



بنك وربة
WARBA BANK
نتميز بالحلول

ANNUAL REPORT
2016

{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% (two hundred and forty million shares) of the Bank's total shares. Warba Bank's overarching objective is to be a world-class Bank, especially in terms of Islamic banking. It offers full-fledged and integrated range of banking & investment services in compliance with the principles of the Islamic Sharia. Warba seeks to grow and expand by means of 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:

10 branches, **14** 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 - infront of Sama Mall
Mubarak Al-Abdullah	West Mishref - Pifss Bulding

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. On behalf of my colleagues in the Board of Directors, the executive management and myself, I am pleased to present to you Warba Bank's Sixth Annual Report. Through this report, we share with you the Bank's operating results and its audited financial statements for the year ended 31 December 2016 as well as the key activities and achievements realized at all sectors last year.

I am pleased to assure you that 2016 witnessed strategic transformation in the Bank's performance with numerous success stories. These achievements significantly contributed in enhancing the Bank's presence in the Islamic banking industry. The Bank has added clear-cut contributions of growth and development by launching a variety of banking solutions tailored to suit customers' needs seeking high quality services.

With regard to the financial performance in 2016, thanks and grace to Allah, then to the outstanding efforts of the Bank's staff, the Bank was able to recognize net profits of KD 2.6 million compared to KD 1 million at the end of 2015, at growth rate of 160%. The Bank's assets grew at 45% to KD 1.127 billion compared to KD 776 million as at 31 December 2015, due to the balanced risk strategy, which helped achieving such sustainable growth in the Bank's financing and investment portfolios while maintaining the Bank's high quality assets. The Bank's financing portfolio grew by 52% reaching KD 828 million compared to KD 544 million at 31/12/2015.

The Bank's excellent financial performance in 2016 was a commendable result of the its Medium-Term Strategy (2015-2017) built on a set of objectives that take into account the evolving economic and legislative variables and circumstances affecting the global economy, particularly in GCC region in light of oil prices instability. However, the economic outlook in Kuwait is very optimistic due to good operational environment, which is currently supportive of Kuwaiti banks and due to continued government spending as well as the large reserves, coupled with the low borrowing and debt levels that lead towards growth of the non-oil economy.

The 2015-2017 Plan has proven the Bank's solid infrastructure and its competitive capabilities. It also enhanced the Bank's position in the domestic Islamic banking industry. This makes us more confident and determined to achieve greater objectives in the future, motivates us for exerting more efforts towards enabling Warba Bank to reach a distinctive standing through efforts and potentials of the people of our beloved country.

Based on success realized through this Strategy, the Bank is now cooperating with a global leading consulting firm, McKinsey & Company, to develop a five-year strategy (2017-2021), which will focus on developing the profitability growth of the Bank and transforming it into a banking institution that offers leading services to corporate while pursuing its success stories in the retail sector. The strategy will also include priorities that emphasize the Bank's objectives through providing top-in-class banking services to our customers and enhancing the Bank's digital infrastructure. The new strategy also aims at strengthening the

Bank's position, in particular, achieving customers' satisfaction at both corporate and retail sectors, and developing a competitive edge at investment banking in order to ensure the Bank's sustainable growth and profitability, given the growing economic challenges in Kuwait and the region.

With respect to the activities of Business groups, the Retail Banking Group seeks to expand the Bank's branch network geographically. At present, Warba Bank has ten branches across all governorates of Kuwait. These will contribute in promoting our efforts to meet customers' various needs. We take into account streamlining and accelerating the transactions through continued improvements of the digital channels and developing new products and services which is key priority in the new strategy.

With respect to the Corporate Banking Group, we are continually working in parallel with the Bank's strategy to diversify the financing portfolio through extending financing to all industrial, real estate, business, oil & gas, and contracting sectors, etc. with emphasis on small and medium enterprises.

Warba Bank is also keen on maintaining the quality of its assets by employing a part of these assets in a diversified investments portfolio that includes Sukuk investment and seizing low-risk viable financing and investment opportunities locally and internationally to yield high returns. These initiatives will support the Bank's future growth, enhance its competitiveness and strengthen its market share in the Islamic banking industry, which has been lately witnessed increasing demand and strong competition.

In this context, I would like to praise the various Bank groups for their effective and positive roles and contributions as well as our people who constitute our most valuable asset and communication front with all Bank's customers including retail, corporate, enterprises, agencies, organizations, merchants, SMEs entrepreneurs thus encouraging, supporting and gaining their confidence.

I also would like to highlight that the Bank is in the process of enhancing its capital base in order to keep abreast with growth and expansion by issuing Sukuk of USD 250 million to investors in Kuwait and global financial markets. The Bank secured the approval of Central Bank of Kuwait, Capital Markets Authority and the Ordinary General Meeting of the Bank's shareholders authorizing the Board of Directors to issue Sukuk and other financing instruments in compliance with rules of Islamic Sharia and Capital Adequacy requirements at Islamic banks (Basel III) along with strict compliance with applicable laws and relevant ministerial resolutions.

The Bank received many awards in 2016 enhancing its position amongst Islamic banks. Warba was nominated 'Best Investment Bank in Kuwait', 'Best Corporate Advisory in Kuwait', 'Fastest Growing Bank in the GCC and MENA in 2016' and 'Fastest Growing Bank in Kuwait in 2016' by Banker Middle East Magazine. Warba was also awarded '2016 Best Company in the Arab World' by Forbes Middle East. These awards were extended to the Bank in recognition of its excellence in Islamic banking industry despite its relatively few years of operations, for achieving outstanding results as reflected in the financial statements and other key performance indicators, fast service delivery at all levels, and qualitative performance in financing and innovative services.

In 2016, Moody's Investors Services reaffirmed the first credit rating by assigning Baa2/Prim-2 to the Bank given in 2015 for deposits in local and foreign currency with a stable outlook. We are proud of this achievement that reflects the Bank's promising future.

In addition, the Bank was assigned long-term Issuer Default Ratings (IDR A+) rating by Fitch Agency, which later reaffirmed the rating. Fitch based its opinion on the fact that the Bank has self-capability of sound risk management, strong capital ratios and high coverage ratios supported by strict regulatory oversight and strong capitalization ratios. In addition, the Bank maintains sound quality assets with low rate of non-performing financings and high reserve coverage.

As for Corporate Social Responsibility, Warba Bank made significant contributions towards supporting different sectors of the society including education, health and culture stemming from the Bank's social role. The Bank extends every possible effort to develop the society, enhance the potential of its people and promote Kuwait's image regionally. In the course of cultural support, the Bank organized and sponsored a number of events, notably: the sponsorship of Kuwait- the Capital of Islamic Culture Festival, held at Jumeirah Hotel, the activities of the Accounting Club at The Gulf University, and organizing a seminar about the Bank's products and Islamic Banking held at Durrat Al-Hashmiya School. For health care, the Bank organized the "Move" campaign during last Ramadan at Mishref Walkway and sponsored Flair Health Club "Move for a Goal" Campaign, as well as sponsoring the Children Summer Club at the Avenues and other similar activities.

I would like to seize this opportunity for myself, and on behalf of my colleagues, the members of the board of directors, to extend gratitude to His Highness the Amir of the State of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince Sheikh Nawwaf Al-Ahmad Al-Jaber Al-Sabah and His Highness the Prime Minister Sheikh Jabber Al-Mubarak Al-Hamad Al-Sabah for their continued support to the banking sector in Kuwait. Further, I would like to praise the remarkable efforts of the regulators and relevant government bodies, e.g. the Central Bank of Kuwait, Capital Markets Authority, Boursa Kuwait, Ministry of Commerce and Industry, and Kuwait Investment Authority for their effective and positive role in supporting the Bank.

Finally, I would like to express appreciation to the members of the Board of directors for their diligent efforts and constructive contributions. In recognition of their efforts, total remunerations of KD 60 thousand have been allocated to the directors for the fiscal year ended 31 December 2016. I also extend thanks to all our customers and shareholders for the trust they placed in our Bank whose achievements and contributions are source of pride for all of us. We promise to continue meeting their expectations and aspirations. I also extend thanks to the honorable Chairman and members of Bank's Islamic Sharia Supervisory Board, the executive management and all employees for their full dedication, commitment and loyalty towards developing the Bank and the services it offers.

"May Allah, the Almighty, blesses and guides our efforts towards success!"



Abdulwahab A. Al-Houti
Chairman

BOARD OF DIRECTORS



Basel Ahmed AlHaroun
Vice Chairman



Abdulwahab A. Al Houti
Chairman



Abdulaziz A. Al Jaber
Board Member



Sami Fahad AlRushaid
Board Member



Ahmed Abdulaziz AlGhannam
Board Member



Dr. Mahmoud A. Abdulrahman
Board Member



Mohamed R. Al Mutawa
Board Member



Mohamed A. Saleem
Board Member



Hisham A. Al Rezouqi
Board Member



Hani A. Al Terkait
Board Member

EXECUTIVE MANAGEMENT



Shaheen H. Al-Ghanem
Chief Executive Officer



Feroz Noorani
Chief Risk Officer



Simon L. Clements
Chief Operations Officer and Acting
Chief Retail Banking Officer



Basel J. Al-Obeid
Chief Corporate Banking Officer



Essam Al shaya
Chief Human Resources &
General Services Officer



Haytham A. Al Terkait
Chief Information Technology Officer



Khaled H. Hafez
Chief Financial Officer



Mohamed Iqbal
Treasurer



Mohamed El Shareef
Chief Strategic Planning Officer



Mahmoud M. Yousef
Chief Internal Auditor

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

Report of Fatwa and Sharia Supervisory Board For the fiscal year ending on 31 December 2016

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 & 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 31/12/2016. 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.

Our conducted reasonable control and 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 31/12/2016, 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 of FSSB



Sheikh Dr. Issa Zaki Issa
Chairman of FSSB



Sheikh Dr. Issam Khalaf Al-Enezi
Member & Rapporteur of FSSB

MANAGEMENT DISCUSSION and ANALYSIS REPORT

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INTRODUCTION

Warba Bank, since inception has taken strides in applying sound practices of Risk, Governance and Controls through the development and roll-out of comprehensive frameworks for Corporate Governance, Risk Management and Compliance standards, in conformity with the regulatory requirements and incorporating 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 Risk Management and Internal Controls framework with a view to safeguard the shareholders' equity and the depositors' trust.

Corporate Governance best practices are at the core of Warba Bank mission with the prime responsibility vested at level of the Board of Directors' for an effective oversight of all risks that impact the Bank's activities. Board Committees set-up specifically for Risk, Governance and Audit assist the Board of Directors in discharging its responsibility. Assessment by external rating agencies, Moody's and Fitch have both recognized the robust risk and controls framework within the Bank as a positive factor.

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 independently of all business lines to provide oversight on an 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 performance and position, 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 macro-economic and/or business environment risks.

RETAIL BANKING GROUP

During 2016 the demand for Sharia compliant financial services was growing at a faster pace than the demand for conventional banking services. Whilst this is a positive trend for Islamic banks, the market remained an increasingly competitive and challenging environment. Nevertheless, during the year, the group has been able to significantly grow the customer base which in turn has created opportunities for upselling and cross selling and consequent revenue generation.

The group operates 10 branches with an additional three new branches to be opened shortly. This relatively small branch network is complemented by a strong direct sales force. The sales effort is supported by an attractive incentive scheme linked to the group's balanced scorecard. As a consequence, there has been a strong sales performance throughout the year.

We are striving to make dealing with Warba Bank both easy and convenient. To this end, we have launched a number of initiatives during the year on our on-line and mobile channels. Under the banner of "Express Services" we have introduced easy to use account opening, finance applications, bill payment and easy local and international transfers. We were the first bank to leverage the digital signature infrastructure launched by the Kuwait Government in the latter part of the year. As we have continued to provide increasing convenience and availability we have seen a strong migration of transactions away from the branch to the alternative channels.

Our deposit growth has been supported with new product launches. Of particular note was the launch of a draw account " Sanbula" which provides the customer with an attractive profit rate as well as the opportunity to win monthly cash prizes. In addition to this a new tiered savings account has also been well received.

The consumer finance portfolio has shown significant growth. Of particular note, has been our progress in the auto finance market. Forming alliances with the major auto dealers we have been able to bring innovative offerings to the market that have driven an increasing volume of sales throughout the year. In addition, our traditional consumer financing activities have been expanded through alliances with major players in both the medical and educational sectors. We are providing attractive financing for customers availing of the services provided by these sectors.

Customer service levels have been an area of continued focus for the group. Our key segment "Al Safwa" now offers a relationship manager for every client ensuring that they receive the highest levels of service at all times. Independent surveys and reviews confirm we have made strong progress in the last 12 months with our service quality levels amongst the best in the market.

The group continues to invest in technology to drive customer convenience and to reduce the cost to serve. The adoption of Virtual Branch technology is part of this strategy. This approach provides an attractive customer interface and video links to the call center to guide the customer through any transaction. This technology will allow the group to reduce costs in the future whilst also supporting the move towards smaller branch footprints.

CORPORATE BANKING GROUP

Corporate Banking Group "CBG" focusses in providing credit services to Warba Bank corporate and individual customers. Therefore, 2016 witnessed remarkable expansion across vital sectors affecting the domestic market.

The expansion process encompassed another area of development in terms of quantity and quality while keeping pace with the growth of the financing portfolio. CBG succeeded in attracting significant non-cash operational transactions compared to previous years while maintaining low risk levels resulting in a positive impact that was clearly reflected in revenue increase from those products.

In addition, CBG succeeded during 2016 in enhancing the principle of diversification by focusing on sectors with an added - value to the domestic economy such as the sectors of construction and development projects.

Despite the infancy of Warba Bank, its recent entry into the market and the relatively small size compared to its competitors, CBG managed during that period to get into the market and act as strong competitor thanks to service excellence and professional service delivery by a team of national experienced cadre demonstrating outstanding performance.

CBG succeeded in making the difficult balance of achieving thoughtful expansion while maintaining the highest quality of credit portfolio, mitigating risks and at the same time, it succeeded in achieving growth of the credit portfolio by 53% in 2016. This is another aspect of success that places our credit portfolio at equal feet with the highest quality and most regular credit portfolios in addition to the increase in new customers' segment.

As for services development during 2016, CBG developed a number of services including upgrade of corporate website where customers can now request opening letters of credits and guarantees online. CBG endeavors to introduce more services online to provide more ease and speed to our customers. A new product has also been provided for corporate customers named "Call Account," offering a set of benefits to institutions and companies as they can invest the funds deposited in the account on Wakala investment basis and the profits is credited to the account quarterly. Near the end of 2016, CBG managed to crown its achievements in the field of product development by introducing a new product for financing cash needs under the products designed for financing working capital.

It should be noted that recent entry of CBG into the market gives it various expansion opportunities to get engaged in more financing areas. During 2016, CBG embarked a thoughtful study for a number of sectors in line with balanced strategies approved by the Board of Directors to be implemented in the coming years. CBG has already prepared the infrastructure to go ahead in implementing those goals in due time.

INVESTMENT BANKING GROUP

The Group invests globally across multiple asset classes and a diversified set of sectors. The bank's investment activities was geared to enhance the quality of its assets whilst maintaining a healthy risk adjusted return from its investment portfolio. In 2016, the Investment Banking Group (IBG) witnessed significant growth and achievements through its various business activities in structured finance, syndications, fixed income securities, funds, and international real estate. These businesses have continued to grow in the challenging market conditions of recent years, highlighting the diversity of the Group's business offering and its ability to adapt to changing conditions.

The Group's Debt Capital Markets origination activities focused on the debt capital-raising needs of its institutional clients, from inaugural Sukuk issuances and exchanges to cross-border transactions

and groundbreaking landmark structures. On account of its aspiration for providing innovative financial solutions, the Group endeavors to make Warba Bank the bank of choice for local and regional issuers for clients' underwriting needs. 2016 proved to be another of whereby the Bank showcased its resilience by successfully executing transactions in challenging market conditions. The Group's structuring and execution expertise has established Warba Bank as a major player in the Debt capital markets and has distinguished the Bank as a best choice for Islamic debt underwriting, with excellence across several markets and currencies.

In 2016, the Group made a concerted effort to lead transactions regionally and globally and was successful in securing multiple mandated lead arranger and book runner roles most notable amongst them included:

- Debut sukuk issuance for supranational and the private sector focused arm of Islamic Development Bank (IDB). The US\$300 million Debut issuance was listed on the London Stock Exchange (LSE). Warba Bank was appointed as Joint Lead Manager and Book runner on the deal.
- US\$ 230 million Syndicated Facility for Ajman Bank wherein Warba Bank acted as the mandated lead Arranger on the Facility along with five other large regional banks. This is the second Syndicated Facility for Ajman Bank that Warba lead arranged and participated and as well as proving its commitment to developing relationship with the regional growing financial institutions.
- US\$ 500 million issuance for the Turkish Islamic bank, Kuveyt Turk Participation Bank. Warba Bank acted as the Co-lead Arranger in the issuance which was particularly well-received, attracting more than US\$2 billion of orders.
- the groundbreaking syndicated Shariah-compliant construction facility in New York City totaling US\$219 million for the development of a luxury residential tower in Manhattan – Tribeca Condominium Tower. Warba Bank had the honor of being one of only two appointed Joint Lead Managers and Book runners, together with Maybank for the syndication, which includes funders Intesa Sanpaolo of Italy and an affiliate of MSD Partners, L.P. of the United States. The financing comprises a US\$174 million senior construction Facility and a US\$45 million mezzanine tranche.
- KWD 1.2 billion Syndicated Facility for Kuwait National Petroleum Company. Warba Bank, in its capacity as Arranger, was part of an eleven-bank consortium that successfully arranged the landmark facility. The proceeds of the Facility is used to fund KNPC's clean fuel project.
- Warba Bank, jointly with three other reputable banks, were appointed "Initial Mandated Lead Arrangers and Bookrunner to arrange a one year Syndicated Murabaha Dual Currency (USD/Euro) Facility of US\$75 million launch amount for Ziraat Participation Bank, Turkey's first state-owned participation bank. Exceeding all expectations on the funding size as a result of popular demand for the Facility, Warba Bank successfully closed US\$155 million equivalent Syndicated Murabaha Financing Facility.

The Group in line with Warba Bank's strategy of capturing attractive sharia compliant investment opportunities invested USD 25 million with ATEL Capital Group; the transaction involved acquisition of equipment leasing portfolio managed by ATEL, an independent equipment lessor based in the United States of America. The fund consisted of high quality diversified portfolio of leases on long-life, low-obsolete, business essential equipment to investment grade companies. Moreover, Warba Bank structured and arranged an innovative Shariah compliant subordinated Structured Note backed by Operating Lease for one (1) Vintage 2013 Airbus A380-800 For Emirates Airlines. The circa US\$ 14 million Note combines the periodical returns of mezzanine financing as well as the upside of an equity investment.

As it relates to the Groups trading activities, adopting an expansionary but cautious approach, the Group was able to grow the Bank's fixed income (sukuk) portfolio by 34 per cent in 2016 compared to 2015 through its trading activity in both primary and secondary sukuk markets.

Despite challenging market conditions regionally with the decline in oil prices and volatility in the global financial markets, the Group demonstrated its keen ability to adapt to prevailing markets conditions by exhibiting continued growth in the group's structured finance and syndications book with a growth of 90% as compared to year end 2015.

The Investment Banking Group team has a unique combination of investment, financing and portfolio management skills with a proven ability to originate, execute and manage financing and investment transactions locally, regionally and globally. Building on its past success and in view of diversifying the bank's asset base and income sources, the Investment Banking Group will continue to focus on growing the bank's propriety investment book through investments across multiple asset classes, sectors and geographic jurisdictions, and provide the bank's corporate clients with comprehensive financing solutions and access to the international syndicated financing and debt capital markets.

2016 HIGHLIGHTS

The Banker Middle East named Warba Bank the Best Investment Bank in Kuwait for the second consecutive year and Best Corporate Advisory, essentially recognizing the bank's local and regional connectivity and the value it is creating through the execution of a client-focused strategy.

TREASURY GROUP

In 2016 Treasury continued to grow on its foundations. Activities increased across all key business lines resulting in the generation of higher income to the Bank. Treasury also saw increased activity in the money and foreign exchange markets as it strived to better service its customers and the Bank.

Core to the Group's responsibilities was the active management of the Bank's liquidity and market risk, ensuring that the Bank operated within the internal and regulatory limits at all times.

Marketing activities were heightened with the aim of establishing new relationships and servicing existing ones with local and foreign financial institutions and government and quasi government and corporate institutions.

Treasury strives to maintain the highest standard of professionalism and service. It is staffed by professional and competent staff and leverages off state of the art information technology platforms to be plugged in to the markets globally on a real-time basis.

For 2017 the Group will continue to expand on its range of products and services and reach deeper into the market place to service its niche includes untapped market segments. Although global growth is expected to continue facing headwinds with market volatility and uncertainty the new normal, Treasury is positioned to continue serving the best interests of all its stakeholders'

OPERATIONS GROUP

Following on from 2015, the Group has continued an extensive cross training program to build a multi-skilled and flexible work force. This along with a focus on process improvement has enabled the Group to handle the large volume increases in 2016 with minimal increases in resources. Productivity levels have increased significantly resulting in lower processing costs per transaction. Improving the payment process has been a particular focus during the year. This has resulted in greater straight through processing of local and international payments and has minimized the potential for errors whilst increasing the processing capacity. This capability has attracted several new customers to transfer their payment business to the Bank.

The Group continues to consistently exceeded the agreed service levels with all lines of business,

in terms of volumes and processing times. The Group's performance is measured against agreed SLAs every quarter.

In the last quarter of the year, the Group successfully migrated to a new credit card processing platform. This major project was completed on time and within the project budget. The new platform provides enhanced features across the sales and service channels and positions the Bank well to grow the credit card business on a robust and highly functional platform in the years ahead.

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 2016, which enhanced Warba Bank's online and communication channels with the customers to provide new, improved and innovative services. Throughout the year, ITG has worked diligently to instill a culture that encourages innovation with a view to deliver excellent internal and external customer experiences, helping the Bank differentiate in a highly competitive environment.

As for business continuity and support systems, ITG raised the efficiency of operational services by implementing a new, reliable and resilient infrastructure to support growing business needs and high availability requirements. ITG has also achieved high standards of business continuity and technical support in line with the Bank's overall strategic and operational objectives.

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 Bank 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 giving 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 percentage, reaching 68.41% while the percentage reached more than 77% of Kuwaiti nationals in Business Groups.

CORPORATE SOCIAL RESPONSIBILITY

On Social Responsibility, Warba Bank has left its mark in supporting the society according to creative plans in all fields, including education, health and culture. This reflects the Bank's social role of exerting

all possible efforts to improve the society, develop the capabilities of its components and elevate Kuwait's regional status.

In terms of cultural support, the Bank organized and sponsored a number of activities, most notably its sponsorship for the Kuwait Capital of Islamic Culture Exhibition which took place at the Jumeirah Hotel. It also sponsored activities held by the Accounting Club at the Gulf University for Science and Technology, and organized a seminar on its products and Islamic banking at the Durra Al-Hashimiya School.

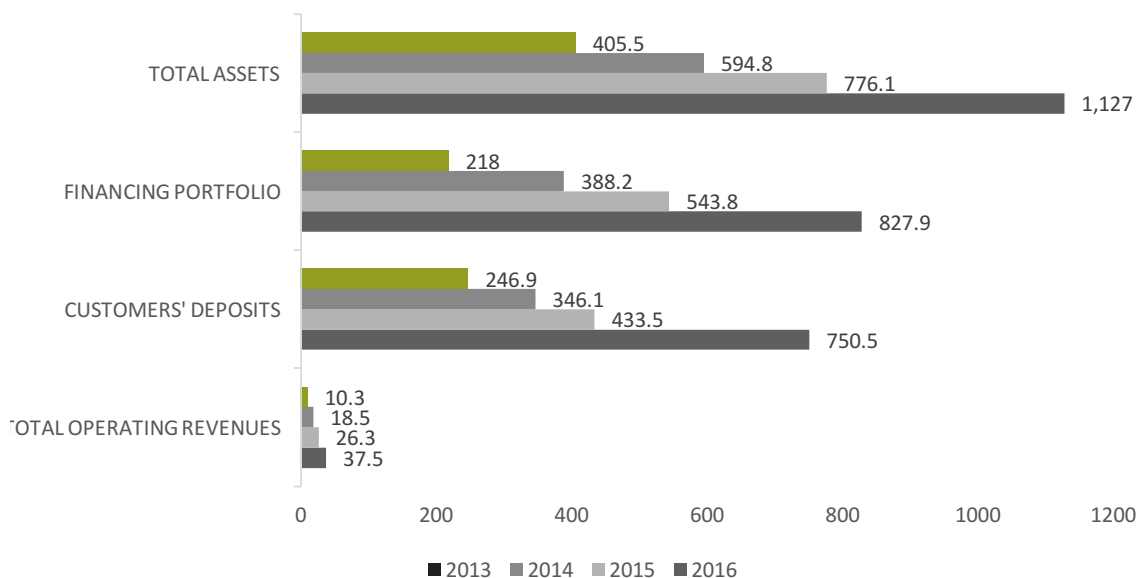
On health awareness, the Bank organized the 'Taharrak' (Move) campaign during the Holy month of Ramadan at the Mishref walkway, and sponsored a campaign organized by Flare Fitness. On health education, the Bank signed an agreement with Life Sciences Academy through which it finances expenses for health sector employees who are willing to enroll in training programs designed by the Academy.

The Bank also sponsored the Kids Summer Club at the Avenues, which was widely popular among visitors looking for an educational atmosphere for their children away from the summer's heat. In Ramadan, the Bank launched a TV commercial at the beginning of the holy month and was inspired by Arab scientists' achievements to go along with its 'Distinguished by Solutions slogan. The commercial was a hit among viewers, who praised its innovative and social message.

For the Bank's social commitment towards its employees, it continued its efforts from the beginning of the year to boost relations amongst workforce by organizing several social activities such as bowling competitions and other sporting events. The Bank also organized a first aid course for staff in coordination with the Life Sciences Academy. Furthermore, it trained staff on the latest developments in the Islamic banking industry, through training courses that boost their competency and improve the quality of customer service.

This year, the Bank also launched 'Rowad' program for its employees, which was designed to highlight and reward their innovations in creating banking services and products according to the Bank's vision and strategy.

KEY FINANCIAL RESULTS



Warba Bank realized total operating income of KD37.5 million for the year 2016 with a growth rate of 43%

compared to 2015, while the Bank's total assets grew by 45% as at the end of 2016, reaching KD1.127 billion. Meanwhile, customers' deposits reached KD750.5 million as at the end of 2016 at a growth rate of 73%. The Bank achieved profit of KD 2.6 million in 2016. Warba's Capital Adequacy Ratio reached 18.0% while the minimum requirement mandated by CBK is 13.0%. This reflects the Bank's robust and solid financial position and capacity to expand its assets base in future.

2017 FUTURE OUTLOOK OF THE BANK

Warba Bank has witnessed an outstanding operational performance in Kuwait over the last 2 years through introduction of new and innovative offerings, formation of unique strategic alliances, achievement of an industry-leading financial growth, receiving prestigious awards and accolades, or getting astounding credit ratings from the renowned global credit rating agencies.

Warba Bank has now embarked on a new journey for achieving even further success through development of a robust 5-year strategic plan for the 2017-2021 period. The plan is focused on setting the Bank firmly on a profitable growth path and transforming it into an Islamic Corporate & Investment Banking champion in Kuwait with a lean, efficient, and digitally enabled Retail Banking business.

The new aspiration is underpinned by a number of strategic priorities, including reinforcing the Bank's focus on outstanding customer service and experience and building distinctive digital capabilities, while continuing to grow in a capital efficient manner.

The Corporate Banking Group will expand its product portfolio with bespoke offerings for our target segment needs. The tailored solutions, flawless and quick execution and competitive and transparent pricing would lay foundation for an expansive proposition for our target corporate clients. The Bank would also focus on digitization of its corporate banking services.

The Investment Banking Group shall continue to build the strong execution track record with existing products along with a ramp-up in capabilities for new offerings around asset management and more sophisticated structured finance. The Bank shall pursue domestic and international opportunities that are aligned with its strategic objectives for the various asset classes. The Bank also plans to acquire a CMA license for asset management and investment advisory activities in 2017.

Based on the new strategy, the Retail Banking Group will improve its distribution model, with customer centricity and convenience as its centerpiece. This would offer an outstanding experience and industry leading response times with the digitization of the main customer journeys through a state of the art online and mobile banking platforms. This new and improved distribution model along with a range of differentiated products, competitive pricing, convenient services, and unique personalized benefits for the target customers would together create a very special value-proposition in the retail banking space in Kuwait.

In order to support the successful implementation of its new strategy, the Bank shall rigorously focus on a number of strategic priorities including cultural transformation, capabilities uplift, infrastructure build-up and operational excellence.

THE GOVERNANCE REPORT

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CORPORATE GOVERNANCE

INTRODUCTION

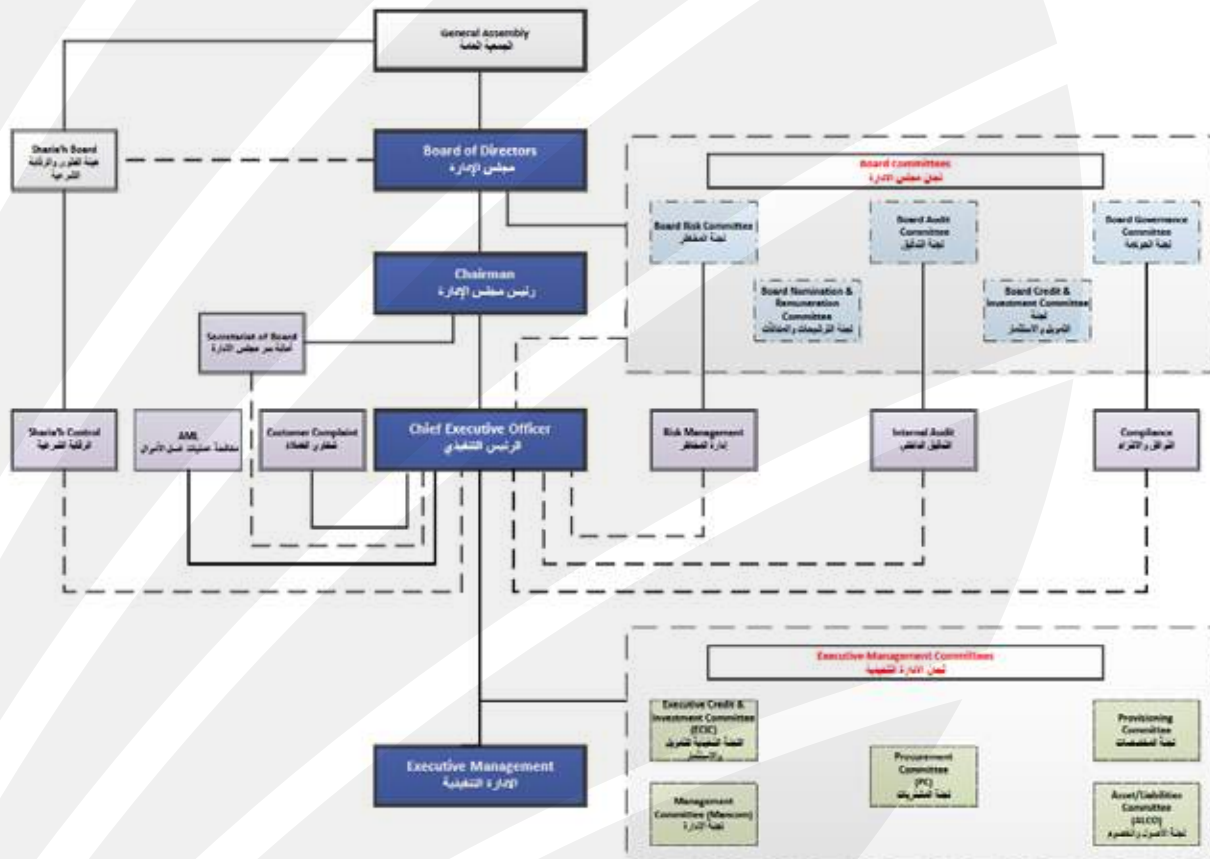
Warba Bank was established as a public shareholding company on 17/02/2010 by virtue of the Amiri Decree No. 289/2009. The Bank was officially registered in the Central Bank of Kuwait's Register for Islamic Banks on 07/04/2010 then listed in Kuwait Stock Exchange on 03/09/2013. The State of Kuwait, represented by Kuwait Investment Authority (KIA), owns 24% (two hundred and forty million shares) of the Bank's total shares.

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

Name	Shareholding percentage
Kuwait Investment Authority	24% Direct - 1% Indirect
The Public Institution for Social Security (PIFSS)	6.83% Indirect
Al Sayer Group Holding Company	7.098% Indirect

ORGANIZATIONAL STRUCTURE

The Bank's organizational structure has been designed in a way that takes into consideration maintaining transparency and clarity to facilitate decision – taking process, 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 focus 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 ensure putting them into practice in addition to approving the Corporate Governance Manual and uploading 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 also 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 annually reviewed for enhancement and amendment. The Board of Directors, in cooperation with the Executive Management, reviews the policies and regulatory controls on regular basis, including internal and supervisory functions, in order to identify and tackle weaknesses and risks 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 2016

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 2016, the Bank in coordination with specialized training and advisory bodies have conducted training program on anti-money laundering and terrorist financing.

BOARD MEMBERS FOR THE SECOND SESSION (2016 – 2018)

At the Ordinary General Assembly meeting held on 30 March 2016, a representative for Kuwait Investment Authority was appointed for the third session of the board, and nine members were elected.

BRIEFS ON BOARD MEMBERS

Mr. Abdulwahab Abdullah Al Houti - Chairman (elected)

Al Houti holds Bachelor Degree 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 then elected to be the Chairman of the Board of Directors in March 2016 till date. He is also the advisor to the Chairman of the International Islamic Charity Organization from 2009. He commenced his career as a teacher of commercial subjects at the Ministry of Education during the period from 1979 to 1983, then assumed the position of Department Director and Assistant Undersecretary in the Ministry of Awqaf and Islamic Affairs from 1983 to 1994. Al Houti became the Deputy Secretary-General of Waqfi Channels at the General Secretariat of Awqaf from 1994 until 2004. He has been a board member in a number of companies and banks, namely Boubyan Bank, Islamic Bank of Bangladesh, Capinvest Investment Bank and Real Estate Asset Management Company (REEM).

Mr. Basel Ahmed AlHaroun - Vice Chairman and CEO (elected)

Al -Haroun holds a Bachelor of Science in Business Administration from St. Augustine University in the United States in 1988 and Executive Master Degree in Business Administration from the American University of Beirut in 2008. He also had the Strategic Management Program from Harvard University in 2010. He has been Warba Bank's Vice Chairman of the Board of Directors since March 2016 to date. He gained banking experience from his career extending over 23 years at the Central Bank of Kuwait from 1989 to 2012 where he held several leading positions such as the Director of the Off- Site Supervision Department, Director of Foreign Operations Department and finally the Executive Director of Operations & Research Sector. Then in 2012, a Decree was issued for his appointment as a member of Kuwait Capital Markets Authority's Board of Commissioners and continued in this position till 2014.

Mr. Ahmed Abdulaziz AlGhannam - Board Member (elected)

Al-Ghannam holds a Bachelor of Business Administration from Grand View University in the United States of America in 1987. He has been a member of Warba Bank's Board of Directors since March 2016 to date. He began his career in the Commercial Bank of Kuwait in the Dealing Room & Credit Operations from 1987 to 1991. He then moved to AlGhanam Group of Companies where he served as the Deputy Executive Director from 1992 to 1999 then the Chief Executive Officer of the Group from 1999 to date. He has been a chairman and board member of many companies operating in educational and medical services, investment and trade sectors such as KIPCO Group Holding Company, Murabhat Investment Company, Gulf Land Holding Company, Sama Medical Services Company, Excellence Education Company for Educational Services, Dar Al-Arqam Educational Services Company, Eyas Educational Holding Company and Oula Fuel Marketing Company.

Mr. Sami Fahad Al-Rasheed - Board Member (elected)

Al-Rasheed holds a Bachelor of Industrial Engineering from Miami University in the United States of America in 1978. He has been a member of Warba Bank's Board of Directors since March 2016 to date. He is the founder and partner of GEMS Trading Group and the chairman of the Board of Directors of the Scientific Center. He has long experience in the oil sector gained throughout his career at Kuwait National Petroleum Company from 1975 to 2007 where he held several positions such as the Board Chairman and Managing Director in the last three years of his tenure at the Company. He then took over as a Board Chairman and Managing Director of Kuwait Oil Company from 2007 to 2013. He has been a board chairman and member of the board of directors in a

number of companies operating in the oil sector such as Kuwait Oil Company, Kuwait Petroleum Corporation and Kuwait National Petroleum Company.

Mr. Abdulaziz A. Al Jaber - Board Member (elected)

Al-Jaber holds Bachelor of Science in Electrical Engineering from Washington University in the United States of America in 1979. He has been a member of Warba Bank's Board of Directors since March 2016 to date. He began his career in Kuwait Oil Company from 1979 to 2004, where he held several positions including the Executive Assistant of the Managing Director for Administration Affairs. He then moved to Kuwait Petroleum Corporation in the position of the Executive Assistant for Privatization Affairs from 2004 to 2005. He joined Kuwait Finance House in 2005 as Assistant General Manager of the Support Services Sector, General Manager of Human Resources and General Services Sector, then a consultant till 2014. He has been a board chairman and a member of the board of directors in a number of companies such as Petrochemical Industries Company, Gulf Oil Company and Human Investment Corporation.

Mr. Mohamed Riad Al Mutawa – Board Member (elected)

Al -Mutawa holds a Bachelor of Finance from Kuwait University in 2001. He has been a member of Warba Bank's Board of Directors since March 2016 to date. He currently holds the position of Investment Manager at the Kuwait Investment Authority from 2001 to date. He has been a member of the board of directors in a number of companies such as the Pakistan Kuwait Investment Company, Farah AlMagrib Real Estate Company and the National Offset Company. He participated in several training courses, programs and seminars in various fields.

Mr. Mohamed Abdul Redha Saleem – Board Member (elected)

He holds a Bachelor of Business Administration in Finance from the Kuwait University in 1985. He has been a member of Warba Bank's Board of Directors since March 2016 to date. He has gained professional experience from his service over 30 years at Kuwait Investment Authority since 1986 where he held various positions including the Treasury Department Manager from 2006 to date. He has been a board chairman and a member of the board of directors in a number of companies such as Generations Fund Holding Company from 2010 till date, Kuwait- Yemen Real Estate Development Company, Kuwait Investment Company, the Egyptian-Kuwaiti Company for Real Estate Development, Gulf Company for Securities Custody, Kuwait Real Estate Holding Company, Kuwait Flour Mills Company, Travel & Conferences Company in Tunisia. He also participated in many theoretical and practical courses with leading banks and global financial institutions in areas of portfolios management, investment and capital markets.

Dr. Mahmoud Ahmed Abdulrahman – Board Member

Representing Kuwait Public Investment Authority

Dr. Abdulrahman holds a Bachelor Degree in Law from Kuwait University in 1988, and PH.D. in Commercial Law from University of Exeter - UK in 1995. He has been a Board Member in 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 Lecturer in Faculty of Law - Kuwait University, then lecturer, Assistant Professor and Assistant Dean for Students Affairs in Faculty of Law in 2003. Now, he is the Board Chairman of VIVA Telecommunication Company and Board Member in Medical Insurance Hospitals Company since 2015 to date.

Mr. Hani Abdulaziz Al Terkait – Board Member (elected)

Al Terkait holds a Bachelor Degree in Chemical Engineering from the University of Tulsa in the United States of America in 1971. He has been a member of Warba Bank's Board of Directors from March 2016 to date. He has deep experience in the oil sector gained through his career of over 35 years in Kuwait Petroleum Corporation. He joined KPC in 1972 where he served in Kuwait National Petroleum

Company, a KPC subsidiary, then moved in 1980 to Kuwait Petroleum Corporation till 2007 where he held several leading positions such as the Vice Chairman of the Board of Directors and Chief Executive Officer for the last three years of his tenure in KPC. He was appointed Oil Minister in the Government of the State of Kuwait by virtue of an Amiri Decree in February 2012 and continued holding this position till 2013. He has been a board member in a number of local and international companies such as Petrochemical Industries Company, Kuwait National Petroleum Company, the Public Authority for Industry, Hoechst Company in Germany and Kuwait Foundation for the Advancement of Science.

Mr. Hisham Abdulrazaq Al Rezouqi – Board Member (elected)

Al Rezouqi holds Bachelor Degree in General Administration from the American University of Beirut in 1973, and Senior Management Program organized by Harvard University in 1988. He has been a Board Member in Warba Bank since 2013 to date. He commenced his career in Kuwait Foreign Trading & Contracting Investment Company (KFTCIC) from 1974 to 1984, assuming several positions, the last of which was the Deputy General Manager. He then joined Gulf Investment Corporation as Deputy CEO from 1984 to 1995 and promoted to General Manager from 1995 to 2001, then to CEO from 2001 to 2012. He worked as a consultant to the International Business Conference Board, and a faculty member of Solaiman Alolayan School of Business Administration - American University of Beirut. He served as a board member and Chairman in more than 19 local and regional companies, banks and financial institutions, namely Bahrain Steel Company, National Industrialization Company – KSA, Burgan Bank, Kuwait Investment Company, Tawasul Telecom Company, Kuwait Reinsurance Company and Global Investment House.

BOARD COMMITTEES – MEMBERSHIP AND DUTIES

The Board of Directors has established five Board-level Committees and delegated them with the responsibilities to act on its behalf on specific matters. The respective committees are established in line with corporate governance principles and applicable regulatory requirements.



BOARD CREDIT AND INVESTMENT COMMITTEE (BCIC)

The Committee reviews, evaluates, develops and recommends for the Board's approval of all issues related to the financing and investment proposals, fees and commissions, financing portfolio performance, investments, as well as the legal actions taken in case of defaulting customers. The Committee has certain delegated approval authority for Credit Financing and Investment decisions. The Committee is comprised of the following;

- Mr. Ahmed Abdulaziz AlGhannam Chairman
- Mr. Abdulaziz A. Al Jaber Vice Chairman
- Mr. Sami Fahad AlRushaid Member
- Mr. Hisham A. Al Rezouqi Member

BOARD AUDIT COMMITTEE (BAC)

The Committee reviews and monitors the Bank's financial performance and external auditors' reports on periodic financial disclosures, Internal Auditor reports; checks the integrity of internal control aspects, adequacy of control systems; evaluates the performance of the Chief Internal Auditor, and considers the recommendation of the Executive Management regarding the appointment and termination of external auditors and determines their fees. The Committee is comprised of the following;

- Mr. Mohamed A. Saleemi Chairman
- Dr. Mahmoud A. Abdulrahman Vice Chairman
- Mr. Mohammed A. Saleem Member

BOARD GOVERNANCE COMMITTEE (BGC)

The Committee assists the Board of Directors to fulfill the governance responsibilities. In addition, it prepares and updates the Bank's governance list, ensures compliance of the Bank's related parties with implementing governance requirements and rules. The Committee submits reports to the Board of Directors on the same, reviews the contents to be published in the annual report in respect of corporate governance. The Committee is composed of the following members;

- Mr. Basel Ahmed AlHaroun Chairman
- Mr. Mohamed A. Saleem Vice Chairman
- Mr. Abdulwahab A. Al Houti Member
- Mr. Hani A. Al Terkait 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. Hani Abdulaziz Hussain Al -Turkait Chairman
- Mr. Mohammed Riad Al -Mutawa Vice Chairman
- Mr. Ahmed Abdul Aziz Al-Ghannam Member
- Mr. Bassel Ahmed Al -Haroun 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
- Mr. Sami Fahad AlRushaid Vice Chairman
- Mr. Abdulaziz Abdullah Al Jaber Member

ATTENDANCE AT MEETINGS OF THE BOARD AND THE BOARD COMMITTEES FOR 2016

Board Members' attendance of the meetings of the Board and Board Committees from 1st Jan. 2016 to 30th Mar. 2016 (Second Session)

Member / Board and Board Committees	Position	Board meetings	BCIC committee meetings	Audit committee meetings	Risk committee meetings	Governance committee meetings	Nomination and Remuneration Committee meetings
Emad Abdullah Al Thaqeb	Chairman	(4) 2	(6) 5			(1) 1	
Jassar Dakheel Al Jassar	Vice Chairman & CEO	(4) 4	(6) 6				
Jamal Abdullah Dashti	Board Member	(4) 4	(6) 6			(1) 1	(2) 1
Abdul Aziz Saud Al Bader	Board Member	(4) 4		(2) 2	(1) 1	(1) 0	
Abdulwahab A.Al Houti	Board Member	(4) 4		(2) 2	(1) 0		(2) 2
Dr. Mahmoud A. Abdullah man	Board Member	(4) 3		(2) 1	(1) 1		(2) 2
Hisham A. Al -Razuqi	Board Member	(4) 3	(6) 6			(1) 1	
Total Number of Meetings		4	6	2	1	1	2

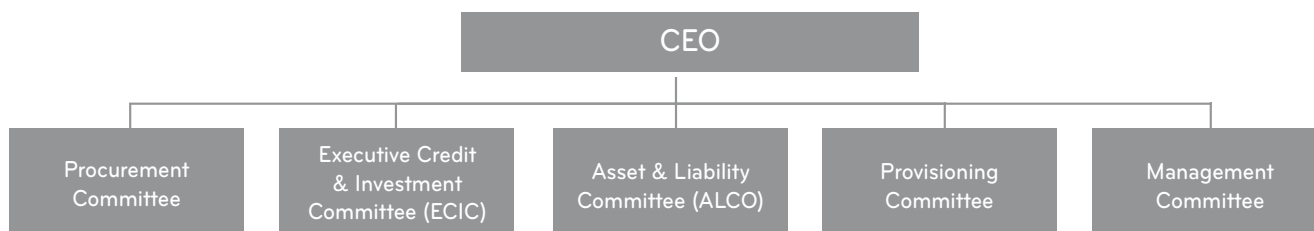
Board Members' attendance of the meetings of the Board and Board Committees from 30th Marc. 2016 to 31st Dec. 2016 (Third Session)

Member / Board and Board Committees	Position	FIC committee meetings	Audit committee meetings	Risk committee meetings	Governance committee meetings	Nomination & Remuneration Committee meetings	Member / Board and Board Committees
Mr. Abdulwahab A. Al Houti	Chairman	(12) 12				(5) 5	
Mr. Basel Ahmed AlHaroun	Vice Chairman	(12) 11			(5) 5	(5) 5	
Mr. Ahmed A. AlGhannam	Board Member	(12) 11	(22) 22		2 (5)		
Mr. Sami Fahad AlRushaid	Board Member	(12) 11	22) 20)				(6) 6
Mr. Abdulaziz A. Al Jaber	Board Member	(12) 11	17 (22)				(6) 5
Mr. Mohamed R. Al Mutawa	Board Member	(12) 10		(5) 4	(5) 4		
Mr. Mohamed A. Saleem	Board Member	(12) 7		(5) 4		(5) 3	
Dr. Mahmoud A. Abdulrahman	Board Member	(12) 10		(5) 5			(6) 5
Mr. Hani A. Al Terkait	Board Member	(12) 10			5 (5)	(5) 4	
Mr. Hisham A. Al Rezouqi	Board Member	(12) 8	(22) 14				
Total no. of Board and Board Committees Meetings during the period		12	22	5	5	5	6
Total no. of Board and Board Committees Meetings during 2016		16	28	7	6	6	8

*Numbers between brackets in the above table refer to the meetings held by the Board and Board Committees during 2016.

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 & 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 and liquidity risks 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.

PROCUREMENT COMMITTEE

The Procurement Committee was established to ensure that the procurement process of all goods, services, contracts and works necessary for Bank's business is undertaken properly according to transparent, effective, and timely approach; taking into account best practices in the field of procurement. The main role of the Committee is to oversee the Bank's needs for procuring products and services that fit its objectives. The Committee ensures that procurement is carried out in proper time, at the right place and against the appropriate cost in such a manner that achieves the overall corporate requirements of economization, transparency and accountability. It also ensures that the procurement activity is performed in accordance with the highest ethical standards of fair and equitable treatment with suppliers and vendors who provide the Bank with services and goods.

BRIEF ON THE EXECUTIVE MANAGEMENT

Shaheen Hamad Al-Ghanem

Chief Executive Officer

Al Ghanem holds a Master's degree in Business Administration from Maastricht University, a Bachelor's degree in Accounting from Kuwait University and became a Certified Management Accountant from the Institute of Management Accountants United States in 2001. He has also completed a course on executive management from Harvard University. He has broad experience in banking and investment. He began his career in the oil sector from 1988 to 1999, 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 to Kuwait Finance House in 2001 where he held several positions in various departments, the last of which was general manager of International Banking Department in 2012 and acting chief investment officer in 2013. He held the positions of chairman and board member in a number of banks and companies inside and outside the State of Kuwait. Al Ghanem moved to the Bank in March 2014 as Deputy CEO for Investment and Treasury then held the position of Chief Executive Officer since May 2016 to 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 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 Diploma in Islamic Economy from Faculty of Sharia – Kuwait University. Hafez has over 20 years of experience in the area of Islamic Banking, financial institutions and auditing. He worked with a number of the world's big audit and consultancy firms like Ernst & 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. Further, he worked in the area of consultancy, offering advisory services on restructuring, acquisitions and Asset Assessment. He joined Warba since incorporation and contributed to setting the Bank, its infrastructure and structure. Currently, he holds the position of Chief Financial Officer.

Mahmoud Mohammad Yousef

Chief Internal Auditor

Mr. Yousef graduated from Brooklands Technical College, Weybridge, Surrey, England and holds HNC in Computer Studies in addition to an 'A' Level in Computer Science. He is certified in Risk and Information Systems Control (CRISC) from the Information Systems Audit and Control Association (ISACA), USA. He is also a voting member of the Chartered Institute of Internal Auditors (IIA) in the UK and Ireland and certified as a Chartered Internal Auditor holding the designation (CMIIA) from the same organization, and earned the highest Qualification in Internal Audit Leadership (QIAL) from the Institute of Internal Auditors Global (IIA Global) in USA. Also, the Global Professional Certifications of The Institute of Internal Auditors – Global U.S.A. has confirmed on 26 October 2016 that the Bank's incumbent Chief Internal Auditor, Mr. Mahmoud Yousef is the only holder of the Qualification in Internal Audit Leadership (QIAL) in the State of Kuwait.

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 by applying best practice audit methodology and creating risk-based audit approach covering all operational areas within Warba Bank including Banking Operations, Information Technology and Operational Assurance (Branches network). He participated in an advisory capacity by providing advices and recommendations to

Executive Management in respect of the Bank's internal controls as well as the Bank's initiatives which include amongst other regulatory aspects, implementation of CBK Instructions concerning "Rules and standards of Corporate Governance in Banks and Financial Institutions" in addition to the FATCA (Foreign Account Tax Compliance Act) regulations.

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.

Feroz Noorani **Chief Risk Officer**

Noorani holds Masters' degrees in Business Strategy and Financial Management, as well as Bachelor's degree in Laws and Accounting & Auditing from University of Bombay (Mumbai, India) and several professional certifications in bank management, compliance, risk and corporate governance including an accreditation from INSEAD, France, in the area of Risk Management in Banks.

Noorani has over 34 years of experience in banking and financial services, of which the last 18 years were in the GCC / Middle East region, where he has held several senior and leadership positions at major banks. His experience covers all aspects of Corporate, Investment and Islamic banks, in areas of business, finance, audit, risk, governance and compliance.

In 2011, Noorani joined Warba Bank as its first Chief Risk Officer. His responsibilities include managing Bank-wide risks and focusing on ensuring robust and effective risk management, control and governance frameworks, ensuring compliance with regulations and best practices, articulating and advising the Board in maintaining an acceptable risk appetite and tolerance for the Bank.

Prior to joining Warba Bank, he was the Group Chief Risk Officer of an Islamic bank in Abu Dhabi. Previously, as Head of Group Risk & Capital Strategy at a major regional bank in Saudi Arabia, he was instrumental in implementing and roll-out of the MENA region's first Basel-IRB Approach compliant institution.

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

Al Terkait has obtained 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. He has over 26 years of experience acquired throughout his career working 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 in the banking sector.

Simon Larby Clements **Chief Operations Officer and Acting Chief Retail Banking Officer**

Clements holds a Business degree from the UK, and has over 39 years of experience in financial services in Europe, Asia and the Middle East region. Clements has previously held senior executive positions at a number of leading banks where he headed the operations and technology sectors. He has in-depth experience of operations and support functions in banks. He has also 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 the Bank in July 2014 Chief Operations Officer and has recently also assumed the responsibility for the Retail Banking Group.

Essam Abdulaziz Alshaya

Chief Human Resources & General Services Officer

Alshaya holds a bachelor's degree in Human Resources Administration - USA. He has more than 28 years of experience in human resources sector. He commenced his career in the Kuwait Airways Corporation "KAC" as senior administrative officer in 1984 then became head of Administrative and Financial Affairs Section in 1989. He was assigned with all the functions of Human Resources Department at "KAC" office in Cairo during the Invasion from October 1990 till reinstating the head office following the liberation of Kuwait. He was then promoted to the position of Chief Human Resources Officer in 2004 and vested the administrative authorities of the Deputy Director General for Financial and Administrative Affairs. In November 2016, he joined Warba Bank as Chief Human Resources & General Services Officer. Al Shaya held many positions other than KAC including the Board Chairman of Al Rawda Cooperative Society and a member of the Civil Defense Committee for the Capital and Hawally Governorates.

Mohamed Atif El Shareef

Chief Strategic Planning Officer

El Shareef holds a master's degree in Information Systems & Technology Management from Barrington - Atlanta University - USA in 2001, and a Bachelor Degree in Electrical and Electronics Engineering from the Middle East Technical University - Turkey in 1999, he has more than 17 years of experience in the banking industry, where he held several positions in National Bank of Kuwait "NBK" starting as Manager, Head of MIS Unit ending up as Executive Manager, Head of Performance Analysis and Reporting and then moved to Boubyan Bank as an Executive Manager for the PMO of Consumer Banking Group then Assistant General Manager, Head of Business Performance and Planning Division in the same Group. In February 2015, He joined Warba Bank as Chief Strategic Planning Officer.

Mohamed Iqbal

Treasurer

Mohamed Iqbal has obtained a bachelor of science in business administration, Management science and computer systems from Oklahoma State university in 1987. He has been a high performer throughout his 29 years in his career in the financial industry. Starting out as a trainee in Maybank, Malaysia's largest bank, in 1987 he has built a successful career with stints with the Arab-Malaysian Banking Group, the government through the pension fund and Kuwait Finance House - Malaysian operations. Over the span of his career, Iqbal occupied positions of senior leadership extending for 20 years. He has extensive exposure in the areas of treasury; retail, consumer and commercial banking; fund and investment management; strategy; and transformation for 29 years.

EXECUTIVE MANAGEMENT

	Name	Title	Experience	Nationality	Education
1	Shaheen H. Al-Ghanem	Chief Executive Officer "CEO"	28 years	Kuwait	Master Degree
2	Basel J. Al-Obeid	Chief Corporate Banking Officer	30 years	Kuwait	University degree
3	Khaled H. Hafez	Chief Financial Officer	23 years	Egypt	University degree
4	Mahmoud M. Yousef	Chief Internal Auditor	36 years	Egypt	University degree
5	Feroz Noorani	Chief Risk Officer	34 years	India	Master

6	Haytham A. Al Terkait	Chief Information Technology Officer	28 years	Kuwait	University degree
7	Simon L. Clements	Chief Operations Officer & Acting Chief Retail Banking Officer	41 years	British	University degree
8	Esam Alshaya	Chief Human Resources & General Services Officer	28 years	Kuwait	University degree
9	Mohamed El Shareef	Chief Strategic Planning Officer	17 years	Palestine	Master Degree
10	Mohamed Iqbal	Treasurer	26 Years	Malaysia	University degree

COMPENSATION POLICY (SALARY AND REMUNERATION)

Warba Bank 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 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 2016 amounted KD 60 Thousand

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

The total compensations and remunerations paid to the six key executives who received the highest compensation package for 2016 including the CEO, CFO, CRO, CIA amounted KD1,126,495.31. 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 2016 (CEO and his deputies and / or other senior executives whose appointment is subject to the approval of the regulatory and supervisory bodies, i.e. 12 individuals amounted KD1,689,700.12 inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the Financial Control and Risk employees, i.e., 10 employees, amounted to KD 923,376.35 inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the risk takers employees i.e., 15 employees, amounted KD1,643,997.12 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

As a financial institution, Warba Bank is fully committed to mitigating and controlling the threats and risks of Money Laundering and other financial crimes including Financing of Terrorism. It complies with all laws and regulations issued by the Central Bank of Kuwait (CBK) on Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT). Accordingly, the Bank has amended the relevant policies and procedures in accordance with AML/CFT Law No. 106 of 2013 and any other regulatory guidelines, if required, concerning AML/CFT as well as CBK Instructions No. 308 of 2013. This ensures full compliance with all legislative and regulatory requirements, especially the application of risk assessment for the risks associated with money laundering and financing of terrorism and identification of risk factors related to customers and banking transactions.

Additionally, the Bank confirms the adoption of the Know-Your-Customer (KYC) principle throughout the customer's relationship with the Bank. Further, the Bank seeks to comply with the relevant international guidelines and best practices. In order to combat money laundering and prevent financial crimes, Warba Bank ensures the effectiveness of its human resources and systems in identifying any unusual or suspicious transactions. Accordingly, Warba's staff members receive annual training and get the guidelines and tools required for handling any such cases. It is noteworthy that Warba has set the required systems to mitigate the risks of money laundering and financing of terrorism.

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 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 activities 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 serving its interests.

DISCLOSURE AND TRANSPARENCY

In line with CBK, CMA and Bursa Kuwait 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 Disclosure & Transparency Unit under Compliance Department dedicated for disclosure of the Bank's significant information to Bursa Kuwait 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 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 2015. The report was presented to the Board Audit Committee and the Board of Directors in the Meeting held on 22/6/2016. The report, submitted to the regulatory authority on 27/6/2016, 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 of the financial statements of the Bank for 2015. The actions taken by the Bank, for remedy of the issues raised in the report including issues from previous years, are satisfactory. As per the External Auditor's Report dated 5/12/2016 concerning the follow-up of the unresolved findings in the internal control review report for the year ended 31/12/2015, it is concluded that all findings in the said report have been resolved.



Tel: +965 2242 6999
Fax: +965 2240 1666
www.bdointernational.com

Al Shaheed Tower, 6th Floor
Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait

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

26 June 2016

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 21 February 2016 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 2015:

We covered the following departments and activities of the Bank:

- Financial Control and Planning
- Investment and Treasury
- Compliance
- Corporate Banking
- Sharia'h Control
- Strategy & PMO
- Information Technology
- Corporate Governance
- Financial Securities Activities
- Fraud and Embezzlement
- Human Resources, Support Services and administration
- Risk Management
- AML
- Retail Banking
- Customer Complaints unit
- Legal
- Internal Audit
- Confidentiality of Customer Information
- Entity Wide Control Environment
- Operations



We Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) letter dated 17 January 2016 considering the requirements contained in the Manual of General Directives issued by the CBK on 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 and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

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

Because of inherent limitations 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 2015, and the materiality and risk rating of our findings, in our opinion:

- a) The accounting and other records and internal control systems of the 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 17 January 2016,
- b) The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2015, and
- c) The actions taken by the Bank to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,

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

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 Shariah 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 2016, Tier 1 "Core Capital" amounted to KD 94,772 thousand (2015: KD 92,280 thousand, and Tier 2 "Supplementary Capital" amounted to KD 6,591 thousand (2015: KD 4,273 thousand) as detailed below:

	Capital Structure	2015 (KD' 000)	2016 (KD' 000)
Tier (1) 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)	(7,373)	(4,798)
	4- Other reserves	(347)	(430)
	Total (A) CET1 before deductions	92,280	94,772
	Deductions from CET1		
	1- Treasury shares	-	-
	2- Dividends (Declared but not incurred)	-	-
	3- Goodwill	-	-
	4- Other deductions	-	-
	Total (A) CET1 after deductions	92,280	94,772
B	Additional Tier 1 (AT1)	-	-
	Deduction from AT1	-	-
	Total (B) AT1 after deductions	-	-
	Total (A+B) Tier 1 after Deductions	92,280	94,772
Tier (2) Supplementary Capital			
	1- Capital Eligible as T2	-	-
	2- General provisions	4,273	6,591
	Total Tier (2) Supplementary Capital before deductions	4,273	6,591
	Deduction from Tier (2) Supplementary Capital	-	-
	Total Tier (2) Supplementary Capital after deductions	4,273	6,591
	Total Available Capital (Tier 1 & Tier 2) before adjustments	96,553	101,363
	Other Adjustments	-	-
	Total Available Capital (Tier 1 & Tier 2) After adjustments	96,553	101,363

As at 31 December 2016, Profit Equalization Reserve and Investment Risk Reserve amounted to KD Nil (2015: 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	2015 (KD' 000)	2016 (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	(7,373)	(4,798)
3	Accumulated other comprehensive income (and other reserves)	(347)	(430)
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	92,280	94,772
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 (as set out in para 72 of these guidelines)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined-benefit pension fund net assets (para 68)	-	-
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)	-	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	-	-
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
28	Total regulatory adjustments to Common equity Tier 1	-	-
29	Common Equity Tier 1 after the regulatory adjustments	92,280	94,772
Additional Tier 1 capital: instruments			

Item	2015 (KD' 000)	2016 (KD' 000)
30	-	-
31	-	-
32	-	-
33	-	-
34	-	-
35	-	-
36	-	-
Additional Tier 1 capital: regulatory adjustments		
37	-	-
38	-	-
39	-	-
40	-	-
41	-	-
42	-	-
43	-	-
44	-	-
45	92,280	94,772
Tier 2 capital: instruments and provisions		
46	-	-
47	-	-
48	-	-
49	-	-
50	4,273	6,591
51	4,273	6,591
Tier 2 capital: regulatory adjustments		
52	-	-
53	-	-
54	-	-
55	-	-
56	-	-
57	-	-
58	4,273	6,591
59	96,553	101,363
60	370,332	563,240
Capital ratios and buffers		
61	24.92%	16.83%
62	24.92%	16.83%
63	26.07%	18.00%

Item	2015 (KD' 000)	2016 (KD' 000)	
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)	9.00%	9.50%
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)	16.07%	7.50%
	National minimal		
69	National Common Equity Tier 1 minimum ratio: 2016: 9.5% (2015: 9%)	33,330	53,508
70	National Tier 1 minimum ratio: 2016: 11% (2015: 10.5%)	38,885	61,956
71	National total capital minimum ratio excluding CCY and DSIB: 2016: 13% (2015: 12.5%)	46,292	73,221
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-	-
73	Significant investments in the common stock of financials	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
	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)	6,813	10,249
77	Cap on inclusion of provisions in Tier 2 under standardized approach	4,273	6,591
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 2016, Common Equity Tier 1 (CET1) amounted to KD 94,772 thousand (31 December 2015: KD 92,280 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:

Ser	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	13.00%	18.00%
2.	Tier 1 Capital Adequacy Ratio	11.00%	16.83%
3.	CET1 Capital Adequacy Ratio	9.50%	16.83%

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%

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		2015 KD' 000	2016 KD' 000
No.	On-balance sheet exposures		
1)	On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	782,744	1,136,959
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)	782,744	1,136,959
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)	34,867	50,296
11)	(Adjustments for conversion to credit equivalent amounts)	(20,745)	(27,889)
12)	Off-balance sheet items (sum of lines 10 and 11)	14,122	22,407
Capital and total exposures			
13)	Tier 1 capital	92,280	94,772
14)	Total exposures (sum of lines 3, 9 and 12)	796,866	1,159,366
Leverage ratio			
15)	leverage ratio (Tier 1 Capital (13)/total exposures (14))	11.58%	8.17%

As stated above, the Bank's leverage ratio for the present period is 8.17% compared to 11.58% 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 issued for the customers.

Summary comparison of accounting assets versus leverage ratio exposure measure:

Item		2015 KD' 000	2016 KD' 000
No.	On-balance sheet exposures		
1	Total assets as per published financial statements	776,107	1,126,962
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)	14,122	22,407
6	Other exposures	6,637	9,997
7	Total exposures in calculation of leverage ratio (sum of the above items).	796,866	1,159,366

Fourth: Risk weighted assets

1. Credit risk

The minimum required capital for credit risk exposures as at 31 December 2016 was KD 68,068 thousand (31 December 2015: KD 42,413 thousand) as detailed below:

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	2016
					(KD '000)
					Required Capital
1	Cash item	1,616	1,616	-	-
2	Claims on sovereigns	125,376	125,376	9,747	1,267
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	27,719	27,719	4,928	641
5	Claims on multilateral development banks	10,544	10,544	-	-
6	Claims on banks	120,232	120,232	23,875	3,104
7	Claims on corporates	459,849	402,010	236,145	30,699
8	Regulatory retail exposure	172,649	172,518	99,945	12,993
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	3,063	3,062	1,007	131
11	Goods and commodities positions	116	116	93	12
12	Real estate investments	14,816	14,816	17,167	2,232
13	Investment and financing with customers	185,467	124,163	107,359	13,957
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	37,919	37,919	23,318	3,032
Total		1,159,366	1,040,091	523,584	68,068

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

The minimum required capital for financing receivable as at 31 December 2016 was KD 56,889 thousand (31 December 2015: KD 33,877 thousand) as detailed below:

2016
(KD '000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on sovereigns	7,750	7,750	4,540	590
2	Claims on public sector institutions	15,087	15,087	-	-
3	Claims on banks	29,166	29,166	6,928	901
4	Claims on corporates	424,687	366,848	214,920	27,940
5	Regulatory retail exposure	172,649	172,518	101,056	13,137
6	Qualifying residential housing financing facilities	-	-	-	-
7	Past due exposures	3,063	3,062	1,017	132
8	Investment and financing with customers	185,467	124,163	109,149	14,189
Total		837,869	718,594	437,610	56,889

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

2. Market Risk

Market Risk-weighted exposure during the financial year 2016 amounted to KD 3,481 thousand (31 December 2015: KD 4,407 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 453 thousand (31 December 2015: KD 551 thousand).

3. Operational Risk

Operational Risk-weighted exposures calculated during the year 2016 amounted to KD 36,175 thousand (31 December 2015: KD 26,625 thousand) as per the Basic Indicator Approach. The minimum required capital for operational risk exposures amounts to KD 4,703 thousand (31 December 2015: KD 3,328 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 need to be monitored and controlled. The following presents information about the Bank's exposure to each of the risks, the Bank's objectives, framework of policies, models and quantification techniques, and processes for identifying, measuring, mitigating and managing risks, and the management of Bank's 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 types of risk such as credit, market and liquidity risks, the Board has further set up a Board Credit & Investment Committee ("the BCIC"). At the management-level, the following committees are setup to assist the board in fulfilling its responsibilities: the Executive Credit & Investment Committee (the 'ECIC'), Assets and Liabilities Management Committee (the 'ALCO'), and the Provisioning Committee.

An independent Risk Management Group (the 'RMG') headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for Enterprise-wide Risks to assist the Board and BRC in carrying out the risk oversight responsibility.

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 Executive Credit & Investment Committee (the 'ECIC') is the executive management level 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 & Investment Committee (the 'BCIC') for final approval.

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

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

3. Risk Appetite

The Bank's risk appetite defines the maximum limit of risk that the Bank is willing to accept in relevant business categories to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives and is approved at the Board level. Any risk which is not in line with the Bank's stated risk appetite must be mitigated as a matter of priority to be within acceptable levels. The risk appetite is reviewed and recommended by the BRC to the Board of Directors for approval and periodic updates. This ensures the risk appetite statements are consistent with the Bank's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Bank, determined in a manner which meets the objectives of shareholders, depositors and regulators. RMG aims to identify early warning signs of potential breaches to risk appetite limits; and is responsible for notifying Executive management of action required to mitigate or avoid such risks and is responsible for escalating the matter to the BRC and the Board.

4. 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 events. 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.

5. Categories of Risks

The following are the main risks the Bank is exposed to:

5.1 Credit Risks

Credit risk is the risk of financial loss to the Bank if any counterparty to a financial obligation or instrument fails to or delays in meeting 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, based on models and inter-play of matrices.

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 & 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 & 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 Group provides independent opinion and assessment of risk for every financing and investment that is proposed 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)

2016
(KD '000)

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	1,616	-	1,616
2	Claims on sovereigns	125,376	125,376	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	27,719	2,000	25,719
5	Claims on multilateral development banks	10,544	10,544	-
6	Claims on banks	120,232	100,253	19,979
7	Claims on corporates	402,010	15,111	386,899
8	Regulatory retail exposure	172,518	-	172,518
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	3,062	-	3,062
11	Goods and commodities positions	116	-	116
12	Real estate investments	14,816	-	14,816
13	Investment and financing with customers	124,163	-	124,163
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	37,919	-	37,919
Total		1,040,091	253,284	786,807

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

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
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

Total Credit Risk exposures (Self-Financed or Financed from Investment Accounts):

2016
(KD '000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	1,616	1,616	-
2	Claims on sovereigns	125,376	20,189	105,187
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	27,719	4,399	23,320
5	Claims on multilateral development banks	10,544	1,673	8,871
6	Claims on banks	120,232	24,013	96,219
7	Claims on corporates	459,849	89,827	370,022
8	Regulatory retail exposure	172,649	27,393	145,256
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	3,063	486	2,577
11	Goods and commodities positions	116	19	97
12	Real estate investments	14,816	2,351	12,465
13	Investment and financing with customers	185,467	29,427	156,040
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	37,919	16,040	21,879
Total		1,159,366	217,433	941,933

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

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
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

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

2016
(KD '000)

SN	Description of Credit Risk Exposures	Average Credit Risk exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	1,618	1,618	-
2	Claims on sovereigns	111,893	18,953	92,940
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	18,098	2,805	15,293
5	Claims on multilateral development banks	10,166	1,565	8,601
6	Claims on banks	99,699	19,288	80,411
7	Claims on corporates	401,061	76,781	324,280
8	Regulatory retail exposure	153,485	23,673	129,812
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	3,596	553	3,043
11	Goods and commodities positions	191	30	161
12	Real estate investments	14,971	2,307	12,664
13	Investment and financing with customers	157,485	24,289	133,196
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	32,122	14,884	17,238
Total		1,004,385	186,746	817,639

2015
(KD '000)

SN	Description of Credit Risk Exposures	Average Credit Risk exposures	Average Self Financed	Average Financed 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

SN	Description of Credit Risk Exposures	Average Credit Risk exposures	Average Self Financed	Average Financed From Investment Accounts
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

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

2016
(KD '000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Total
1	Cash item	1,616	-	-	-	1,616
2	Claims on sovereigns	108,553	-	9,073	7,750	125,376
3	Claims on international organizations	-	-	-	-	-
4	Claims on public sector entities	20,246	-	-	7,473	27,719
5	Claims on multilateral development banks	10,544	-	-	-	10,544
6	Claims on banks	103,555	2,283	12,021	2,373	120,232
7	Claims on corporates	437,811	3,127	10,097	8,814	459,849
8	Regulatory retail exposure	172,649	-	-	-	172,649
9	Qualifying residential housing financing facilities	-	-	-	-	-
10	Past due exposures	3,063	-	-	-	3,063
11	Goods and commodities positions	116	-	-	-	116
12	Real estate investments	14,816	-	-	-	14,816
13	Investment and financing with customers	185,467	-	-	-	185,467
14	Sukuk and taskeek exposures	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-
16	Other exposures	27,635	10,284	-	-	37,919
Total		1,086,071	15,694	31,191	26,410	1,159,366

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

Maturities of total "Credit Risk" exposures

2016
(KD '000)

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	1,616	-	-	1,616
2	Claims on sovereigns	94,477	13,594	17,305	125,376
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	15,087	-	12,632	27,719
5	Claims on multilateral development banks	-	3,062	7,482	10,544
6	Claims on banks	99,648	2,914	17,670	120,232
7	Claims on corporates	308,661	129,317	21,871	459,849
8	Regulatory retail exposure	528	934	171,187	172,649
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	3,063	-	-	3,063
11	Goods and commodities positions	-	116	-	116
12	Real estate investments	-	-	14,816	14,816
13	Investment and financing with customers	136,295	48,820	352	185,467
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	1,708	574	35,637	37,919
Total		661,083	199,331	298,952	1,159,366

2015
(KD '000)

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

Main sectors of total Credit Risk exposures

2016
(KD '000)

SN	Description of Credit Risk Exposures	Manufac- turing & Trade	Banks & Financial Institutions	Construc- tion & Real Estate	Government	Others	Total
1	Cash item	-	-	-	-	1,616	1,616
2	Claims on sovereigns	-	-	-	117,626	7,750	125,376
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	-	-	-	27,719	-	27,719
5	Claims on multilateral development banks	-	10,544	-	-	-	10,544
6	Claims on banks	-	120,232	-	-	-	120,232
7	Claims on corporates	142,587	30,586	208,810	-	77,866	459,849
8	Regulatory retail exposure	-	-	-	-	172,649	172,649
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	-	-	-	-	3,063	3,063
11	Goods and commodities position	116	-	-	-	-	116
12	Real estate investments	-	-	14,816	-	-	14,816
13	Investment and financing with customers	-	-	185,467	-	-	185,467
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	37,919	37,919
Total		142,703	161,362	409,093	145,345	300,863	1,159,366

2015
(KD '000)

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construction & Real Estate	Government	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

5.1.1 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 all funded credit facilities and 0.5% of non-funded 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, 2016, the value of the irregular financing facilities (impaired), including the Bank's accounts receivable, is amounted at KD 5,759 thousand (31 December 2015: KD 5,167 thousand) after excluding the deferred revenues and KD 5,758 thousand (31 December 2015: KD 5,164 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 2016, the Bank's provisions are KD 12,945 thousand (31 December 2015: KD 8,621 thousand) including a general provision of KD 10,249 thousand (31 December 2015: KD 6,813 thousand).

Irregular and past due exposures as per standard portfolios:

2016
(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	3,666	3,666	1,851	1,815	6,303
3	Regulatory retail exposures	2,093	2,092	845	1,247	7,269

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	5,968
Total		5,759	5,758	2,696	3,062	19,540

2015
(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	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

Irregular and past due exposures as per geographical location:

2016
(KD' 000)

SN	Description of geographical location	Impaired	Specific Provision	Net Facilities	Past Due
1	MENA	5,759	2,696	3,062	19,540
2	Europe	-	-	-	-
3	Asia	-	-	-	-
Total		5,759	2,696	3,062	19,540

2015
(KD' 000)

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

Irregular and past due exposures by industrial sector:

2016
(KD' 000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing & Trade	3,666	1,851	1,815	1,342
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	-	-	-	7,891
4	Others	2,093	845	1,247	10,307
Total		5,759	2,696	3,062	19,540

2015
(KD' 000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing & 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

Aging of Irregular and past due exposures:

2016
(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	-	1,472	4,113	174	5,759
2	Past Due	19,540	-	-	-	19,540
Total		19,540	1,472	4,113	174	25,299

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

General Provisions Balance:

SN	Distribution of General Provisions to credit risk exposures	2015 (KD' 000)	2016 (KD' 000)
1	Claims on sovereigns	-	78
2	Claims on public sector institutions	76	151
3	Claims on banks	76	292
4	Claims on corporates	4,318	6,761
5	Regulatory retail exposures	1,285	1,725
6	Real estate investments	-	-
7	Investment and financing with customers	1,058	1,242
Total		6,813	10,249

SN	Distribution of General Provisions to geographical location	2015 (KD' 000)	2016 (KD' 000)
1	MENA	6,547	9,897
2	Europe	99	178
3	Asia	167	143
4	Rest of the World	-	31
Total		6,813	10,249

5.1.2 Applicable Risk Mitigation Methods

The Credit Policy of the Bank lays down guidelines for collateral valuation and management which includes, haircuts, 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 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

2016
(KD '000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	1,616	-	-
2	Claims on sovereigns	125,376	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	27,719	-	-
5	Claims on multilateral development banks	10,544	-	-
6	Claims on banks	120,232	-	-
7	Claims on corporates	459,849	57,839	-
8	Regulatory retail exposure	172,649	131	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	3,063	1	-
11	Goods and commodities positions	116	-	-
12	Real estate investments	14,816	-	-
13	Investment and financing with customers	185,467	61,304	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	37,919	-	-
Total		1,159,366	119,275	-

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	-

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
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	-

5.2 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 Banking Group and Treasury to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

5.2.1 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 periodically set and reviewed to ensure the implementation of the Bank's market risk appetite. 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.

5.3 Liquidity Risks

Liquidity Risk is the risk of the Bank being unable to meet its financial liabilities when they fall due. Liquidity risk management is one of the vital components of the management of day-to-day banking business. In order to meet any eventuality, the Bank's liquidity strategy is to maintain a healthy level of liquid assets in the form of cash, cash equivalents and readily marketable securities. The Bank continuously monitors 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.

The Bank has in place a Contingency Funding Plan (CFP) which will be used as a blueprint of the action plan to be followed during any liquidity contingencies. The CFP establishes a framework which improves the Bank's

preparedness to handle liquidity stress as it emerges due to systemic or non-systemic situations. It identifies trigger events that could potentially cause a liquidity crisis, details the actions to be taken to manage the crisis, and also lays down the administrative structure and responsibilities to ensure accountability in handling an emergency. The CFP supplements the existing Liquidity Risk Policy of the Bank and will be operative only in case of an adverse/ stress liquidity situation, actual or perceived.

A- Short-term assets to short-term liabilities ratio as of 31 December 2016 is 84% (31 December 2015: 85%) calculated as follows:

SN		2015	2016
1	Current assets (KD '000)	563,052	861,606
2	Current liabilities (KD '000)	662,262	1,021,109
	Current ratio	85%	84%

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

2016 (KD '000)					
SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	51,996	-	-	51,996
2	Unrestricted investment account	551,237	406,866	10,123	968,226
3	Restricted investment account	-	-	-	-
4	Other Deposits	4,407	-	-	4,407
	Total	607,640	406,866	10,123	1,024,629

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	-	-	-	-
4	Other Deposits	1,454	-	-	1,454
	Total	397,943	259,161	20,694	677,798

Liquidity Coverage Ratio Disclosure

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 Liquidity Coverage Ratio for Islamic Banks licensed in the State of Kuwait, vide circular reference (2/IBS /346/2014) dated 23/12/2014.

Qualitative disclosure on LCR

The Liquidity Coverage Ratio (LCR) is a global standard for assessing bank liquidity. It aims to ensure that a bank has adequate unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

LCR has been defined as

$$\frac{\text{Stock of high quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}}$$

Liquid assets comprise of high quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. There are two categories of assets included in the stock of HQLAs, viz. Level 1 and Level 2 assets. Level 1 assets are with 0% haircut while Level 2A assets are with a minimum 15% haircut and Level 2B Assets, with a minimum 50% haircut.

The total net cash outflows is the total expected cash outflows minus total expected cash inflows for the upcoming 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in up to an aggregate cap of 75% of total expected cash outflows.

The Bank's focus has been to ensure diversified funding sources in addition to its core deposit base. The Treasury of the Bank manages liquidity by constant monitoring of future cash flows and liquidity needs. This incorporates an assessment of expected cash flows and the availability of high quality assets which could be used to secure additional funding if required. The bank also conducts stress tests to assess impact of stress on liquidity under various scenarios. Furthermore the bank has established a Contingency Funding Plan to manage liquidity during stressed conditions.

The average HQLA for the quarter ended December 31, 2016 was KD 117.8 Million of which Central Bank reserves constituted about 85%. Average cash outflows over a 30 day horizon amounted to KD 126.7 Million while average inflows from assets were KD 51.5 million.

Bank's LCR of 155% (based on average of last three months position) is above the minimum 70% prescribed by CBK for 2016. Management of liquidity is centrally managed through the Treasury within the bank. The Bank has sufficient liquidity sources for outflows and management is of the view that we are adequately liquid as required by LCR regulations. The Asset and Liability Management Committee (ALCO) of the Bank is responsible for oversight of liquidity management and review of positions on monthly basis and/or on need basis based on systemic risks.

Quantitative information on Liquidity coverage ratio (LCR) is given below:

LCR common disclosure template for the quarter ending on 31 December 2016

		"value in KD 000"	
	Description	Value before applying inflows rates (average)*	Value after applying inflows rates (average)*
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		117,782
Cash Outflows			
2	Retail deposits and small business	83,372	14,110
3	• Stable deposits	0	0
4	• Less stable deposits	83,372	14,110
5	Unsecured wholesale funding excluding the deposits of small business customers:	203,969	98,563
6	• Operational deposits	0	0
7	• Non-operational deposits (other unsecured commitments)	203,969	98,563
8	Secured Funding		0
9	Other cash outflows, including:	0	0
10	• Resulting from Shari'ah compliant hedging contracts	0	0

	Description	Value before applying inflows rates (average)*	Value after applying inflows rates (average)*
11	• Resulting from assets-backed sukuk and other structured funding instruments	0	0
12	• Binding credit and liquidity facilities	0	0
13	Other contingent funding obligations	279,594	13,980
14	Other contractual cash outflows obligations	0	0
15	Total Cash Outflows		126,653
Cash Inflows			
16	Secured lending transactions	0	0
17	Inflows from fully performing exposures (as per the counterparties)	54,382	51,503
18	Other cash Inflows	0	0
19	Total Cash Inflows	54,382	51,503
Liquidity Coverage Ratio (LCR)			Total Adjusted Value
20	Total HQLA (after adjustments)		117,782
21	Net Cash Outflows		75,832
22	LCR		155%

*Simple Average for all days of the reported quarter.

LCR common disclosure template for the quarter ending on 31 December 2015

"value in KD 000"

S.	Description	Value before applying inflows rates (average)*	Value after applying inflows rates (average)*
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		70,638
Cash Outflows			
2	<u>Retail deposits and small business</u>	40,872	6,534
3	• Stable deposits	0	0
4	• Less stable deposits	40,872	6,534
5	Unsecured wholesale funding excluding the deposits of small business customers:	113,457	68,742
6	• Operational deposits	0	0
7	• Non-operational deposits (other unsecured commitments)	113,457	68,742
8	Secured Funding		0
9	Other cash outflows, including:	0	0
10	• Resulting from Shari'ah compliant hedging contracts	0	0
11	• Resulting from assets-backed sukuk and other structured funding instruments	0	0
12	• Binding credit and liquidity facilities	0	0
13	Other contingent funding obligations	175,017	8,751
14	Other contractual cash outflows obligations	0	0
15	Total Cash Outflows		84,027
Cash Inflows			
16	Secured lending transactions	0	0
17	Inflows from fully performing exposures (as per the counterparties)	42,531	40,154
18	Other cash Inflows	0	0
19	Total Cash Inflows	42,531	40,154
Liquidity Coverage Ratio (LCR)			Total Adjusted Value

	Description	Value before applying inflows rates (average)*	Value after applying inflows rates (average)*
20	Total HQLA (after adjustments)		70,638
21	Net Cash Outflows		43,846
22	LCR		161%

*Simple Average for all days of the reported quarter.

5.4 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 exposure or instrument. The Bank is susceptible to profit rate risk as value of Bank's fixed income investments and/ or return on financing 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 in the cost of funds and yield on assets on profitability. Such analysis is also monitored by the senior management of the Bank through the Asset and Liability Management Committee (ALCO).

Impact of 25 bps move upwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	208	421	811	249	23	1,712
Liabilities	(175)	(358)	(600)	(286)	(190)	(1,609)
Net Impact	33	63	211	(37)	(167)	103

Impact of 25 bps move downwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	(208)	(421)	(811)	(249)	(23)	(1,712)
Liabilities	175	358	600	286	190	1,609
Net Impact	(33)	(63)	(211)	37	167	(103)

Impact of 25 bps move upwards	Upto 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)

Impact of 25 bps move downwards	Upto 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

5.5 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 2016, the Bank's available for sale equity investment amounting to KD 26,005 thousand (31 December 2015: KD 17,378 thousand) as detailed below:

Investments types	2015 (KD '000)	2016 (KD '000)
Quoted equity security	896	837
Unquoted equity security	4,098	4,098
Unquoted Portfolios and Funds	12,384	16,789
Other unquoted investments	-	4,281
Total	17,378	26,005

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, the Bank has recorded realized gain from sale of available-for-sale equity investments amounting to KD Nil thousand in the income statement and unrealized loss from changing in fair value of the quoted securities amounting to KD 59 thousand (31 December 2015: KD 18 thousand) in the other comprehensive income.

The minimum required capital for equity investment as at 31 December 2016 was KD 1,978 thousand (31 December 2015: KD 1,282 thousand).

5.6 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.

5.6.1 Operational Risk Frameworks

The Bank has a set of policies approved by the Board of Directors that 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 in accordance with the Bank's 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 pays special attention to operational risks that may arise from non-compliance to Islamic Sharia principles and any possible failure in fiduciary responsibilities.

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 Bank's business.

Sixth: Investment Accounts

Warba Bank receives fund from depositors through various product structures that comply with Islamic Shariah.

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:

					2016
SN	Account Category	Q1-2016	Q2-2016	Q3-2016	Q4-2016
1	Saving accounts	1.102%	1.019%	1.011%	1.021%

					2015
SN	Account Category	Q1-2015	Q2-2015	Q3-2015	Q4-2015
1	Saving accounts	1.226%	1.225%	1.217%	1.214%

Seventh: Shariah Regulations

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

Shariah Control 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 Shariah Supervisory Board accordingly represents its report to the general assembly in its annual general assembly meeting.

Shariah Board remuneration for the year ended 31 December 2016 amounted to KD 27 thousand (31 December 2015: KD 27 thousand).

Eighth: Bank's Remuneration Policies

Board Nominations & Remunerations Committee

The Committee is chaired by Dr. Mahmoud Ahmad Abdulrahman, and includes as members Mr. Sami Al Rusheid, and Mr. Abdulaziz Abdullah Al Jaber. 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 & 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 Board Risk Committee and/or the Chief Risk 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 & Remunerations Committee during the year was eight meetings, and the total remunerations paid to its members is KD 9 thousand for the year ending on 31 December 2016 (31 December 2015: 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 & 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 & 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).

Code of Business Conduct and Ethics

Warba Bank's practices and activities 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 serving its interests.

Public Disclosure Requirements (Basel III)

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.

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

2016			
SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	<i>Fixed remuneration</i>		
1	- Cash-based	1,247,113.63	-
2	- Shares and share-linked instruments	-	-
3	- Other	53,993.33	-
	<i>Variable remuneration</i>		
4	- Cash-based	251,348	137,245.16
5	- Shares and share-linked instruments	-	-
6	- Other	-	-
	Total	1,552,454.96	137,245.16

2015			
SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	<i>Fixed remuneration</i>		
1	- Cash-based	1,341,353	113,219
2	- Shares and share-linked instruments	-	-
3	- Other	10,008	-
	<i>Variable remuneration</i>		
4	- Cash-based	293,780	-
5	- Shares and share-linked instruments	-	-
6	- Other	-	-
	Total	1,645,141	113,219

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

2016			
SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	<i>Fixed remuneration</i>		
1	- Cash-based	1,262,285	-
2	- Shares and share-linked instruments	-	-
3	- Other	41,754.81	-
	<i>Variable remuneration</i>		
4	- Cash-based	204,687.00	135,269.82

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
5	- Shares and share-linked instruments	-	-
6	- Other	-	-
	Total	1,508,727.29	135,269.82

2015

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

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

2016

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	12	507,255.88	1,689,700.12
2	Material Risk Takers	15	507,255.88	1,643,997.12
3	Financial & Control Functions	10	-	923,376.35

2015

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 & Control Functions	9	-	714,711

- One employee was awarded KD10,000 remunerations on signing the employment contracts (sign-on awards in 2016)

FINANCIAL STATEMENTS

and Independent Auditors' Report

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Ernst & Young
Al Alban, Al Osaimi & Partners
P.O. Box 74
18-21st Floor, Baltak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena



KPMG Safi Al-Mutawa & Partners
Al Hamra Tower, 25th Floor
Abdulaziz Al Saqr Street
P.O. Box 24, Safat 13001
State of Kuwait
Tel : + 965 2228 7000
Fax + 965 2228 7444

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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



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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of financing receivables

Financing receivables are accounted for at amortised cost less any impairment charges. Impairment of financing receivables is a highly subjective area due to the level of judgment applied by management in determining provisions and the management is required to identify those financing receivables that are deteriorating, make an objective assessment for evidence of impairment, the value of collateral and the assessment of the recoverable amount.

Due to significance of financing receivables and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies and the management's assessment of the credit risk and their responses to such risks, including the management's risk management policies, are given in note 2.4 to the financial statements.

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

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

We also assessed whether the financial statements disclosures appropriately reflect Bank's exposure to credit risk.



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

Report on the Audit of the Financial Statements (continued)

Other information included in the Bank's 2016 Annual Report

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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



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

Report on the Audit of the Financial Statements (continued)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



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

Report on the Audit of the Financial Statements (continued)

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

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

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/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016 and its executive regulations, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016 and its executive regulations, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

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


WALEED A. AL OSAIMI
LICENSE NO. 68 A
EY
AL-AIBAN, AL-OSAIMI & PARTNERS

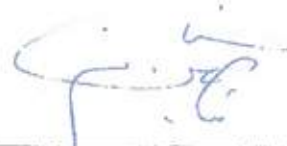
SAFI A. AL-MUTAWA
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OF KPMG SAFI AL-MUTAWA & PARTNERS
MEMBER FIRM OF KPMG INTERNATIONAL

Kuwait: 11 January 2017

Warba Bank K.S.C.P.
STATEMENT OF FINANCIAL POSITION
 As at 31 December 2016

	Notes	2016 KD'000	2015 KD'000
ASSETS			
Cash and balances with banks	3	5,480	3,845
Placements with banks		166,940	133,355
Financing receivables	4	827,872	543,794
Available-for-sale investments	5	99,825	68,661
Investment properties	6	14,815	15,127
Other assets		6,387	4,949
Property and equipment		5,643	6,376
TOTAL ASSETS		1,126,962	776,107
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	7	274,131	244,333
Depositors' accounts	8	750,498	433,465
Other liabilities		7,561	6,029
TOTAL LIABILITIES		1,032,190	683,827
EQUITY			
Share capital	9	100,000	100,000
Accumulated losses		(4,798)	(7,373)
Fair value reserve		(430)	(347)
TOTAL EQUITY		94,772	92,280
TOTAL LIABILITIES AND EQUITY		1,126,962	776,107


 Abdulwahab A. Al Hourri
 Chairman


 Shaheen H. Al Ghanem
 Chief Executive Officer

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

Warba Bank K.S.C.P.
STATEMENT OF INCOME
For the year ended 31 December 2016

	<i>Notes</i>	2016 <i>KD'000</i>	2015 <i>KD'000</i>
Placements and financing income		31,094	20,217
Finance costs and distribution to depositors		(14,678)	(8,182)
Net financing income		16,416	12,035
Net investment income	10	4,339	3,683
Net fees and commission income	11	1,583	2,120
Other income		185	166
Foreign exchange gain		261	75
Operating income		22,784	18,079
Staff costs		(9,304)	(9,001)
General and administrative expenses		(4,067)	(3,387)
Depreciation		(1,631)	(1,602)
Operating expenses		(15,002)	(13,990)
Operating profit before provision for impairment		7,782	4,089
Provision for impairment	4	(5,063)	(3,005)
Profit before deductions		2,719	1,084
National Labor Support Tax (NLST)		(64)	(33)
Zakat		(20)	(9)
Directors' remuneration		(60)	(42)
Net profit for the year		2,575	1,000
Basic and diluted earnings per share	12	2.58 fils	1.00 fils

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

Warba Bank K.S.C.P.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 KD'000	2015 KD'000
Net profit for the year		<u>2,575</u>	<u>1,000</u>
Other comprehensive loss:			
<i>Items that are or may be reclassified subsequently to statement of income</i>			
Change in fair value of available-for-sale investments		(39)	(466)
Gain on sale of available-for-sale investments realized during the year, transferred to statement of income	10	<u>(44)</u>	<u>(119)</u>
Other comprehensive loss for the year		<u>(83)</u>	<u>(585)</u>
Total comprehensive income for the year		<u><u>2,492</u></u>	<u><u>415</u></u>

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

Warba Bank K.S.C.P.**STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2016

	<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 2016	100,000	(7,373)	(347)	92,280
Net profit for the year	-	2,575	-	2,575
Other comprehensive loss	-	-	(83)	(83)
Total comprehensive income for the year	-	2,575	(83)	2,492
Balance at 31 December 2016	100,000	(4,798)	(430)	94,772
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

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

Warba Bank K.S.C.P.
STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	<i>Notes</i>	2016 KD'000	2015 KD'000
OPERATING ACTIVITIES			
Net profit for the year		2,575	1,000
Adjustments for:			
Realised gain on sale of available-for-sale investments	10	(44)	(119)
Dividend income	10	(1,759)	(630)
Sukuk income	10	(1,873)	(1,521)
Net rental income from investment properties	10	(559)	(742)
Other investment income	10	(104)	(671)
Provision for end of service benefits		368	230
Depreciation		1,631	1,602
Provision for impairment	4	5,063	3,005
		<u>5,298</u>	<u>2,154</u>
<i>Changes in operating assets and liabilities:</i>			
Placements with banks		(46,351)	37,769
Financing receivables		(289,064)	(158,540)
Other assets		(1,440)	(1,786)
Due to banks and other financial institutions		29,798	91,247
Depositors' accounts		317,033	87,373
Other liabilities		426	724
		<u>15,700</u>	<u>58,941</u>
Net cash generated from operating activities			
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		(45,673)	(32,030)
Proceed from sale and redemption of available-for-sale investments		14,919	17,299
Purchase of property and equipment		(898)	(1,443)
Dividend income received		1,759	630
Sukuk income received		2,099	1,882
Rental income received		963	1,002
		<u>(26,831)</u>	<u>(12,660)</u>
Net cash used in investing activities			
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
		(11,131)	46,281
Cash and cash equivalents at 1 January		127,636	81,355
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	<u><u>116,505</u></u>	<u><u>127,636</u></u>

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

Warba Bank K.S.C.P.**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2016

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 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 11 January 2017. The Annual General Assembly of the shareholders of the Bank has the power to amend these financial statements after issuance.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016, cancelled the Companies Law No 25 of 2012, and its amendments. According to Article No. 5, the new Law was effective retrospectively from 26 of November 2012. The Minister of Commerce has issued the Executive Regulations of Law No 1 of 2016 (by Ministerial Resolution No 287 of 2016 issued on 12 July 2016) and cancelled the Executive regulations of Company Law No 25 of 2012. The new Executive Regulations were effective from 17 July 2016, date of published in Kuwait Gazette. As per Article No. 21 of the new Executive Regulations, all companies have a grace period of 6 months from the date of publication of the Executive Regulation to comply with the new regulations.

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 used in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of the amendments to the existing standards relevant to the Bank, effective as of 1 January 2016.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Bank, given that it has not used a revenue-based method to depreciate its non-current assets.

*Annual Improvements 2012-2014 Cycle**IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment did not have any impact on the financial statements of the Bank.

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 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 income and other comprehensive income 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 other comprehensive income 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 statement of income.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of income and other comprehensive income. These amendments do not have any impact on the financial statements of the Bank.

Other amendments to IFRSs which are effective for accounting periods starting from 1 January 2016 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.

IFRS 9 – Financial Instruments

The IASB issued IFRS 9 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.

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 16 – Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of income.

Warba Bank K.S.C.P.**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2016

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)*IFRS 16 – Leases (continued)*

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

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.

Warba Bank K.S.C.P.**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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 customer 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.

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

Available-for-sale investments 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 the 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 the 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.

Warba Bank K.S.C.P.**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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.

Warba Bank K.S.C.P.**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of financial assets (continued)**

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.

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 commercial banks and the CBK" and Placements with banks and the CBK maturing within 3 months of contract date.

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.

Warba Bank K.S.C.P.**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Property and equipment**

Property and equipment is 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 recognized:

- (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.

Warba Bank K.S.C.P.**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2016

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.

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

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	2016 KD'000	2015 KD'000
Cash	1,616	1,005
Current account with the CBK	352	219
Current accounts with commercial banks	3,512	2,621
Cash and balances with banks	5,480	3,845
Placements with the CBK whose original maturity is within 3 months	44,054	48,038
Placements with banks whose original maturity is within 3 months	66,971	75,753
Cash and cash equivalents	116,505	127,636

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.

	2016 KD'000	2015 KD'000
Murabaha receivables	747,578	445,059
Ijara receivables	143,198	144,314
Others	1,585	1,660
Less: deferred profit	(51,795)	(38,792)
Financing receivables before provision for impairment	840,566	552,241
Less: provision for impairment	(12,694)	(8,447)
	827,872	543,794

Warba Bank K.S.C.P.
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2016

4. FINANCING RECEIVABLES (continued)

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

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Corporate	479,597	294,641
Individuals	360,969	257,600
Financing receivables before provision for impairment	840,566	552,241
Less: provision for impairment	(12,694)	(8,447)
	827,872	543,794

Movement in provision for impairment:

	<i>2016</i>			<i>2015</i>		
	<i>Specific provision KD'000</i>	<i>General provision KD'000</i>	<i>Total KD'000</i>	<i>Specific provision KD'000</i>	<i>General provision KD'000</i>	<i>Total KD'000</i>
<i>Cash facilities</i>						
Balance at 1 January	1,808	6,639	8,447	745	4,768	5,513
Provision charged during the year	1,631	3,355	4,986	1,063	1,842	2,905
Written off	(750)	-	(750)	-	-	-
Foreign currency movement	7	4	11	-	29	29
Balance at 31 December	2,696	9,998	12,694	1,808	6,639	8,447
<i>Non-cash facilities</i>						
Balance at 1 January	-	174	174	-	74	74
Provision charged during the year	-	77	77	-	100	100
Balance at 31 December	-	251	251	-	174	174
<i>Total facilities</i>						
Balance at 1 January	1,808	6,813	8,621	745	4,842	5,587
Provision charged during the year	1,631	3,432	5,063	1,063	1,942	3,005
Written off	(750)	-	(750)	-	-	-
Foreign currency movement	7	4	11	-	29	29
Balance at 31 December	2,696	10,249	12,945	1,808	6,813	8,621

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.

Warba Bank K.S.C.P.
NOTES TO THE FINANCIAL STATEMENTS
 As at 31 December 2016

5. AVAILABLE-FOR-SALE INVESTMENTS

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Quoted sukuk	71,820	51,283
Quoted equity security	837	896
Unquoted sukuk	2,000	-
Unquoted equity security	4,098	4,098
Unquoted funds and portfolio	21,070	12,384
	<u>99,825</u>	<u>68,661</u>

All available for sale investments are recorded at fair value except for unquoted investments with a carrying value of KD 25,168 thousand (2015: KD 16,482 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>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Balance at 1 January	15,127	15,340
Depreciation and impairment charged for the year	(312)	(213)
Balance at 31 December	<u>14,815</u>	<u>15,127</u>

The fair value of the investment properties at the reporting date is KD 15,632 thousand (2015: KD 15,916 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>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Rental income from investment properties	983	1,040
Direct operating expenses, depreciation and impairment (net)	(424)	(298)
Net rental income arising from investment properties (note 10)	<u>559</u>	<u>742</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.

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

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 (2015: 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.

Sukuk issuance

The Bank is in the process of issuing sukuk which are eligible for tier 1 capital by maximum amounting of USD 250 million for which necessary CBK approval has been obtained. Currently, the Bank is in the process of conducting road show and is expected to issue the sukuk in early 2017.

10. NET INVESTMENT INCOME

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Realised gain on sale of available-for-sale investments	44	119
Dividend income	1,759	630
Sukuk income	1,873	1,521
Net rental income from investment properties (note 6)	559	742
Other investment income	104	671
	<u>4,339</u>	<u>3,683</u>

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

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11. NET FEES AND COMMISSION INCOME

Net fees and commission income included financing syndication fees earned on the successful completion of syndicated deals by the Bank amounting to KD 1,005 thousand (2015: KD 1,996 thousand).

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:

	2016	2015
Net profit for the year (KD'000)	2,575	1,000
Weighted average number of shares outstanding ('000)	1,000,000	1,000,000
Basic and diluted earnings per share (fils)	2.58	1.00

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 KD'000</i>	<i>Board members and executive officials KD'000</i>	<i>Other related parties KD'000</i>	<i>Total 31 December 2016 KD'000</i>	<i>Total 31 December 2015 KD'000</i>
Finance facilities	-	110	24	134	134
Credit cards	-	47	2	49	5
Depositor's accounts	393,532	330	149	394,011	191,760

	<i>No. of major shareholders</i>	<i>No. of Board members and executive officials</i>	<i>No. of other related parties</i>
2016			
Finance facilities	-	5	2
Credit cards	-	14	3
Depositor's accounts	2	8	16
2015			
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 KD'000</i>	<i>Board members and executive officials KD'000</i>	<i>Other related parties KD'000</i>	<i>Total 31 December 2016 KD'000</i>	<i>Total 31 December 2015 KD'000</i>
Placements and financing income	-	3	-	3	2
Finance costs and distributions to depositors	5,094	-	-	5,094	2,715

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 NOTES TO THE FINANCIAL STATEMENTS
 As at 31 December 2016

13. TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation to key management personnel and remuneration of board members:

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Salaries and other short-term benefits	1,552	1,645
Post-employment benefits	137	113
Remuneration of Board members *	126	42
	<u>1,815</u>	<u>1,800</u>

* Remuneration of Board members includes special compensation for additional contributions related to participation in the executive committees in accordance with Board of Directors' decisions.

The remuneration of Board members is subject to the approval of the Annual General Assembly.

14. COMMITMENTS AND CONTINGENT LIABILITIES

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Acceptances and letters of credit	9,140	11,040
Letter of guarantees	41,156	23,827
Contingent liabilities	<u>50,296</u>	<u>34,867</u>
Capital commitments	<u>238</u>	<u>575</u>
Operating lease rental commitments - Bank as a lessee		
Future minimum lease payments:		
Within one year	1,508	1,495
Within two to five years	6,049	6,032
	<u>7,557</u>	<u>7,527</u>
Operating lease rental commitments - Bank as a lessor		
Future minimum lease receivable:		
Within one year	833	983
Within two to five years	3,336	3,333
	<u>4,169</u>	<u>4,316</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 appetite 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 operations:

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

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

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NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

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, liquidity risks and 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.

Risk Management Group

An independent Risk Management Group headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for Enterprise-wide risks, to assist the Board and BRC in carrying out the risk oversight responsibility.

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 approves the various financing and investment proposals on behalf of the Board of the Bank.

The Risk Management Group 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.

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

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 net of impairment, before the effect of mitigation through the use of master netting and collateral agreements, where applicable.

	<i>Net maximum exposure</i>	
	<i>2016</i>	<i>2015</i>
	<i>KD'000</i>	<i>KD'000</i>
Credit risk exposures relating to statement of financial position items:		
Balances with banks	3,864	2,840
Placements with banks	166,940	133,355
Financing receivables	827,872	543,794
Available-for-sale investments (investment in Sukuk)	73,820	51,283
Other assets	4,380	3,708
Total	1,076,876	734,980
	<i>Net maximum exposure</i>	
	<i>2016</i>	<i>2015</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	9,094	10,985
Letter of guarantees	40,951	23,708
Total	50,045	34,693
Total credit risk exposure	1,126,921	769,673

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 2016 amounted to KD 15,192 thousand (2015: KD 14,068 thousand) before taking account of collateral.

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

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:

	2016		2015	
	<i>Financial assets KD'000</i>	<i>Off- statement of financial position items KD'000</i>	<i>Financial assets KD'000</i>	<i>Off- statement of financial position items KD'000</i>
<i>Geographic region:</i>				
Kuwait	870,756	45,357	594,384	34,693
Other Middle East	175,673	-	112,944	-
Rest of the World	30,447	4,688	27,652	-
	<u>1,076,876</u>	<u>50,045</u>	<u>734,980</u>	<u>34,693</u>
<i>Industry sector:</i>				
Banks and Financial Institutions	288,819	4,688	161,414	-
Construction and Real Estate	375,412	32,898	252,249	13,509
Trading and Manufacturing	150,463	8,962	92,519	5,301
Other	262,182	3,497	228,798	15,883
	<u>1,076,876</u>	<u>50,045</u>	<u>734,980</u>	<u>34,693</u>

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.

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality of financial instruments (continued)

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>	
2016				
Balances with banks	3,864	-	-	3,864
Placements with banks	166,940	-	-	166,940
Financing receivables	523,346	291,921	25,299	840,566
Available-for-sale investments (investment in Sukuk)	59,579	14,241	-	73,820
Other assets	3,850	530	-	4,380
	<u>757,579</u>	<u>306,692</u>	<u>25,299</u>	<u>1,089,570</u>
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>

Ageing analysis of past due but not impaired finance facilities by class of financial assets:

	<i>Less than 30 days KD'000</i>	<i>31 to 60 days KD'000</i>	<i>61 to 90 days KD'000</i>	<i>Total KD'000</i>
	2016			
Financing receivables	<u>12,941</u>	<u>5,612</u>	<u>987</u>	<u>19,540</u>
2015				
Financing receivables	<u>8,915</u>	<u>1,016</u>	<u>609</u>	<u>10,540</u>

c) 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

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

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

c) Market risk (continued)

Market risk management (continued)

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
- Measuring Value-at-Risk for market sensitive positions and monitoring the same against established limits

The Bank is required to comply with the guidelines and regulations of the CBK. The Market Risk policies and procedures and the market risk limits are periodically set and reviewed to ensure the implementation of the Bank's market risk appetite.

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 exposure or instrument. The Bank is susceptible to profit rate risk as value of Bank's fixed income investments and/ or return on financing are inversely proportional to movement in market rates. Moreover, change in profit rates might also impact Bank's net earnings or earnings spread.

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.

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. 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	2016			2015		
	Change in currency rate %	Effect on result KD 000's	Effect on fair value reserve KD 000's	Change in currency rate %	Effect on result KD 000's	Effect on fair value reserve KD 000's
USD	+1	(201)	8	+1	(88)	9
SAR	+1	(21)	-	+1	(24)	-
GBP	+1	1	-	+1	1	-

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 listed equity instruments. For such investments classified as available-for-sale, a five percent increase in stock prices as at 31 December 2016 would have increased equity by KD 42 thousand (31 December 2015: KD 45 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.

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

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

Liquidity risk arises when the Bank may be unable to meet its obligations associated with its financial liabilities. Liquidity risk can be caused by market disruptions, credit downgrades or market perception, which may cause certain sources of funding to dry up immediately. To limit this risk, the Bank 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 and liquidity if and when required. The Bank has in place a Contingency Funding Plan (CFP) to ensure required action is implemented in the event of any liquidity contingencies. ALCO is responsible for invoking the CFP.

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.

The Risk Management Group and Treasury monitor the Bank's liquidity profile daily and take appropriate steps, if required. The Bank's liquidity profile is monitored on daily basis; overall assets and liabilities as well as for KD and foreign currencies (FCY), on the 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:

2016	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	5,480	-	-	-	5,480
Placements with banks	153,346	13,594	-	-	166,940
Financing receivables	483,123	140,640	31,069	173,040	827,872
Available-for-sale investments	31,245	711	-	67,869	99,825
Investment properties	-	-	-	14,815	14,815
Other assets	1,708	439	251	3,989	6,387
Property and equipment	-	-	-	5,643	5,643
	<u>674,902</u>	<u>155,384</u>	<u>31,320</u>	<u>265,356</u>	<u>1,126,962</u>
Liabilities					
Due to banks and other financial institutions	116,407	59,849	87,752	10,123	274,131
Depositors' accounts	491,233	136,246	123,019	-	750,498
Other liabilities	6,603	-	-	958	7,561
	<u>614,243</u>	<u>196,095</u>	<u>210,771</u>	<u>11,081</u>	<u>1,032,190</u>

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

2015	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	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
	<u>375,332</u>	<u>118,939</u>	<u>68,781</u>	<u>213,055</u>	<u>776,107</u>
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
	<u>403,101</u>	<u>166,861</u>	<u>92,300</u>	<u>21,565</u>	<u>683,827</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
2016					
Due to banks and other financial institutions	116,569	60,404	89,085	10,429	276,487
Depositors' accounts	492,019	137,398	124,828	-	754,245
Other liabilities	6,603	-	-	958	7,561
	<u>615,191</u>	<u>197,802</u>	<u>213,913</u>	<u>11,387</u>	<u>1,038,293</u>
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>

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

d) 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>
2016				
Acceptances and letters of credit	6,166	2,974	-	9,140
Letter of guarantees	8,141	13,773	19,242	41,156
Capital commitments	-	238	-	238
	<u>14,307</u>	<u>16,985</u>	<u>19,242</u>	<u>50,534</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>
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>

e) 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.

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

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.

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>
2016						
Segment operating income	13,467	4,436	801	4,080	-	22,784
Segment result	8,358	(1,649)	622	3,716	(8,472)	2,575
Segment assets	655,687	172,185	166,940	114,640	17,510	1,126,962
2015						
Segment operating income	9,773	3,426	586	4,294	-	18,079
Segment result	6,705	(1,862)	440	4,038	(8,321)	1,000
Segment assets	416,335	127,458	133,355	83,789	15,170	776,107

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.

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.

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

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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 2016 are calculated in accordance with CBK circular number 2/RB/ RBA/336/2014 dated 24 June 2014 are shown below:

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Risk weighted assets	563,240	370,321
Capital required	73,221	46,290
Capital available		
Common equity Tier 1 "CET1" capital	94,772	92,280
Total Tier 1 capital	94,772	92,280
Total Tier 2 capital	6,591	4,273
Total capital available	101,363	96,553
CET1 capital adequacy ratio	16.83%	24.92%
Total Tier 1 capital adequacy ratio	16.83%	24.92%
Total capital adequacy ratio	18.00%	26.07%

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

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Tier 1 capital	94,772	92,280
Total exposure	1,159,366	796,866
Financial leverage ratio	8.17%	11.58%

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 and disclosures related to financial leverage ratio as stipulated in CBK circular number 2/RBA/343/2014 dated 21 October 2014 are included under the 'Risk Management' section in the annual report.

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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:

2016	Date of valuation	Total KD'000	Fair value measurement			
			Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000	
<i>Assets measured at fair value</i>						
Financial assets available-for-sale						
Sukuk						
-	Government Sukuk	31 December 2016	31,009	31,009	-	-
-	Corporate Sukuk	31 December 2016	40,811	40,811	-	-
	Quoted equity security	31 December 2016	837	837	-	-
	Unquoted Sukuk	31 December 2016	2,000	-	-	2,000
<i>Assets measured at cost while fair value is disclosed</i>						
Investment properties						
-	Kuwait	31 December 2016	10,307	-	-	10,307
-	Other Middle East	31 December 2016	5,325	-	-	5,325
2015	Date of valuation	Total KD'000	Fair value measurement			
			Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000	
<i>Assets measured at fair value</i>						
Financial assets available-for-sale						
Sukuk						
-	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						
-	Kuwait	31 December 2015	10,450	-	-	10,450
-	Other Middle East	31 December 2015	5,466	-	-	5,466

During the years ended 31 December 2016 and 2015, there were no transfer between Level 1, Level 2 and Level 3.

Movement in asset measured at fair value and classified under level 3 mainly represents purchases made during the year.

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.