19	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	3,359	3	-
11	Goods and commodities positions	-	-	-
12	Real estate investments	15,127	-	-
13	Investment and financing with customers	105,777	45,530	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties	-	-	-
16	Other exposures	28,703	-	-
Total		796,866	116,619	-

2014
(KD' 000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	1,816	-	-
2	Claims on sovereigns	90,859	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	4,704	-	-
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	84,995	-	-
7	Claims on corporates	226,795	25,049	-
8	Regulatory retail exposure	69,809	-	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	267	-	-
11	Goods and commodities positions	-	-	-
12	Real estate investments	15,340	-	-
13	Investment and financing with customers	91,081	24,516	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties	-	-	-
16	Other exposures	20,693	-	-
Total		606,359	49,565	-

4.2 Market Risks

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates because of changes in market prices. Market risk may arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The Risk Management Group is responsible for development of detailed Market Risk Management policies and for the periodic review of their implementation, while it is the responsibility of Investment and Treasury functions to proactively manage and control market risk generated from various market positions in investments, financial instruments and market as well as over-the-counter deals.

4.2.1 Market Risk Frameworks

The Bank uses market practice for the valuation of its positions and receives regular market information in order to regulate market risk.

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that Bank does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits.
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions.

The policies and procedures and the market risk limits are set to ensure the implementation of the Bank's market risk appetite. These are reviewed periodically to ensure they remain in line with the Bank's Market Risk Management policy. The Bank is required to comply with the guidelines and regulations of the Central Bank of Kuwait, in addition to its internal policies and procedures.

4.3 Liquidity Risks

Liquidity Risk is the risk that the Bank will be unable to meet its financial liabilities when they fall due. Liquidity risk management is one of the vital parts of managing day-to-day banking business. In order to meet any eventuality, the Bank's liquidity strategy is to maintain healthy level of liquid assets in the form of cash, cash equivalents and readily marketable securities. The Bank continuously monitors the liquidity risk by measuring the maturity profile of its assets and liabilities on a daily basis and the liquidity gaps position is reviewed by Asset Liability Management Committee (ALCO) on a monthly basis. Furthermore, the liquidity coverage ratio, liquidity reserve position and the ratio of financing facilities to eligible deposits are monitored on a daily basis.

A- Short-term assets to short-term liabilities ratio as of 31 December 2015 is 85% (31 December 2014: 102.6%) calculated as follows:

SN		2014	2015
1	Current assets (KD '000)	462,652	563,052
2	Current liabilities (KD '000)	451,005	662,262
Current ratio%		102.6%	85%

B- Maturity analysis of various categories of funding (current account, unrestricted investment account and restricted investment account) are as follows:

2015
(KD' 000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	32,803	-	-	32,803
2	Unrestricted investment account	363,686	259,161	20,694	643,541
3	Restricted investment account	-	-	-	-
5	Other Deposits	1,454	-	-	1,454
Total		397,943	259,161	20,694	677,798

2014
(KD' 000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	39,123	-	-	39,123
2	Unrestricted investment account	107,975	295,963	50,365	454,303
3	Restricted investment account	5,752	-	-	5,752
Total		152,850	295,963	50,365	499,178

4.4 Profit Rate Risk

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial instruments. Bank is susceptible to profit rate risk as value of Bank's fixed income financing and investments are inversely related to rising rates. Moreover, change in profit rates might also impact Bank's net earnings or earnings spread.

The Bank conducts stress testing and scenario analyses regularly to manage profit rate risk inherent in the balance sheet. Earnings-at-Risk analysis is conducted monthly, to determine the impact of changes on profitability from changes in cost of funds and yield on assets. Such analysis is also monitored by the senior management of the Bank through the Asset and Liability Management Committee (ALCO).

2015
(KD' 000)

Impact of 25 bps move upwards	Up to 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	129	279	451	185	48	1,092
Liabilities	(233)	(79)	(468)	(261)	(58)	(1,099)
Net Impact	(104)	200	(17)	(76)	(10)	(7)

2015
(KD' 000)

Impact of 25 bps move downwards	Up to 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	(129)	(279)	(451)	(185)	(48)	(1,092)
Liabilities	233	79	468	261	58	1,099
Net Impact	104	(200)	17	76	10	7

2014
(KD' 000)

Impact of 25 bps move upwards	Up to 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	76	179	444	139	36	874
Liabilities	(61)	(99)	(77)	(361)	(41)	(639)
Net Impact	15	80	367	(222)	(5)	235

2014
(KD' 000)

Impact of 25 bps move downwards	Up to 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	(76)	(179)	(444)	(139)	(36)	(874)
Liabilities	61	99	77	361	41	639
Net Impact	(15)	(80)	(367)	222	5	(235)

4.5 Equity Risk in the Banking Book

In accordance with International Financial Reporting Standard, equity positions in the banking book are classified as available-for-sale securities. These investments are held for the purpose of generating income through dividends as well as capital gains that may arise due to improving valuations. These investments are fair valued periodically and revaluation gains/losses are accounted as cumulative changes in fair value in equity. For equity investments quoted in organized financial markets, fair value is determined by reference to quoted bid prices. Fair values of unquoted equity investments are determined by reference to the market value of a similar investment, or the expected discounted cash flows, or other appropriate valuation models. Equity investments whose fair value cannot be estimated accurately are carried at cost less impairment if any.

As of 31 December 2015, the Bank's available for sale equity investment amounting to KD 17,378 thousand (31 December 2014: KD 11,074 thousand) as detailed below:

Investments types	2014 (KD '000)	2015 (KD '000)
Quoted equity security	131	896
Unquoted equity security	4,098	4,098
Unquoted Portfolios and Funds	6,845	12,384
Total	11,074	17,378

All available-for-sale equity investments are recorded at fair value except for unquoted investments, which are recorded at cost less impairment (if any).

During the year, Bank has recorded realized gain from sale of available-for-sale equity investments amounting to KD Nil thousand in the income statement and unrealized gain (loss) from changing in fair value of the quoted securities amounting to KD 5 thousand (31 December 2014: KD 12 thousand) in the other comprehensive income.

The minimum required capital for equity investment as at 31 December 2015 was KD 1,282 thousand (31 December 2014: KD 812 thousand).

4.6 Operational Risks

Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events including losses resulting from failure to comply with Islamic Shari'a regulations. When controls fail to perform, it can have legal or regulatory implications, or lead to financial or reputational loss.

4.6.1 Operational Risk Frameworks

The Bank has a set of policies approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Bank.

Operational risk is managed under the Risk Management Group. This Group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall prudent and robust Risk Management Framework.

The Bank manages operational risks in line with the Central Bank of Kuwait instructions regarding "General Guidelines for Internal Control Systems" and directives regarding "Sound Practices for the Management and Control of Operational Risks".

The Bank has established its Business Continuity Management (BCM) Policy to meet any internal or external failures and eventualities enabling smooth functioning of the Bank's operations.

The Bank has established Disaster Recovery (DR) site for its IT infrastructure, which ensures that the operational risks do not adversely impact the Banking business. The Bank pays special attention to operational risks that may arise from non-compliance to Islamic Sharia principles and any possible failure in fiduciary responsibilities.

Sixth: Investment Accounts

Warba Bank receives fund from depositors through various product structures that comply with Islamic Shari'a.

The Bank receives deposits from customers as part of unrestricted Wakala investment accounts either for limited or renewable periods. Funds are invested in financing and investing activities that will achieve a targeted return.

The Bank also receives funds from depositors through unrestricted Mudarabah Agreements, where depositors grant the Bank (Mudarib) the right to invest these funds against a share in profit. The Mudarib would bear the loss in case of negligence or violation of any of the terms and conditions of the Mudaraba.

Pools of Assets in which the funds are invested is determined along with the relevant costs and revenues (costs or expenses included are those that are only directly related to general pool assets, meanwhile indirect expenses as General and Administrative expenses and staff cost are not charged), based on which the net profit is determined and shared between the Bank and the depositors proportionately based on each contribution to the pools and the specificity of the contractual agreements with the depositors.

Profit percentage distributed to the profit-sharing investment accounts were as follows:

2015
(KD' 000)

SN	Account Category	Q1 2014	Q2 2014	Q3 2014	Q4 2014
1	Saving accounts	1.226%	1.225%	1.217%	1.214%

2014
(KD' 000)

SN	Account Category	Q1 2014	Q2 2014	Q3 2014	Q4 2014
1	Saving accounts	1.155%	1.190%	1.273%	1.223%

Seventh: Shari'a Regulations

Shari'a regulations are monitored and implemented by the Shari'a Compliance and Control Department based on the decisions issued and approved by the Shari'a Supervisory Board of Warba Bank. The Shari'a Compliance and Control Department supervises the implementation of such regulations on daily basis and answers any Shari'a related inquiries. Part of the activities of the Shari'a Compliance and Control Department includes amongst other the review of policies, procedures and documentation including contracts, forms and agreements.

Shari'a Control and Compliance Department, conducts audit on the Bank various operations based on an annual audit plan covering all the Banks' departments upon which a report covering the findings is reported. The Shari'a Supervisory Board accordingly represents its report to the general assembly in its annual general assembly meeting.

Shari'a Board remuneration for the year ended 31 December 2015 amounted to KD 27 thousand (31 December 2014: KD 39 thousand).

Eighth: Bank's Remuneration Policies

Board Nominations and Remunerations Committee

The Committee is chaired by Dr. Mahmoud Ahmad Abdulrahman, and includes as members Mr. Jamal Abdullah Dashti, and Mr. Abdulwahab Abdullah Al Houti. The Committee helps the Board of Directors to decide on candidates' eligibility to membership of the Board of Directors, the candidate for the position of Chief Executive Officer, his deputies and assistants. The Committee also ensures effectiveness, sound implementation and commitment of the Nominations Policy and its consistency with the Bank's objectives.

The Committee has hired Protiviti Business Risk and Consultancy firm as an external advisor to prepare a long-term incentive scheme for senior management officials at the Bank.

The functions of the Nomination and Remuneration Committee with respect to the Compensation Policy (remunerations) include but are not limited to the following:

- Conduct periodic review of the policy or as recommended by the Board of Directors, give recommendations to the Board of Directors for amending / updating the policy.
- Conduct periodic assessment of the adequacy and effectiveness of the Remuneration Policy to ensure accomplishment of the declared objectives.
- Evaluate the practices under which remunerations are awarded against future revenues under uncertain timing and potentials.
- Make recommendations to the Board of Directors on the level and components of remunerations for the Chief Executive Officer, his assistants and similar executives level at the Bank to obtain Board approval;

- Identify a system for awarding remunerations in line with the principles of sound practices in respect of awarding remunerations;
- Work closely with the Risk Management Committee at the Bank and / or the Chief Risk Management Officer when assessing the proposed incentives in the Remuneration Scheme.
- Review the relevant policy and procedures periodically or at least when needed to ensure meeting the established goals in light of the information reviewed by the Committee about the progress of the Remuneration Scheme.

The number of the meetings held by the Board Nominations and Remunerations Committee during the year was three meetings, and the total remunerations paid to its members is Nil for the year ending on 31 December 2015 (31 December 2014: Nil).

Compensation according to staff various categories at Warba Bank:

- 1- For the Chief Executive Officer and his deputies and / or others senior executives whose appointment is subject to the approval of regulatory and supervisory authorities included fixed wages (basic salaries, benefits and allowances) as well as end of the service benefits.
- 2- For Financial Control and Risk Management personnel, included fixed wages (basic salary, benefits and allowances) as well as the end of the service benefits. This category includes financial control, Risk Management, Compliance, Internal Audit and AML departments' officers.
- 3- For Material Risk Takers, included fixed wages (basic salaries, benefits and allowances) as well as end of service benefits. This category includes senior management, department heads with financial authorities who delegate their responsibilities to their departmental staff but bear the ultimate responsibility and accountability for the risk taken.

Warba Bank sets a compensation Policy that provides fair, equitable and competitive compensation for its employees; encouraging and rewarding high performance; attracting individuals of the right caliber, qualifications and experience for the positions in the Bank; and providing flexibility to adapt to business market changes and requirements in a structured and standardized manner. Warba has developed systematic procedures for disbursement of financial rewards, taking into account the application of "the Claw Back" if necessary.

The Board of Directors effectively oversees the remuneration schemes and processes, as well as reviews and monitors the salary structure to ensure that they are properly implemented in cooperation with the Nominations and Remunerations Committee that is responsible for preparing the Compensation Policy and submitting it to the Board of Directors for approval. The Committee shall also provide the recommendations to ensure effective and proper implementation of the Remunerations Policy.

The Remuneration Policy must be consistent with prudent risk-taking. Remunerations are linked to the Bank's performance on the medium and long terms, taking into account amending the components of the remunerations granted to staff to match risks on the long term (risk timeline).

Job Assessment:

- 1- Job assessment is used to determine a financial fair value of individual positions in the Bank.
- 2- The elements to be taken into account in the process of job assessment are the difficulty and accuracy of the job duties, knowledge requirements, pressures, powers and effectiveness of the job using the Task Method for job assessment.
- 3- For each of these elements, work is evaluated on a separate scope. The assessment outcomes of the Bank's positions determine the job level on the respective staff grade structure in line with best practices.
- 4- Compensation Department and Performance Department are responsible for jobs assessment based on accurate job descriptions.

No employees were awarded remunerations on signing employment contracts (sign-on awards) during the year.

The table below shows the value of remuneration paid to Senior Management:

2015
(KD' 000)

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	- Cash-based	1,341,353	113,219
2	- Shares and share-linked instruments	-	-
3	- Other	10,008	-
	Variable remuneration		
4	- Cash-based	293,780	-
5	- Shares and share-linked instruments	-	-
6	- Other	-	-
	Total	1,645,141	113,219

2014
(KD' 000)

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	- Cash-based	1,368,923	103,861
2	- Shares and share-linked instruments	-	-
3	- Other	9,600	-
	Variable remuneration		
4	- Cash-based	258,730	-
5	- Shares and share-linked instruments	-	-
6	- Other	-	-
	Total	1,637,253	103,861

The table below shows the value of remuneration paid to material risk takers other than the Senior Management:

2015
(KD' 000)

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	- Cash-based	1,347,806	108,054
2	- Shares and share-linked instruments	-	-
3	- Other	12,106	-
	Variable remuneration		
4	- Cash-based	247,607	-
5	- Shares and share-linked instruments	-	-
6	- Other	-	-
	Total	1,607,519	108,054

2 014
(KD' 000)

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	- Cash-based	1,249,338	196,647
2	- Shares and share-linked instruments	-	-
3	- Other	10,800	-
	Variable remuneration		
4	- Cash-based	230,062	-
5	- Shares and share-linked instruments	-	-
6	- Other	-	-
	Total	1,490,200	196,647

The table below shows the value of remuneration paid to the respective employee categories:

2015
(KD' 000)

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	Salaries and remunerations paid during the year (in KD)
1	Senior Management	10	-	1,645,141
2	Material Risk Takers	14	-	1,607,519
3	Financial and Control Functions	9	-	714,711

2014
(KD' 000)

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	Salaries and remunerations paid during the year (in KD)
1	Senior Management	9	20,249	1,637,253
2	Material Risk Takers	15	-	1,490,200
3	Financial and Control Functions	9	-	686,373

FINANCIAL STATEMENTS

and Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Warba Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2015, and the statement of income, statement of comprehensive income, statement of changes in equity and 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, 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.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these 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 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/RBA/343/2014 dated 21 October 2014 respectively, the Companies Law No 25 of 2012, as amended and executive regulations, and by the Bank's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/RBA/343/2014 dated 21 October 2014 respectively, the Companies Law No 25 of 2012, as amended and executive regulations, or of the Bank's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2015 that might have had a material effect on the business of the Bank or on its financial position.



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

Report on Other Legal and Regulatory Requirements (continued)

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 2015 that might have had a material effect on the business of the Bank or on its financial position.

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MEMBER FIRM OF KPMG INTERNATIONAL

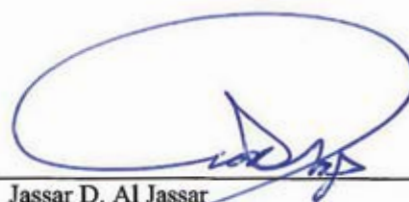
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AL AIBAN, AL OSAIMI & PARTNERS

10 January 2016
Kuwait

	Notes	2015 KD'000	2014 KD'000
ASSETS			
Cash and balances with banks	3	3,845	6,098
Placements with banks		133,355	122,590
Financing receivables	4	543,794	388,159
Available-for-sale investments	5	68,661	53,000
Investment properties	6	15,127	15,340
Other assets		4,949	3,083
Property and equipment		6,376	6,535
TOTAL ASSETS		776,107	594,805
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	7	244,333	153,086
Depositors' accounts	8	433,465	346,092
Other liabilities		6,029	3,762
TOTAL LIABILITIES		683,827	502,940
EQUITY			
Share capital	9	100,000	100,000
Accumulated losses		(7,373)	(8,373)
Fair value reserve		(347)	238
TOTAL EQUITY		92,280	91,865
TOTAL LIABILITIES AND EQUITY		776,107	594,805



Imad Abdullah Al Thaqib
Chairman



Jassar D. Al Jassar
Vice Chairman and Chief Executive Officer

The accompanying Notes 1 to 18 from an integral part of these financial statements

	<i>Notes</i>	2015 KD'000	2014 KD'000
Placements and financing income		20,217	13,858
Finance costs and distribution to depositors		(8,182)	(4,974)
Net financing income		12,035	8,884
Net investment income	10	3,683	4,081
Net fees and commission income	11	2,120	419
Other income		166	176
Foreign exchange gain / (loss)		75	(7)
Operating income		18,079	13,553
Staff costs		(9,001)	(7,264)
General and administrative expenses		(3,387)	(2,976)
Depreciation		(1,602)	(1,345)
Operating expenses		(13,990)	(11,585)
Operating profit before provision for impairment		4,089	1,968
Provision for impairment	4	(3,005)	(1,802)
Profit before deductions		1,084	166
National Labor Support Tax (NLST)		(33)	(9)
Zakat		(9)	-
Directors' remuneration		(42)	(42)
Net profit for the year		1,000	115
Basic and diluted earnings per share	12	1.00 fils	0.12 fils

The accompanying Notes 1 to 18 from an integral part of these financial statements

	<i>Note</i>	2015 KD'000	2014 KD'000
Net profit for the year		1,000	115
Other comprehensive (loss)/ income:			
<i>Other comprehensive (loss)/income to be reclassified to statement of income in subsequent years:</i>			
Change in fair value of available-for-sale investments		(466)	1,421
Gain on sale of available-for-sale investments realized during the year transferred to statement of income	10	(119)	(316)
Other comprehensive (loss)/ income for the year		(585)	1,105
Total comprehensive income for the year		415	1,220

The accompanying Notes 1 to 18 from an integral part of these financial statements

	<i>Share capital KD'000</i>	<i>Accumulated losses KD'000</i>	<i>Fair value reserve KD'000</i>	<i>Total equity KD'000</i>
Balance at 1 January 2015	100,000	(8,373)	238	91,865
Net profit for the year	-	1,000	-	1,000
Other comprehensive loss	-	-	(585)	(585)
Total comprehensive income for the year	-	1,000	(585)	415
Balance at 31 December 2015	100,000	(7,373)	(347)	92,280
Balance at 1 January 2014	100,000	(8,488)	(867)	90,645
Net profit for the year	-	115	-	115
Other comprehensive income	-	-	1,105	1,105
Total comprehensive income for the year	-	115	1,105	1,220
Balance at 31 December 2014	100,000	(8,373)	238	91,865

The accompanying Notes 1 to 18 from an integral part of these financial statements

	Notes	2015 KD'000	2014 KD'000
OPERATING ACTIVITIES			
Net profit for the year		1,000	115
Adjustments for:			
Gain on sale of available-for-sale investments	10	(119)	(316)
Gain on sale of investment property	10	-	(681)
Dividend income	10	(630)	(769)
Sukuk income	10	(1,521)	(1,438)
Net rental income from investment properties	10	(742)	(877)
Other investment income	10	(671)	-
Provision for end of service benefits		230	201
Depreciation		1,602	1,345
Provision for impairment	4	3,005	1,802
		<u>2,154</u>	<u>(618)</u>
<i>Changes in operating assets and liabilities:</i>			
Placements with banks		37,769	(9,851)
Financing receivables		(158,540)	(171,933)
Other assets		(1,786)	(1,098)
Due to banks and other financial institutions		91,247	87,983
Depositors' accounts		87,373	99,230
Other liabilities		724	(1,409)
		<u>58,941</u>	<u>2,304</u>
Net cash generated from operating activities		<u>58,941</u>	<u>2,304</u>
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		(32,030)	(7,690)
Proceed from sale of available-for-sale investments		17,299	20,326
Proceeds from sale of investment property		-	9,740
Purchase of property and equipment		(1,443)	(851)
Dividend income received		630	769
Sukuk income received		1,882	2,042
Rental income received		1,002	1,522
		<u>(12,660)</u>	<u>25,858</u>
Net cash (used in) / generated from investing activities		<u>(12,660)</u>	<u>25,858</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		<u>46,281</u>	<u>28,162</u>
Cash and cash equivalents at 1 January		81,355	53,193
		<u>81,355</u>	<u>53,193</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	<u><u>127,636</u></u>	<u><u>81,355</u></u>

The accompanying Notes 1 to 18 from an integral part of these financial statements

1. CORPORATE INFORMATION

Warba Bank K.S.C.P. (the "Bank") is a Kuwaiti shareholding company public, incorporated on 17 February 2010 in the State of Kuwait by Amiri Decree No. 289/2009 and is registered as an Islamic banking institution in accordance with the rules and regulations of the Central Bank of Kuwait (the "CBK") on 7 April 2010. The Bank's registered office is at Sanabil Tower, 26th – 28th floor, Abdullah Al Ahmed Street, P.O. Box 1220, Safat 13013, State of Kuwait.

The Bank's shares were listed on the Kuwait Stock Exchange on 3 September 2013.

The Bank is primarily involved in investment, corporate and retail banking activities in accordance with the principles of Sharia'h, as approved by the Bank's Sharia'h Supervisory Board.

The financial statements of the Bank for the year ended 31 December 2015 were authorized for issue in accordance with a resolution of the Board of Directors on 10 January 2016. The Annual General Assembly of the shareholders of the Bank has the power to amend these financial statements after issuance.

2.1 BASIS OF PREPARATION

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the International Accounting Standard ("IAS") 39 requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

Basis of preparation

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments.

The financial statements have been presented in Kuwaiti Dinars ("KD") which is the Bank's functional currency, rounded to the nearest thousand except when otherwise stated.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Bank are consistent with those used in the previous year, except for the adoption of the following new and amended IFRS and interpretations effective as of 1 January 2015:

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment)

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Bank during the current year.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Bank does not apply the portfolio exception in IFRS 13.

Other amendments to IFRSs which are effective for accounting periods starting from 1 January 2015 did not have any significant impact on the accounting policies, financial position or performance of the Bank.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt those standards when they become effective.

IAS 16 (Amendments) – Clarification of Acceptable Methods of Depreciation

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. These amendments were issued in May 2014 and applied to annual periods on or after 1 January 2016. The Bank is in the process of quantifying the impact of this standard on the Bank's financial statements, when adopted.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The standard was issued in May 2014 and applies to annual financial statements beginning on or after 1 January 2018. The Bank does not expect any significant impact on adoption of this standard.

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 Bank's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Bank is in the process of quantifying the impact of this standard on the Bank's financial statements, when adopted.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement (s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement (s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any significant impact on the Bank.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Classification of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank classifies financial instruments as "placement with banks", "finance receivables", "investment securities", and "financial liabilities other than at fair value through profit or loss". Investment securities comprise of "available-for-sale investments". Management determines the appropriate classification of each instrument at the time of acquisition.

Recognition

A financial asset or a financial liability is recognised when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting. 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.

De-recognition

A financial asset (in whole or in part) is derecognised either when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank would be required to pay.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the statement of income.

Measurement

All financial assets or financial liabilities are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for financial assets classified as investments at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the statement of income.

Category of financial instruments

Placement with banks and financing receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank offers Sharia'h compliant products and services only, such as Wakala, Murabaha and Ijara. Placement with banks and financing receivables are stated in the statement of financial position at amortised cost using effective profit method, less impairment. The amount due is settled either by installments or on a deferred payment basis.

Wakala is an agreement whereby the bank provides a sum of money to a customer under an agency agreement, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of the Wakala.

Murabaha is a sale agreement for commodities and real estate to "a promise to buy" customer, at a price comprising of cost plus agreed profit, after the Bank has acquired the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Category of financial instruments (continued)

Ijara is an agreement whereby the Bank (lessor) purchases or constructs an asset for lease according to the customer's request (lessee), based on a promise to lease the asset for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee.

Available-for-sale investments

Financial assets available for sale include equity investments and debt securities (i.e. sukuk). Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and included in the fair value reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the fair value reserve to the statement of income. Profit earned whilst holding available-for-sale investments is reported as investment income using the effective profit rate method.

The Bank evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Bank is unable to trade these financial assets due to inactive markets, the Bank may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

Financial liabilities other than at fair value through profit or loss

These financial liabilities are subsequently measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective profit rate.

Due to banks and other financial institutions, depositors' accounts and other liabilities are classified as "financial liabilities other than at fair value through profit or loss".

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the statement of income in 'net fees and commission income' on a straight-line basis over the life of the guarantee. The guarantee liability is subsequently measured as the higher of the amount initially recognised less amortisation or the best estimate of the expenditure required to settle the present obligation at the reporting date.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to settle on a net basis.

Fair value measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For investments in instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost less impairment.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing 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.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that an individually significant financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets are impaired if and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the financial asset and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets. For the purpose of assessing impairment, the financial assets are grouped at the lowest levels for which there are separately identifiable cash flows.

For financing receivables, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

The carrying amount of the asset is reduced by the amount of impairment and the amount of impairment loss is recognised in the statement of income.

Financial guarantees and letter of credit are assessed and provisions are made in a similar manner as for financing receivables.

In addition, in accordance with CBK instructions, a minimum general provision on all financing facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

For available-for-sale equity investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. Objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income is removed from fair value reserve and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of sale and value in use.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents comprise "Cash and balances with banks and the CBK" and Placements with banks and the CBK maturing within 3 months.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at depreciated cost less impairment. Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of income in the year of derecognition.

Depreciation is provided on a straight-line basis over the estimated useful lives of properties other than freehold land which is deemed to have an indefinite life.

Depreciation on the building is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives that range from 20 to 40 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred.

Land is not depreciated. Depreciation of other property and equipment items is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Buildings 20-40 years
- Furniture, fixtures and equipment 3-5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

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. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

End of service indemnity

The Bank provides end to service benefits to its employees. The entitlement to the benefits is based upon the employee's final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees the Bank makes contribution to Public Institution for Social Security as a percentage of the employees' salaries.

The Bank obligation is limited to these contribution, which are expensed as accrued.

Revenue recognition

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

- (i) Placement and financing income is income from Wakala, Murabaha and Ijara investments and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.
- (ii) Rental income from investment properties is recognized on an accrual basis.
- (iii) Dividend income is recognized when the right to receive payment is established.
- (iv) Fee and commission income is recognized at the time the related services are provided.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19/2000 and the Ministry of Finance resolution No. 24/2006 at 2.5% of taxable profit for the year. As per the law, cash dividends from listed companies which are subjected to NLST has to be deducted from the profit for the year.

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Bank in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Segment information

A segment is a distinguishable component of the Bank that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Bank to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, products and services, classes of customers where appropriate are aggregated and reported as reportable segments.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at value date of the transaction. Monetary assets and liabilities in foreign currencies outstanding at the year end are translated into Kuwaiti Dinars at rates of exchange ruling at the reporting date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose changes in fair values are recognised directly in other comprehensive income, related foreign exchange differences are also recognised directly in other comprehensive income. For other non-monetary assets foreign exchange differences are recognised directly in the statement of income.

Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

Contingencies

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

Use of estimates

In accordance with the accounting principles contained in IFRS, management is required to make estimates and assumptions that may affect the carrying values of financing receivables.

The basis used by management in determining the carrying values of financing receivables and the underlying risks therein are discussed below:

Impairment losses on financing facilities

The Bank reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Use of estimates (continued)***Impairment losses on financing facilities (continued)*

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of available-for-sale equity investments

The Bank treats investments available-for-sale 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 judgment and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

Classification of property

Management decides on acquisition of a real estate property whether it should be classified as investment property or property and equipment. The Bank classifies property as "investment property" if it is acquired to generate rental income or for capital appreciation or for an undetermined future use.

3. CASH AND CASH EQUIVALENTS

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Cash	1,005	1,816
Current account with the CBK	219	712
Current accounts with commercial banks	2,621	3,570
	<hr/>	<hr/>
Cash and balances with banks	3,845	6,098
Placements with the CBK whose original maturity is within 3 months	48,038	15,016
Placements with banks whose original maturity is within 3 months	75,753	60,241
	<hr/>	<hr/>
Cash and cash equivalents	<u>127,636</u>	<u>81,355</u>

Placements with banks represent placements placed with highly reputed and good credit rating banks in accordance with Wakala and Murabaha agreements.

4. FINANCING RECEIVABLES

Financing receivables mainly comprise of facilities extended to the customers of the Bank in the form of Murabaha and Ijara contracts. Wherever necessary, financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk.

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Murabaha receivables	445,059	348,509
Ijara receivables	144,314	69,489
Others	1,660	400
Less: deferred profit	(38,792)	(24,726)
	<hr/>	<hr/>
Financing receivables before provision for impairment	552,241	393,672
Less: provision for impairment	(8,447)	(5,513)
	<hr/>	<hr/>
	<u>543,794</u>	<u>388,159</u>

4. FINANCING RECEIVABLES (continued)

Further analysis of financing receivables, net of deferred profit, based on customer type is given below:

	2015	2014
	KD'000	KD'000
Corporate	294,641	248,718
Individuals	257,600	144,954
	<hr/>	<hr/>
Financing receivables before provision for impairment	552,241	393,672
Less: provision for impairment	(8,447)	(5,513)
	<hr/>	<hr/>
	543,794	388,159
	<hr/> <hr/>	<hr/> <hr/>

Movement in provision for impairment:

	2015			2014		
	<i>Specific provision</i>	<i>General provision</i>	<i>Total</i>	<i>Specific provision</i>	<i>General provision</i>	<i>Total</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Cash facilities</i>						
Balance at 1 January	745	4,768	5,513	638	3,055	3,693
Provision charged during the year	1,063	1,842	2,905	107	1,694	1,801
Foreign currency movement	-	29	29	-	19	19
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	1,808	6,639	8,447	745	4,768	5,513
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Non-cash facilities</i>						
Balance at 1 January	-	74	74	-	73	73
Provision charged during the year	-	100	100	-	1	1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	-	174	174	-	74	74
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Total facilities</i>						
Balance at 1 January	745	4,842	5,587	638	3,128	3,766
Provision charged during the year	1,063	1,942	3,005	107	1,695	1,802
Foreign currency movement	-	29	29	-	19	19
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	1,808	6,813	8,621	745	4,842	5,587
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The policy of the Bank for calculation of the impairment provision for financing receivables complies in all material respects with the provision requirements of the CBK. According to the CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities has been made on all applicable facilities (net of certain categories of collateral), that are not provided for specifically.

5. AVAILABLE-FOR-SALE INVESTMENTS

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Quoted sukuk	51,283	41,926
Quoted equity security	896	131
Unquoted equity security	4,098	4,098
Unquoted funds and portfolio	12,384	6,845
	<u>68,661</u>	<u>53,000</u>

All available for sale investments are recorded at fair value except for unquoted investments with a carrying value of KD 16,482 thousand (2014: KD 10,943 thousand), which are recorded at cost less impairment (if any).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in note 18.

6. INVESTMENT PROPERTIES

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Balance at 1 January	15,340	24,480
Sale during the year	-	(8,900)
Depreciation and impairment charged for the year	(213)	(240)
Balance at 31 December	<u>15,127</u>	<u>15,340</u>

The fair value of the investment properties at the reporting date is KD 15,916 thousand (2014: KD 15,836 thousand). The fair values of the properties are based on valuations performed by accredited independent valuers, who are specialists in valuing these types of investment properties.

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Rental income from investment properties	1,040	1,393
Direct operating expenses	(298)	(516)
Net rental income arising from investment properties (note 10)	<u>742</u>	<u>877</u>

The Bank has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

For the purpose of measuring fair value, the income approach is used where the present value technique is employed to reflect the current market expectations about the future estimated rental value, based on per square meter per month rental rate and annual growth rate in the country in which the investment properties are located.

Fair value hierarchy disclosures for investment properties have been provided in note 18.

7. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions represents deposits received from banks and other financial institutions under Wakala and Murabaha contracts.

8. DEPOSITORS' ACCOUNTS

Depositors' accounts of the Bank comprise of the following:

- a) *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 Hasan from depositors to the Bank.
- b) *Investment deposits:*
These include Mudaraba, Murabaha and Wakala deposits, which have fixed maturity as specified in the term of the contract except for investment saving accounts which are valid for an unlimited period.

9. EQUITY

Share capital

The authorised, issued and paid up capital of the Bank comprises 1,000 million ordinary shares of 100 fils each (2014: 1,000 million shares of 100 fils each). The share capital has been contributed in cash.

Statutory reserve

In accordance with the Companies Law and the Bank's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remunerations is required to be transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the statutory reserve equals 50% of the paid up share capital. Distribution from this reserve is limited to enable payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for payment of dividends.

No transfer has been made to the statutory reserve in the current year and prior year due to accumulated losses.

Voluntary reserve

In accordance with the Bank's Articles of Association, a percentage of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remuneration, is required to be transferred to the voluntary reserve. Such annual transfer can be discontinued by a resolution of shareholders in the annual general assembly meeting upon recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

No transfer has been made to the voluntary reserve in the current year and prior year due to accumulated losses.

10. NET INVESTMENT INCOME

	<i>2015</i>	<i>2014</i>
	<i>KD'000</i>	<i>KD'000</i>
Gain on sale of available-for-sale investments	119	316
Gain on sale of investment property	-	681
Dividend income	630	769
Sukuk income	1,521	1,438
Net rental income from investment properties (note 6)	742	877
Others	671	-
	<u>3,683</u>	<u>4,081</u>

11. NET FEES AND COMMISSION INCOME

Net fees and commission income consists mainly of KD 1,584 thousand earned on the successful completion of a syndication deal by the Bank.

12. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2015	2014
Net profit for the year (KD'000)	1,000	115
Weighted average number of shares outstanding ('000)	1,000,000	1,000,000
Basic and diluted earnings per share (fils)	1.00	0.12

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

13. TRANSACTIONS WITH RELATED PARTIES

These are transactions with certain related parties (major shareholders, directors and executive officers of the Bank, close members of their families and companies in which they are principal owners or over which they are able to exercise significant influence) who were customers of the Bank in the ordinary course of business. Such transactions were made on substantially the same terms including profit and collateral as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

Balances recorded in the statement of financial position are as follows:

	<i>Major shareholders</i>	<i>Board members and executive officials</i>	<i>Other related parties</i>	<i>Total 31 December 2015</i>	<i>31 December 2014</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Finance facilities	-	134	-	134	115
Credit cards	-	5	-	5	4
Depositor's accounts	191,004	638	118	191,760	84,475
		<i>No. of major shareholders</i>	<i>No. of Board members and executive officials</i>		<i>No. of other related parties</i>
Finance facilities		-	4		-
Credit cards		-	10		2
Depositor's accounts		2	16		9

Transactions with related parties recorded in the statement of income are as follows:

	<i>Major shareholders</i>	<i>Board members and executive officials</i>	<i>Other related parties</i>	<i>Total 31 December 2015</i>	<i>31 December 2014</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Placements and financing income	-	3	-	3	-
Finance costs and distributions to depositors	2,714	1	-	2,715	914

13. TRANSACTIONS WITH RELATED PARTIES (continued)**Compensation to key management personnel:**

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Salaries and other short-term benefits	1,645	1,637
Post-employment benefits	113	104
	<u>1,758</u>	<u>1,741</u>

14. COMMITMENTS AND CONTINGENT LIABILITIES

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Acceptances and letters of credit	11,040	2,035
Letter of guarantees	23,827	12,756
Contingent liabilities	<u>34,867</u>	<u>14,791</u>
Capital commitments	<u>575</u>	<u>461</u>

15. RISK MANAGEMENT

Risk is inherent in all activities of the Bank and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's financial health and continuing profitability. The Bank's business generates exposure mainly to the following broad risk types from its financial transactions, use of financial instruments and its operation:

- Credit risk
- Liquidity risk
- Market risk
- Prepayment risk
- Operational risk

In additions, there are other risk areas that are to be monitored and controlled. This note presents information about the Bank's exposure to each of the risks, the Bank's objective, framework of policies, models and processes for measuring, mitigating and managing risk and the Bank's management of capital.

a) Risk management structure**Board of Directors**

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's risks and control related requirements covering all risk types like credit, market and liquidity risks, operational risk. The Board Risk Committee is assisted in these functions by the Chief Risk Officer.

The Board has also established a Board Audit Committee (the 'BAC'), as required by the Central Bank of Kuwait, which, amongst other functions, is also required to monitor adherence with the Bank's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management framework. The Bank's Audit Committee is assisted in these functions by the Chief Internal Auditor.

15. RISK MANAGEMENT (continued)**a) Risk management structure (continued)*****Risk Management Group***

An independent Risk Management Group headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for enterprise-wide-risk, so as to assist it in carrying out the oversight responsibility of the Board.

Risk Management policies are established to identify, quantify, control, mitigate, and analyze the risks faced by the Bank to set appropriate risk limits and controls and to monitor risks and ensure adherence to the risk appetite limits. Risk Management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Bank.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail or delay to discharge an obligation and cause the other party to incur a financial loss. This includes the risk of decline in the credit standing of the customer. While such decline does not imply default, it increases the probability of the customer defaulting. Financial instruments that create credit risk include financing receivable and commitments to extend credit and investment in debt securities (i.e. sukuk).

For risk management control purposes, the Bank considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about the riskiness of an exposure.

Credit risk management

The Bank's Board has approved Financing and Investment policies for various business groups and investment asset types. The Board has also approved the Executive Credit and Investment Committee (the 'ECIC') Charter, which is empowered for initial screening of proposals, and approval within its delegated authorities. The Board has also constituted the Board Credit and Investment Committee (the 'BCIC') which by virtue of its charter, is the next level of authority which provides guiding principles and approve the various financing and investment proposals on behalf of the Board of the Bank.

Risk Management provides independent opinion and assessment of risk for every financing and investment proposal presented to the approving authorities for decision making.

The Bank manages its credit facilities portfolio with the objective of ensuring that it is well diversified and it earns a level of return commensurate with the risks it assumes, at the same time, seeks to ensure the quality of the credit portfolio.

In addition, the Bank endeavors to manage the credit exposure by obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Bank's credit risk exposure.

As required by CBK, the Bank has established a Provisioning Committee, at the executive level which is primarily responsible for the study and evaluation of the existing credit facilities and investments of the Bank, to identify any abnormal situations and difficulties associated with a customer's position which may require the exposure to be classified as irregular, and to determine an appropriate provisioning required for impaired/potential impairment of assets and investments.

Maximum exposure to credit risk without taking account of any collateral

The following table summarizes the maximum exposure to credit risk for the components of the statement of financial position, including off statement of financial position items. The maximum exposure is shown gross (net of impairment), before the effect of mitigation through the use of master netting and collateral agreements, where applicable.

	<i>Gross maximum exposure</i>	
	<i>2015</i>	<i>2014</i>
	<i>KD'000</i>	<i>KD'000</i>
Credit risk exposures relating to on-statement of financial position items:		
Balances with banks	2,840	4,282
Placements with banks	133,355	122,590
Financing receivables	543,794	388,159
Available-for-sale investments (investment in sukuk)	51,283	41,926
Other assets	3,708	1,791
Total	734,980	558,748

15. RISK MANAGEMENT (continued)**b) Credit risk (continued)**

	<i>Gross maximum exposure</i>	
	<i>2015</i>	<i>2014</i>
	<i>KD'000</i>	<i>KD'000</i>
Credit risk exposures relating to off-statement of financial position items:		
Acceptances and letters of credit	10,985	2,025
Letter of guarantees	23,708	12,692
Total	34,693	14,717
Total credit risk exposure	769,673	573,465

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could give rise in the future as a result of changes in value.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting similarly connected counterparties.

The maximum credit exposure to a single counterparty as at 31 December 2015 amounted to KD 14,068 thousand (2014: KD 15,015 thousand) before taking account of collateral.

Risk concentrations of the maximum exposure to credit risk

Geographical and industry sector concentrations of financial assets and off- statement of financial position items are as follows:

	<i>2015</i>		<i>2014</i>	
	<i>Financial assets</i>	<i>Off- statement of financial position items</i>	<i>Financial assets</i>	<i>Off- statement of financial position items</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Geographic region:				
Kuwait	594,384	34,693	448,662	14,717
Other Middle East	112,944	-	80,550	-
Rest of the world	27,652	-	29,536	-
	734,980	34,693	558,748	14,717
Industry sector:				
Banks and financial institutions	161,414	-	147,938	-
Construction and real estate	252,249	13,509	170,098	10,159
Trading and manufacturing	92,519	5,301	91,329	613
Other	228,798	15,883	149,383	3,945
	734,980	34,693	558,748	14,717

15. RISK MANAGEMENT (continued)**b) Credit risk (continued)*****Credit risk mitigation***

Credit risk mitigation techniques that the Bank is permitted to use are obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the Bank's management of risks to an exposure.

Credit quality of financial instruments

The Bank classifies the various credit risk exposure which are neither past due nor impaired into two categories of credit quality as under:

High quality: Credit exposures where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low-to-moderate. These include exposures to entities with financial strength and risk factors indicative of capacity to repay all contractual obligations, and those exposures that are significantly collateralized with tangible securities.

Standard quality: All other exposures whose payment performance is fully compliant with contractual conditions and which are not impaired.

The table below shows the credit quality of assets by class and grade before deducting the provision for impairment.

	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total KD'000</i>
	<i>High quality KD'000</i>	<i>Standard quality KD'000</i>	<i>KD'000</i>	
2015				
Balances with banks	2,840	-	-	2,840
Placements with banks	133,355	-	-	133,355
Financing receivables	360,784	175,750	15,707	552,241
Available-for-sale investments (investment in sukuk)	51,283	-	-	51,283
Other assets	3,424	284	-	3,708
	<u>551,686</u>	<u>176,034</u>	<u>15,707</u>	<u>743,427</u>
2014				
Balances with banks	4,282	-	-	4,282
Placements with banks	122,590	-	-	122,590
Financing receivables	273,094	117,005	3,573	393,672
Available-for-sale investments (investment in sukuk)	41,926	-	-	41,926
Other assets	1,791	-	-	1,791
	<u>443,683</u>	<u>117,005</u>	<u>3,573</u>	<u>564,261</u>

c) Liquidity risk

Liquidity risk is the risk that the Bank may be unable to meet its obligations associated with its financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades or market perception, which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of High Quality Liquid Assets (HQLA) which could be used to secure additional funding if and when required.

15. RISK MANAGEMENT (continued)**c) Liquidity risk (continued)*****Liquidity risk management***

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Risk Management Group (RMG) and Treasury monitor Bank's liquidity profile daily and take appropriate steps, if required. Bank's liquidity profile is monitored on daily basis; overall assets and liabilities as well as for KD and foreign currencies (FCY), on Bank's position in terms of Statutory Liquidity Ratio (SLR) as well as Lending to Deposit Ratio (LDR) and Liquidity Coverage Rate (LCR). Treasury co-ordinates with all business groups, details of projected cash flows required or arising from potential ensuing business opportunities.

Treasury is required to maintain a portfolio of short-term liquid assets, largely made up of short-term high-quality liquid investment securities and availability of inter-bank lines at short notice, to ensure that sufficient liquidity is maintained with the Bank. Treasury's liquidity management is performed with most optimization, taking into account the maturity gaps. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the mild and more severe market conditions. All liquidity policies are subject to review by the ALCO and approved by the BRC. Periodic liquidity profile report, including any exceptions and remedial action required/taken, is reviewed by the ALCO. The Bank is governed by the liquidity limits and maturity ladder profile as mandated by the CBK regulations and the CBK approved limits.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The maturity profile of the assets and liabilities at the year-end are based on contractual repayment arrangement with the exception of some investments which are bucketed as per the CBK criteria.

The maturity profile of assets and liabilities as at 31 December is as follows:

2015	<i>Within 3 months KD'000</i>	<i>3 to 6 months KD'000</i>	<i>6 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
Assets					
Cash and balances with banks	3,845	-	-	-	3,845
Placements with banks	128,353	5,002	-	-	133,355
Financing receivables	237,165	112,988	66,151	127,490	543,794
Available-for-sale investments	4,352	766	2,476	61,067	68,661
Investment properties	-	-	-	15,127	15,127
Other assets	1,617	183	154	2,995	4,949
Property and equipment	-	-	-	6,376	6,376
	375,332	118,939	68,781	213,055	776,107
Liabilities					
Due to banks and other financial institutions	156,723	45,328	21,588	20,694	244,333
Depositors' accounts	241,220	121,533	70,712	-	433,465
Other liabilities	5,158	-	-	871	6,029
	403,101	166,861	92,300	21,565	683,827

15. RISK MANAGEMENT (continued)**c) Liquidity risk (continued)**

2014	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Assets					
Cash and balances with banks	6,098	-	-	-	6,098
Placements with banks	85,770	3,005	33,815	-	122,590
Financing receivables	225,558	78,101	26,139	58,361	388,159
Available-for-sale investments	-	534	2,993	49,473	53,000
Investment properties	-	-	-	15,340	15,340
Other assets	543	96	-	2,444	3,083
Property and equipment	-	-	-	6,535	6,535
	<u>317,969</u>	<u>81,736</u>	<u>62,947</u>	<u>132,153</u>	<u>594,805</u>
Liabilities					
Due to banks and other financial institutions	45,726	36,685	20,310	50,365	153,086
Depositors' accounts	107,124	194,239	44,729	-	346,092
Other liabilities	3,146	-	-	616	3,762
	<u>155,996</u>	<u>230,924</u>	<u>65,039</u>	<u>50,981</u>	<u>502,940</u>

The table below summarizes the maturity profile of the Bank's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
2015					
Due to banks and other financial institutions	156,714	45,556	21,851	21,480	245,601
Depositors' accounts	241,613	122,055	71,115	-	434,783
Other liabilities	5,158	-	-	871	6,029
	<u>403,485</u>	<u>167,611</u>	<u>92,966</u>	<u>22,351</u>	<u>686,413</u>
2014					
Due to banks and other financial institutions	45,657	36,912	20,554	51,807	154,930
Depositors' accounts	107,294	195,510	45,310	-	348,114
Other liabilities	3,146	-	-	616	3,762
	<u>156,097</u>	<u>232,422</u>	<u>65,864</u>	<u>52,423</u>	<u>506,806</u>

15. RISK MANAGEMENT (continued)**c) Liquidity risk (continued)**

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

	<i>Within 3 months KD'000</i>	<i>3 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
2015				
Acceptances and letters of credit	6,857	3,844	339	11,040
Letter of guarantees	3,719	9,876	10,232	23,827
Capital commitments	-	575	-	575
	<u>10,576</u>	<u>14,295</u>	<u>10,571</u>	<u>35,442</u>
	<i>Within 3 months KD'000</i>	<i>3 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
2014				
Acceptances and letters of credit	505	551	979	2,035
Letter of guarantees	85	4,316	8,355	12,756
Capital commitments	-	461	-	461
	<u>590</u>	<u>5,328</u>	<u>9,334</u>	<u>15,252</u>

d) Market risk

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates due to changes in market prices. Market risk may arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

Market risk management

Overall supervision authority for market risk is vested in the ALCO function. The Risk Management Group is responsible for development of detailed Market Risk management policies and for the periodic review of their implementation, while it is the responsibility of Investment and Treasury functions to proactively manage and control market risk generated from various market positions in investments, financial instruments and market as well as over-the-counter deals.

The Bank uses market practice for the valuation of its positions and receives regular market information in order to regulate market risk.

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that bank does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits;
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions; and
- Risk review of all investment proposals from the perspective of country risk, macro-economic risk, currency risk in addition to credit risk of the instrument and/or the issuer.

15. RISK MANAGEMENT (continued)**d) Market risk**

The policies and procedures and the trading limits are set to ensure the implementation of the Bank's market risk appetite. These are reviewed periodically to ensure they remain in line with the Bank's Market Risk Management policy. The Bank ensures that the market risk management process is adequately and appropriately staffed. In addition to its internal procedures and systems, the Bank is required to comply with the guidelines and regulations of the Central Bank of Kuwait.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair value of the underlying financial instruments. Bank is susceptible to profit rate risk as Bank's fixed income investments are inversely proportional to rising rates. Moreover, change in profit rates might also impact Bank's net earnings or earnings spread.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is susceptible to currency risk as the Bank's base currency is KD and all foreign currencies are revalued against KD based on international financial reporting standards. Any long or short open position in any currency exposes the Bank to currency risk.

Currency risk is managed on the basis of limits determined by the CBK and a continuous assessment of the Bank's open positions and current and expected exchange rate movements.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the KD, with all other variables held constant on the result and the fair value reserve (due to the change in fair value of available-for-sale investments).

Currency	2015			2014		
	Change in currency rate	Effect on result	Effect on fair value reserve	Change in currency rate	Effect on result	Effect on fair value reserve
	%	KD 000's	KD 000's	%	KD 000's	KD 000's
USD	+1	(79)	107	+1	(36)	42
SAR	+1	(24)	20	+1	(26)	24
GBP	+1	-	-	+1	(6)	-

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of change in the levels of equity prices and/or indices and the value of individual stocks.

The Bank conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major change in fair value of equity instruments. For such investments classified as available-for-sale, a five percent increase in stock prices as at 31 December 2015 would have increased equity by KD 45 thousand (31 December 2014: KD 7 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.

15. RISK MANAGEMENT (continued)

e) Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate financial exposures when profit rates fall. Due to the contractual terms of its Islamic products, the Bank is not significantly exposed to prepayment risk.

f) 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 have legal or regulatory implications, or lead to a financial or reputational loss.

Management of operational risk

The Bank has a set of policies approved by the Board and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Bank. Suitable operational risk procedures have been agreed with various Groups and Departments of the bank and implemented for effectively reporting, monitoring and controlling operational risks.

Operational risk is managed under the Risk Management Group. This Group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall prudent and robust risk management framework.

The Bank manages operational risks in line with the CBK instructions regarding "General Guidelines for Internal Control Systems" and directives regarding "Sound Practices for the Management and Control of Operational Risks".

The Bank has established its Business Continuity Management (BCM) policy to meet any internal or external failures and eventualities enabling smooth functioning of the Bank's operations.

The Bank has established a Disaster Recovery (DR) site for its IT infrastructure, and ensures that the operational risks from any potential disruption do not adversely impact the banking business. The Bank pays special attention to operational risks that may arise from non-compliance to Sharia'h principles and any possible failure in fiduciary responsibilities.

16. SEGMENT REPORTING

The Bank's operating segments are determined based on the reports reviewed by the decision makers that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operating segments meet the criteria for reportable segments and are as follows:

- **Corporate** - comprising of range of banking services and investment products to corporate customers, in addition to providing commodity and real estate Murabaha finance and Ijara facilities.
- **Retail** - comprising of a diversified range of products and services to individual customers. The range includes consumer finance, credit cards, deposits and other branch related services.
- **Treasury** – comprising of Bank's funding operations management, local and international Murabaha and other Islamic financing primarily with banks and financial institutions.
- **Investment** - comprising of investment in direct equity, real estate investment and other investments.
- **Other** – comprising of cost center assets and expenses.

16. SEGMENT REPORTING (continued)

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

The following table presents operating income, results for the year and total assets information regarding the Bank's reportable segments.

	<i>Corporate KD'000</i>	<i>Retail KD'000</i>	<i>Treasury KD'000</i>	<i>Investment KD'000</i>	<i>Other KD'000</i>	<i>Total KD'000</i>
2015						
Segment operating income	<u>10,214</u>	<u>3,616</u>	<u>1,023</u>	<u>3,226</u>	<u>-</u>	<u>18,079</u>
Segment result	<u>7,147</u>	<u>(1,672)</u>	<u>877</u>	<u>2,970</u>	<u>(8,322)</u>	<u>1,000</u>
Segment assets	<u>416,337</u>	<u>127,458</u>	<u>151,187</u>	<u>65,956</u>	<u>15,169</u>	<u>776,107</u>
	<i>Corporate KD'000</i>	<i>Retail KD'000</i>	<i>Treasury KD'000</i>	<i>Investment KD'000</i>	<i>Other KD'000</i>	<i>Total KD'000</i>
2014						
Segment operating income	<u>7,771</u>	<u>2,164</u>	<u>494</u>	<u>3,124</u>	<u>-</u>	<u>13,553</u>
Segment result	<u>6,102</u>	<u>(2,206)</u>	<u>373</u>	<u>2,702</u>	<u>(6,856)</u>	<u>115</u>
Segment assets	<u>318,783</u>	<u>69,376</u>	<u>142,805</u>	<u>48,124</u>	<u>15,717</u>	<u>594,805</u>

17. CAPITAL MANAGEMENT

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may review the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

A key Bank objective is to maximize shareholders value with optimal levels of risk and to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management and governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK. The Bank's regulatory capital and capital adequacy ratios are shown as below:

17. CAPITAL MANAGEMENT (continued)

The Bank follows Basel III regulations and the Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2015 are calculated in accordance with CBK circular number 2/RB/ RBA/336/2014 dated 24 June 2014 are shown below:

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Risk weighted assets	<u>370,321</u>	<u>308,712</u>
Capital required	<u>46,290</u>	<u>37,045</u>
Capital available		
Common equity Tier 1 "CET1" capital	<u>92,280</u>	<u>91,865</u>
Total Tier 1 capital	<u>92,280</u>	<u>91,865</u>
Total Tier 2 capital	<u>4,273</u>	<u>3,578</u>
Total capital	<u>96,553</u>	<u>95,443</u>
CET1 capital adequacy ratio	24.92%	29.76%
Total Tier 1 capital adequacy ratio	24.92%	29.76%
Total capital adequacy ratio	26.07%	30.92%

The disclosure relating to the capital adequacy regulations issued by the CBK as stipulated in CBK circular number 2/RB/RBA/336/2014 dated 24 June 2014 are included under the 'Risk Management' section in the annual report.

The Bank's financial leverage ratio for the year ended 31 December 2015 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 and is shown below:

	<i>2015</i> <i>KD'000</i>	<i>2014</i> <i>KD'000</i>
Tier 1 capital	<u>92,280</u>	<u>91,865</u>
Total exposure	<u>796,866</u>	<u>606,359</u>
Financial leverage ratio	11.58%	15.15%

18. FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Bank's assets.

Quantitative disclosures of fair value measurement hierarchy for assets as at 31 December:

		<i>Fair value measurement</i>			
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
2015	<i>Date of valuation</i>	<i>Total KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Assets measured at fair value</i>					
Financial assets available-for-sale					
Sukuk		51,283	51,283	-	-
- Government Sukuk	31 December 2015	31,387	31,387	-	-
- Corporate Sukuk	31 December 2015	19,896	19,896	-	-
Quoted equity security	31 December 2015	896	896	-	-
<i>Assets measured at cost while fair value is disclosed</i>					
Investment properties		15,916	-	-	15,916
- Kuwait	31 December 2015	10,450	-	-	10,450
- Other Middle East	31 December 2015	5,466	-	-	5,466
		<i>Fair value measurement</i>			
		<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>	
2014	<i>Date of valuation</i>	<i>Total KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Assets measured at fair value</i>					
Financial assets available-for-sale					
Sukuk		41,926	41,926	-	-
- Government Sukuk	31 December 2014	32,505	32,505	-	-
- Corporate Sukuk	31 December 2014	9,421	9,421	-	-
Quoted equity security	31 December 2014	131	131	-	-
<i>Assets measured at cost while fair value is disclosed</i>					
Investment properties		15,836	-	-	15,836
- Kuwait	31 December 2014	10,571	-	-	10,571
- Other Middle East	31 December 2014	5,265	-	-	5,265

During the years ended 31 December 2015 and 2014, there were no transfer between Level 1, Level 2 and Level 3.

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 statement of financial position or statement of income.