



بنك وربة
WARBA BANK
نتميز بالحلول

2017
Annual Report

**A Year of
Achievements**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

﴿ فِي السَّمَاءِ رِزْقُكُمْ وَمَا تُوعَدُونَ ﴾

الذاريات ٢٢

{.. 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-Ahmed Al-Jaber Al-Sabah
The Amir of the State of Kuwait



H. H. Sheikh
Nawaf Al-Ahmed Al-Jaber Al-Sabah
The Crown Prince



H. H. Sheikh
Jaber Al-Mubarak Al-Hamad Al-Sabah
The 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 25.3% (Direct & Indirect), Al Sayer Group Holding Company at 10.006% (Indirect) and The Public Institution for Social Security (PIFSS) at 6.417% (Indirect). 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 an Islamic Corporate and Investment Banking Champion in Kuwait with a lean digitally enabled Retail business.

MISSION

- Help our customers fulfil their life ambitions and grow their businesses by providing innovative financial solutions and outstanding experiences.
- Provide our staff with rewarding growth opportunities and a healthy work environment.
- Deliver steady, growing returns to our shareholders.

RETAIL BANKING BRANCHES:

12 branches, 16 branch ATMs and 20 offsite ATMs

Hawalli branch	Beirut St – eMall
Qibla branch	Fahad Al Salem St – Awtad Mall – Next to Muthanna Complex
Salmiya branch	Laila Gallery Complex – Next to Ruby Tuesday Restaurant
Sharq branch	Ahmed Al Jaber St – Next to the Police Station Roundabout
Farwaniya branch	Habib Al Monawir St – Next to Metro Complex and Muzaini Exchange
Avenues Mall branch	Grand Avenues – By the Entrance, next to Al Hamra Restaurant
Al Jahra branch	Old Jahra – Marzoug AlMeteb St. – Next to Sahara Mall
Fahaheel branch	Remal Complex – Balat Al-Shuhadaa St.
Eqaila branch	Arabiya Mall – in front of Sama Mall
Mubarak Al-Abdullah branch	West Mishref – PIFSS Building
AlShuhada branch	AlShuhada Block 4, 420 Street, close to Shuhada Co-Operative Society
Almangaf branch	Almangaf Block 4, Fahad Al Hamlan Street, close to Al Mangaf Co-Operative Society .



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Chairman's Message

Praise be to Allah the Almighty, and Peace and Blessings be upon our Prophet Muhammad (PBUH), his family and companions.

Dear Esteemed Shareholders, Peace be upon you...

On behalf of colleagues in the Board of Directors, the Executive Management and myself, I am pleased to present to you the 2017 Warba Bank Annual Report.

Once again, I have the pleasure to see you after a year of fruitful efforts, success stories and achievements to present Warba Bank's 7th annual report and the audited financial statements for the fiscal year ending 31 December 2017 highlighting the positive and lucrative results and significant qualitative achievements at all levels across the Bank for the previous fiscal year.

In 2017, the global economy witnessed satisfactory growth and recovery in global, regional and domestic financial markets, this has coincided with an increase in oil prices due to the decision to decrease the production of oil until the end of 2018, despite concerns of growth slowdown as well as restructuring challenges in many economies around the world.

In addition, the GCC markets were exposed to severe fluctuations in 2017 due to sensitive conditions prevailing in the region. GCC countries continue to adjust their spending policies and diversify their economies by encouraging non-oil sectors to achieve sustainable growth and create more job opportunities. As the world entered the new year 2018, we proceed cautiously but hopefully towards achieving our goals while remaining confident in the strength and resilience of Kuwait's economy, especially the banking sector, and its capabilities to confront various challenges in light of the favorable operating environment in support of the banking sector.

Dear Shareholders,

From the very beginning of 2017, Warba Bank launched a new strategic plan for the period from 2017 to 2021, fully committed to its customers and shareholders to be an Islamic Corporate and Investment Banking Champion in Kuwait with a lean digitally enabled retail business. In 2017, The Bank succeeded in laying the foundation for this Plan that greatly contributed towards insuring a strong position amid Islamic banks in the local market and enhancing its market share. Now, after the first year of the implementation, we started to reap the fruits of the hard work exerted by the Bank's executive management supported and guided by the members of the Board of Directors. The Bank has achieved remarkable results: The net profit grew to reach 163% or KD 6.768 million at the end of 2017 compared to KD 2.575 million at the end of 2016. The growth in total revenues reached 62% or KD 61 million compared to KD 37.611 million at the end of the previous year while the total assets increased to KD 1.773 billion compared to KD 1.127 billion at the end of 2016 at a growth rate of 57%.

The Bank's financing portfolio grew by 53% or KD 1.263 billion compared to KD 828 million at the end of 2016. This growth confirms the Bank's success in maintaining the quality of its financing portfolio and enhancing the Bank's asset management capabilities, optimal use of the available opportunities for investing funds while maintaining sound balance between liquidity, profitability and risk levels. Customers' deposits increased by 35% during the year reaching KD 1.009 billion compared to KD 750 million at the end of previous year.

Meantime, during the 1st Quarter 2017, the Bank achieved impressive results by marketing US \$ 250 million Tier 1 Capital Sukuk Issuance in accordance with Islamic Sharia'a and Basel III requirements for Islamic Capital Adequacy Standards. Thanks to Allah and the efforts of the team, the issuance was five times oversubscribed and the Sukuk have been listed on the NASDAQ Dubai and the Irish Stock Exchange. Sukuk proceeds have been distributed to investors on time and this will, undoubtedly, enhance investors' confidence in the Bank over the short and long terms and enhance its position and reputation in global and regional markets.

As for the Bank's achievements across the various business sectors throughout 2017, we are proud to announce that the Investment Banking Group, In line with the Bank's strategic plan, has succeeded to enhance the Bank's investment portfolio particularly in the real estate sector by investing in high quality and low risk assets yielding profitable returns to investors. These most notably include real estate and facilities acquisitions in the United States of America and the United Kingdom. In addition, the Treasury Group is building a portfolio of Sukuk issued

by governments and international institutions that secures regular returns to the Bank and its customers. The Corporate Banking Group has been diversifying the Bank's financing portfolio by extending finance to all sectors and participating in syndicated financing provided to local and international banks and institutions. The Retail Banking Group has managed to open two new branches in Al Shuhadaa and Al Mangaf areas as part of the Bank's Expansion Plan. The Bank's branch network is currently covering all governorates of the State of Kuwait through 12 branches providing cutting edge digital retail banking services that meet the needs of all segments of society.

In October 2017, Moody's Investors Service "Moody's" affirmed the Bank's long and short term local and foreign currency deposit ratings of Baa2/Prime-2 with stable outlook. Meanwhile Fitch Rating reaffirmed the Bank's rating at A+ with a stable outlook and upgraded Viability Rating from B+ to BB-. This reflects the integrity of the asset quality indicators, the solidity of the Bank's financing portfolio and the low ratio of the non-performing assets that is considered one of the lowest in the domestic banking sector.

The Bank has won many awards for its diligent endeavors including "the Best Corporate Bank in Kuwait" and "the Best Investment Bank in Kuwait" from The Banker Middle East and "the Fastest Growing Bank in Kuwait" for the third consecutive year from the latter. In March 2017, the Bank was awarded "Bank of the Year - 2016" from the European Magazine. These awards embody the Bank's success reflected by its balanced growth indicators in terms of revenues, assets deposits, and the changing rate of return on equities.

I would also like to seize this opportunity, for myself and on behalf of the members of the Board of Directors, to express our sincere gratitude and appreciation to His Highness, the Amir of the State of Kuwait Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, His Highness the Crown Prince, Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah and H.H. The Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah bless them for their continuous support to the banking sector in Kuwait. I would also like to highly praise regulatory bodies and the relevant government agencies for their positive and effective guidance and support to the Bank. I also would like to extend my thanks to our dear customers and shareholders for their trust and confidence in Warba Bank.

Finally, I would like to express sincere gratitude and appreciation to the members of the Board of Directors and the Committees of the Board for their diligent efforts in serving the Bank. In appreciation for their efforts, total remunerations of KD 80,000 has been allocated as remunerations to the Board members for the fiscal year ended 31 December 2017. I also extend thanks to the honorable Chairman and members of the Fatwa and Shari'a Supervisory Board, the Executive Management and all staff members for their full dedication and commitment towards developing and taking the Bank to new heights.

May Allah, the Almighty, bless and guide our efforts towards success.

Allah is the best guardian,,,



Abdulwahab A. Al Houti
Chairman





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BOARD OF DIRECTORS



ABDULWAHAB A. AL HOUTI
Chairman



BASEL AHMED ALHAROUN
Vice Chairman



AHMED ABDULAZIZ ALGHANNAM
Board Member



SAMI FAHAD ALRUSHAID
Board Member



ABDULAZIZ A. AL JABER
Board Member



MOHAMED A. SALEEM
Board Member



MOHAMED R. AL MUTAWA
Board Member



MUSAAB OMAR AL FULAIJ
Board Member



HANI A. HUSSAIN
Board Member



HISHAM A. AL REZOQI
Board Member

A hand holding a pen over a document with a bar chart, overlaid with a blue geometric shape.

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EXECUTIVE MANAGEMENT



SHAHEEN H. AL-GHANEM
Chief Executive Officer



BASEL J. AL-OBEID
Chief Corporate Banking Officer



KHALED H. HAFEZ
Chief Financial Officer



SIMON L. CLEMENTS
Chief Retail Banking Officer



MOHAMED EL SHAREEF
Chief Strategic Planning Officer



HAYTHAM A. AL TERKAIT
Chief Technology Officer



MAHMOUD M. YOUSEF
Chief Internal Auditor



ESAM ALSHAYA
Chief Human Resources &
General Services Officer



MOHAMED IQBAL
Treasurer



THUWAINI K. ALTHUWAINI
Acting Chief Investment Officer



ZAHID RASHEED
Acting Chief Operation Officer



AMIN ABDULRAHMAN
Acting Chief Risk Officer



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**FATWA AND SHARIA
SUPERVISORY BOARD MEMBERS**



SHEIKH DR. ISSA ZAKI ISSA
Chairman, FSSB



SHEIKH DR. MOHAMMAD OUD AL FUZAI
Member, FSSB



SHEIKH DR. ISSAM KHALAF AL ENEZI
Member and Rapporteur, FSSB



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**Fatwa and Sharia
Supervisory Board Report**

REPORT OF FATWA AND SHARIA SUPERVISORY BOARD FOR THE FISCAL YEAR ENDING ON 31 DECEMBER 2017

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 31/12/2017. 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 and purifying any non-sharia compliant income 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 31/12/2017, 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.

During the fiscal year ending on 31/12/2017, FSSB held 12 meetings attended by all members.

Finally, we supplicate to 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. Issa Zaki Issa
Chairman, FSSB



Sheikh Dr. Issam Khalaf Al Enezi
Member and Rapporteur, FSSB



Sheikh Dr. Mohammad Oud Al Fuzai
Member, FSSB

The background of the cover features a magnifying glass with a green rim, positioned over a financial chart. The chart includes a bar chart with blue bars and a line graph with a blue line. The chart is set against a light blue background with a white grid. The magnifying glass is positioned in the lower right quadrant, with its handle extending towards the bottom right corner. The text '2017 Annual Report' is overlaid on a dark blue triangular shape in the lower right quadrant.

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Management Discussion and Analysis Report

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INTRODUCTION

Warba Bank's Corporate Governance and Risk Management 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 are set-up specifically for Risk, Governance and Audit to assist the Board of Directors in discharging its responsibility. Independent 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. The Bank is also regularly inspected by the Central Bank of Kuwait.

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) is headed by the Chief Risk Officer (CRO) and operates independent of all business lines to provide oversight on 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 risks and growth objectives.

RMG coordinates and engages with each line of business through-out the business cycle to optimise the Bank's 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, and Information Security 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 returns target, within the framework of regulatory controls applicable to the Bank and the Capital Adequacy Ratio (CAR) requirements. RMG is also 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 emerging risks, conducting stress tests of associated risks encountered by the Bank. RMG provides guidance and balance to business activities, advises the Executive Management, informs the Board Committees and the Board of Directors on the Bank's position and performance within approved risk parameters or recommend the need for fine-tuning the risk profile of the Bank due to ever-changing macro-economic and/or business and geo-political risks.

RETAIL BANKING GROUP

The Retail Banking Group enjoyed a year of significant growth through 2017. In addition to this balance sheet growth the group has added a large number of new services to the online and mobile channels which have been well received in the market. This growth, witnessed in all areas has resulted in strong revenue growth for the group.

The bank's distribution network has now grown to 12 branches with more expansion planned in the year ahead. In addition rationalization has seen our costs reduced and one branch, Hawally, relocated to a more attractive location. With the municipality lifting the restriction of only 3 banks being allowed in any residential area, the challenge of branch expansion should be eased to some degree as we move forward. In addition the deployment of our Express Banking solution will make many traditional branch transactions available to our customers 24 hours a day. This solution is a combination of self service for deposits and withdrawals and assisted transactions such as account opening, card issuance, finance application etc. The customer is assisted through a video link to our call centre where agents are available 24/7.

The bank now has 36 ATMs in both branch and off-site locations. The off-site ATM work has expanded with a focus on heavy footfall locations. This network, in spite of the low ATM fee structure in Kuwait, now produces a positive

revenue stream for the group. Towards the end of 2017, we have replaced our ATMs with the latest ATMs. This has not only lowered our costs but also provides us with the latest ATM security technology.

Retail assets have again grown strongly during 2017 with all channels achieving impressive results. The branch network although small compensates for this through aggressive calling programs in their local communities. The Direct Sales team has grown during the year and are achieving some of the highest sales productivity rates in the market. In addition to this our innovative approach to auto finance supported by our physical presence in 18 dealerships has allowed us to attain a leading position in the auto financing market.

Deposit gathering has been another area of focus and again we have seen strong progress. Our deposit base has grown by over 150% year on year with individual customer deposits taking the major share of this growth. The "Sunbula Savings" account launched in 2016 has continued to thrive and attract new customers to the bank. To compliment this, a new fixed deposit product "Sunbula FD" was launched in September 2017. This product has also been well accepted in the market attracting a significant amount of new funds to the bank.

Our Card business has continued to grow during the year we have introduced both Visa Signature and Mastercard World credit cards for our affluent segments. Both cards offer a wide array of benefits for our customers. In addition we have enhanced the security for our customers when shopping on line through the introduction of 3D secure. In addition we have successfully launched a new premier debit card and cash deposit card for non-individual clients.

Continuing our strategy of offering services anywhere and at anytime we have upgraded the functionality of both our online and mobile banking applications. Now clients can perform a wide array of transactions without visiting the branch. Whilst this has enhanced our service levels it has also reduced costs and increasingly allowed the branch network to focus on sales and service. The group makes strong use of social media not only to advertise products and services but also to receive customer feedback.

Our service quality levels are continuously monitored by independent third parties and we have continued to provide some of the highest service levels in the market. The introduction of regular product knowledge tests for staff across the group has assisted us in providing consistent service across the channels as well as identifying training needs.

CORPORATE BANKING GROUP

The Corporate Banking Group "CBG" is responsible for providing credit services to Warba Bank corporate and high net-worth individual customers. Our implemented 5 year strategy is designed to secure strengthening our relations with the existing customers and acquiring new profitable relationships.

In 2017, CBG succeeded in achieving significant growth in credit portfolio through targeting vital diversified sectors in the domestic market, achieving a targeted balance between the granted cash and non-cash facilities while maintaining low risk levels. This has positively impacted the year end results.

CBG - Warba Bank managed during a short period since Inception to have a niche' market position among other banks in the market place and to act as strong competitor and to participate in number of syndications with large local banks.

CBG is presenting to the customers dynamic financing products and services through a dedicated team and product specialists working together to meet all financial services and product requirements. This team is aiming to serve the customer on a 360 degree basis in a sense to put the customer in the centre of our circle of care, surrounded by our comprehensive range of corporate lending products, in addition to cross sell other investment & retail banking products & services.

CBG is aiming to empower our corporate customers to grow and expand their businesses, our responsibility goes beyond just starting a relationship with our customers, However, it is extended to represent our commitment and our promise to support their growth ambitions, providing ideas, tools to help them become stronger, today and in the future. Accordingly, this will deepen the relation and secure the sustainability of the growth of our financing portfolio.

As for service development during 2017, CBG, introduced a number of new services and products to expand the CBG products mix including the working capital finance to cater for the short term financing needs, residential financing facility, and outlet financing solutions. Also, CBG developed and enhanced the on-line transaction banking trade finance to provide more ease and shorter time in processing customers' request. Also, as an internal service development, the 360 model has been implemented to enhance and facilitate the management of workflow.

INVESTMENT BANKING GROUP

The Group invests globally across multiple asset classes and a diversified set of sectors. The bank's investment banking activities was geared to enhance the quality of its assets whilst maintaining a healthy risk adjusted return from its investment portfolio and through its services increase the fees and commission income for the bank. In 2017, the Investment Banking Group (IBG) witnessed outstanding growth and achievements through its various business activities in structured finance, syndications, fixed income securities, and international real estate despite the persistent political and economic volatility witnessed in the region. These achievements highlight the Group's capabilities and capacity to grow under challenging market conditions and exhibits the Group's diverse business offering.

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 and clients' capital underwriting needs. 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 the bank of choice for Islamic debt underwriting, with excellence across several geographic jurisdictions and currencies.

In 2017, the IBG team played a key role in arranging Warba Bank's debut USD 250 million Tier 1 Basel III compliant Sukuk issuance. The issuance enhanced the bank's capital base in line with Basel III guidelines. The Sukuk attracted strong investor interest reaching USD 1.3 billion from diverse domestic and international accounts, representing a well spread distribution of investors from the Middle East, Asia and Europe. The Sukuk issuance was hugely successful, being oversubscribed more than 5.3 times over.

In 2017, 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:

- USD 236 million dual currency syndicated facility for Ziraat Participation Bank, Turkey; where Warba Bank held the titles of Mandated Lead Arranger & Book runner.
- Structured syndicated facility of USD 65 million secured by credit card receivables for Defacto Perakende Ticaret, Turkey. Warba Bank took the role of Investment Agent in the Transaction in the dual currency transaction which was oversubscribed by 1.5 times by a mix of Middle Eastern and Turkish banks and financial institutions.
- Warba Bank participated in a syndicated financing facility for NMC Health Care L.L.C. The total facility including its conventional tranche closed at USD 329.5 million after being oversubscribed by 1.65 times with interests from 3 regional and 19 international participants.
- USD 300 Million Murabaha transaction for the funding of ALAFCO where Warba Bank secured the role of Mandated Lead Arranger and Investment Agent. ALAFCO is a leading aircraft-leasing specialist company, based in Kuwait and listed on the Kuwait Stock Exchange.
- Meraas' inaugural USD 400-million Sukuk Issuance where Warba Bank held title of the Joint Lead Manager and bookrunner.
- IDB's USD 1.25 Billion issuance was listed on the London Stock Exchange (LSE), Nasdaq Dubai and Bursa Malaysia. Warba Bank acted as a Joint Lead Manager and Bookrunner on the issue.
- USD 500 million debut Sukuk issuance for Mazoon Electricity, Oman which had a robust investor demand

that translated into a final order book of USD 5 Billion from 300 orders, representing more than 10 times oversubscription. The Sukuk is listed on the Irish Stock Exchange. Warba Bank secured a role of Co-Lead Manager on the issue.

- Warba Bank participated in the Emirates REIT debut sukuk issuance as Joint Lead Manager and Bookrunner in December 2017. The USD 400 million inaugural sukuk was 2.5 times oversubscribed with its order book peaking at USD 1.1 Billion. The transaction marks the first REIT from the MENA region to access the international sukuk market and obtain a credit rating. The sukuk represents the tightest credit spread of any debut issue among Dubai real estate entities carrying similar rating.
- Warba Bank was appointed Dealer on the ICD Sukuk Certificate Issuance Program in November, 2017, along with other regional and international banks.

Other Notable Transactions

- Warba Bank jointly with Boubyan Bank arranged a club facility of USD 145 million for Etihad Airways comprising of senior unsecured Islamic Commodity Murabaha Tranche with a door to door tenor of 5 years. Etihad Airways is Abu Dhabi's flag carrier and the second-largest airline in the UAE.
- Warba Bank jointly with KFH, Citi, NBAD, Banca IMI arranged a dual tranche facility of USD 600 for United Telecommunication Co. LTD. comprising of senior secured syndicated Islamic Murabaha Financing with a tenor of 5 years.
- Warba Bank participated in a 7-year Junior Facility syndicated facility by Norddeutsche Landesbank, Credit Agricole Corporate and Investment Banks and BNP Paribas for refinancing of Cargolux's maturing liabilities on 2 of its Cargo Aircrafts. The facility marks the first ever Islamic facility undertaken by the government of Luxembourg or any of its Government related entities "GRE" and is expected to pave the way for potential growth of Islamic finance in Luxembourg. Established in 1970, Cargolux is a leading global all cargo airline, operating a fleet of 26 modern Boeing 747-8 and 747-400 freighters and covers a world-wide network of over 90 destinations.
- Warba Bank was a Mandated Lead Arranger in a syndicated facility by Abu Dhabi Islamic Bank mandated by Dubai Aerospace Enterprise "DAE" for the acquisition of 2 new 737-800 aircraft to be leased to Egypt Air for 12 Years. The total facility amount was USD 75.6 million. Established in 2006, DAE is one of the world's largest aircraft lessors with a total active and committed fleet of 392 worth over USD 5 BN.
- Warba Bank has acquired from AMIFC (Al Mulla International Finance Company) consumer finance receivables worth KWD 31 million in the latest round of securitization deals. AMIFIC is one of the leading Sharia'a compliant consumer finance companies in Kuwait.

Real Estate Investments

- Warba Bank acquired a Class - A single tenant office building leased out to Arrow Electronics on a 15 year lease. The built-to-suit building is located in Denver, Colorado and is opposite the Global headquarters for Arrow Electronics, rated investment grade BBB- by S&P.
- In 2017 Warba Bank invested in a newly constructed sole UK vehicle import/export facility with a capacity of over 15,550 cars parking and totaling 86.68 acres of land (35.08 hectares) including a total of 63,515 sqf (5,901 sqm) warehouse space leased KIA Motors UK Ltd unbreakable for 20 years on NNN lease terms. KIA Motors UK Limited has a Dun and Bradstreet rating of 5A1 representing minimum risks of Business failure.
- Warba Bank successfully closed a real estate property called Manpower Group Headquarter Building a Class-A single-tenant NNN leased office building located in Milwaukee, Wisconsin, USA. The property is leased through August 2031 to Manpower Group, Inc.
- Warba Bank acquired a Class - A multifamily property called Ultris at Banyan Grove ("Ultris") located at highly desirable location in Virginia Beach, Virginia. The property was acquired on 1st August 2017 under a joint

venture arrangement with Croatan Investments (“Croatan”), a local developer and multi-family operator that has a strategic alliance with an experienced local management company, The Franklin Johnson Group (“TFJG”).

- Warba Bank acquired a Class A-Luxury multifamily apartment’s complex called Suite 2801 located at highly desirable location in Euless, which is a 25 minute drive from the heart of the Dallas. The property was purchased on 31st July 2017 jointly with Cortland Partners.

Warba Bank Tier I Sukuk

A mainstay of Warba Bank’s 2021 strategy is a strong capital base and enhancing the bank’s capital base was conceived to be critical to the bank to sustain its growth trajectory and to capture market share. For those reasons, Warba Bank’s management and Board of Directors decided to tap the international debt capital market and issue the bank’s inaugural Tier I Sukuk.

On March 14th 2017, Warba Bank reinforced its capital base by issuing its debut USD 250 million Tier 1 Sukuk pursuant to a Mudaraba structure and in keeping with Basel III guidelines. The issuance was hugely successful, reaching USD 1.3 billion in subscriptions, being oversubscribed more than 5.3 times over, and increased the bank’s capital adequacy ratio (CAR) to 26.31%. The Sukuk issuance was the only one of its kind in 2017 whereby it stood as the only sukuk issued by a Kuwaiti bank. The deal was indeed a vote of confidence for Warba Bank in particular and the Kuwaiti banking sector in general.

Transaction Highlights

Issuer	Warba Tier 1 Sukuk Limited (Exempted)
Obligor	Warba Bank K.S.C.P.
Currency / Format	USD / Fixed Rate Regulation S
Status	Subordinated Tier 1 Capital Certificates
Obligor Rating	Baa2 (Moody’s) / A+ (Fitch)
Issue Rating	Unrated
Amount	USD 250 million
Pricing Date	7 March 2017
Issuer Call Date	14 March 2022
Coupon	6.500% per annum
Price / Initial Spread	100.00 / MS + 437.4 bps
Listing	Irish Stock Exchange, NASDAQ Dubai
Governing Law	English Law

Warba Bank issued its first ever capital enhancing sukuk

Warba Bank issued its debut USD 250 million of capital enhancing Tier I sukuk in March 2017. The Basel III compliant shariah compliant certificates was the sole issue by a Kuwaiti bank in 2017. The issuance marked the bank’s first tap of the international debt capital market.

Warba Bank undertook an extensive international roadshow

The extensive roadshows via private meetings, group presentations and conference calls lasted over six days and the delegation engaged with more than 50 investors across global financial centers, including Singapore, Hong Kong, Dubai and London.

The transaction attracted interest from diverse domestic and international investors, achieving a well-spread distribution

On the back of positive sentiments received from prospective investors throughout the roadshow, Warba Bank announced initial pricing thoughts around the ‘low 7%/high 6% area’ for a USD 250 million AT1 PerpNC5 certificate and opened the order books. From the outset, the orderbook generated significant traction amongst investors and the Bank revised its guidance twice in the span of hours and books reached USD 1.3 billion by 1pm London time on the same day before finally closing and pricing at 6.500%.

The orderbook reached USD 1.29 billion from 96 accounts, representing over c. 5.3x oversubscription. The deal attracted interest from diverse domestic and international investors, achieving a well-spread distribution with 18% allocation to Asia, 5% to Kuwait, 38% to GCC, 41% to Middle-East, 41% to Europe and 1% to the US. The issuance also garnered interest from a wide mix of quality accounts comprising fund managers, pension funds, insurance companies, private banks, bank treasury desks and quasi-government institutions.

The success of this transaction is a testament of the local, regional and global market confidence in Warba Bank and the quality of its credit.

TREASURY:

Despite a challenging external environment that resulted from the G-10 Central Banks shift in monetary policy, the rise in the Central Bank of Kuwait's Discount Rate and the U.S. Fed Funds Rate, choppy Brexit negotiations, and global geo-political developments, 2017 was an exciting year for the bank's Treasury. It played an instrumental role in the bank's successful debut in the sukuk market with the issuance of USD 250 million perpetual AT1 sukuk in March. Foreign Exchange volume was at a record allowing the bank to register its highest ever FX profits while deposits increased by 35%. Active management of the funding portfolio ensured that the bank's cost-of-funds remained significantly below budgeted levels and the total volume of deals transacted through Treasury grew by almost three times compared to that of 2016.

The heart of Treasury's activities was the management of the Bank's liquidity and market risk to ensure the Bank operated optimally and within the mandated regulatory limits. The latter half of 2017 saw the department embarking on ensuring the bank's compliance with the CBK's Net Stable Funding Ratio which comes into effect on 1 January 2018.

In line with the bank's Strategy Treasury did extensive work to gear up its capabilities through the introduction of new products. This included the bank's Wa'ad based FX Forward product to enable the bank's customers to hedge their future known FX commitments and negate the effects of market volatility on their cash flow and income, Profit Rate Swaps to hedge market risk and Collateralised Murabaha to enhance liquidity. The new products are aimed at supporting the bank's ability to offer her customer's cutting edge solutions in support of their business needs.

During the year Treasury undertook visits to Bahrain, Qatar and the U.A.E. where we met our fellow Treasury colleagues, strengthened relationships and explored further business opportunities. Warba Bank's Treasury strives to maintain the highest standard of professionalism and service and is staffed by a professional team of dealers who are constantly engaged in the global market. It is well positioned to capitalise on all opportunities in 2018 and looks forward to an even more exciting year.

OPERATIONS GROUP

During the year 2017 operations groups provided a comprehensive support to all business groups of the bank for achieving their objectives in line with bank's strategy including day to day back-end support to the development and implementation of various new products for retail, corporate, treasury and investment banking groups such as discount payment product to vendors against retail auto finance deals, retail auto inventory product, VISA signature card, VBM setup for card instant issuance, Deposit card, CBG tawaroq working capital product, stand by LC/C, transferable L/C and foreign counter guarantee, FX forward product, treasury collateralize murabaha product etc.

The focus on process improvement efficiently enhanced the operational capabilities for processing large volume of transactions accurately with limited resources resulting in lower processing cost per transaction following the trend from previous year. The process improvement in Salary Crediting process had significant impact on customer service level which increased the customer trust on Warba Bank and attracted many new customers. The secured and automated foreign remittances (payments) upload and execution functionality attracted the local/International exchange companies resulting in profitability for the bank.

The group continues to consistently exceeding 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.

The focus on staff development continued by providing extensive training programs and job rotation that enhanced the learning and knowledge producing multi skilled resources as back-up for performing non-stop operational activities.

INFORMATION TECHNOLOGY GROUP

The Information Technology Group (ITG) at Warba Bank utilized the year 2017 for cogitative and collective long-term planning. The ITG has dedicated resources and efforts towards identifying digital opportunities as well as formulating and executing actions towards these opportunities to increase Warba Bank's competitive advantage while aligning its functioning with the bank's updated strategy.

With strong determination ITG successfully achieved the following key objectives and initiatives in the year 2017 while fulfilling the bank's increasing need for technology:

- Aligning IT strategy with a strong emphasis on digitization and innovation.
- Enhancing support and infrastructure for new and emerging technologies.
- Adopting an Agile development and product / project delivery methodology.
- Building distinctive capabilities considering the business demands and current digital customer centric trends.

The ITG successfully delivered significant projects and strategic initiatives to the Bank's 2017 Plan which improved Warba Bank's online and offline communication channels offering customers new and innovative services. The ITG worked persistently to inculcate a culture that encourages innovation with the vision to deliver exceptional internal and external customer experiences, facilitating the bank to be notable in the highly challenging and competitive environment that exists today.

The ITG has paid substantial attention towards the optimization of the main processes to enhance project execution and delivery, customer experience, and service quality. ITG stays dedicated to providing high-levels of service availability and support to the business by adapting innovative technologies for implementing an enhanced consistent and resilient infrastructure. The ITG continues to improve IT governance while managing risk, security, and compliance in a dynamic setting. This approach has been accelerating the ITG in Warba Bank towards a next generation state of business centric Information Technology that is service-oriented, integrated and more secure.

INTERNAL AUDIT GROUP

The objective of the Internal Audit Group (IAG) is to provide independent, objective assurance and consulting services designed to add value and improve the bank's operations. It helps the bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of internal audit includes the examination and evaluation of the appropriateness and effectiveness of the internal control system and of the manner in which assigned responsibilities are fulfilled. In many respects, this represents a risk analysis of the bank's internal control system. Every activity and every entity of the bank is within the scope of the Internal Audit.

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 strategy and 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. Warba Bank has in place a succession planning program and executive leadership program which caters to need for continuous leadership development across the executive and middle management levels for developing the national cadres the bank adopted a sophisticated strategy to attract talents Kuwaitis in various areas across the bank which eventually supported the expansion plans of the bank. This year, the Bank has redesigned its performance management framework to derive the performance to new levels which in turns made significant changes in the short term, long term incentives, commission scheme, grading and salary structure. Also Warba Bank has exceeded the prescribed Kuwaitization percentage, reaching 67.621%.

CORPORATE SOCIAL RESPONSIBILITY

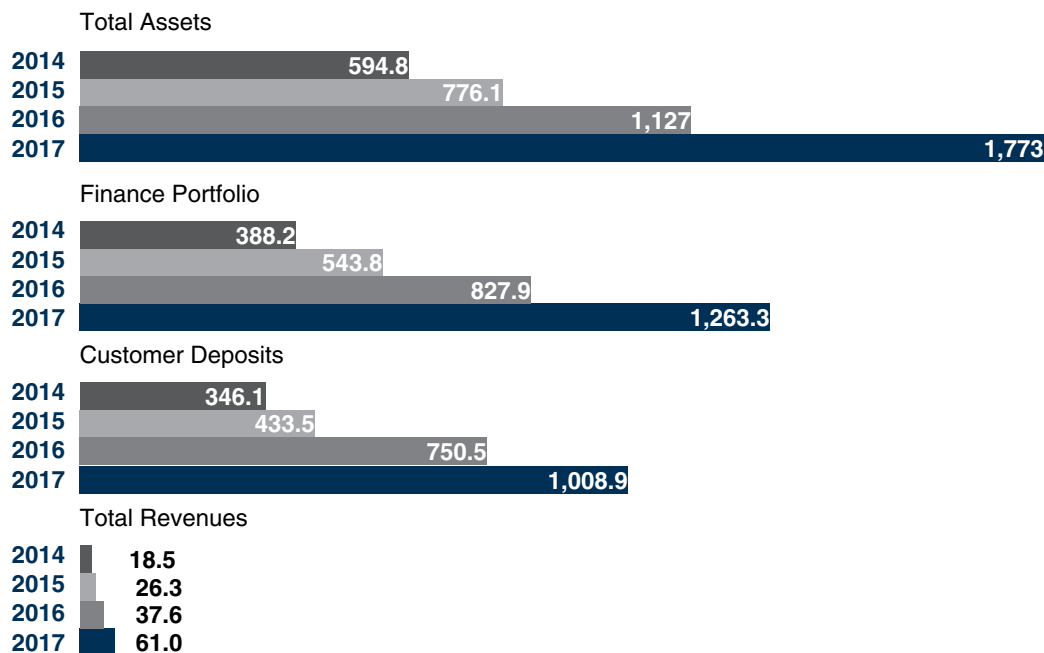
As part of its social responsibility programme, which aims at supporting all the Kuwaiti society's facilities, especially in the field of health and education, Warba Bank has sponsored and held a number of social events that will support Kuwaiti society and spread awareness on all levels, including but not limited to health and education. Accordingly, Warba Bank sponsored the ceremony honouring the outstanding students from the Faculty of Medicine at Kuwait University. It also participated in the first meeting of the Kuwait Surgeons Society. It also had direct meetings with clients in a number of events. During those events, the Bank's professional team provided all information about Islamic Banking and Bank Services and Products in the open day event at the General Authority for Minors' Affairs, the Open Day of the Accounting Bureau and the Open Day of Kuwait Airways.

With the start of the return to school season 2017-2018, a team from the Warba Bank visited a number of schools to distribute gifts to students and enjoyed with them the first day of school in an educational and entertaining atmosphere.

In addition, the Bank participated in the «Our Kids: Our Dearest Ones!» campaign organized by the Ministry of Interior to protect the health and safety of children at the beginning of the new academic year 2017/2018. Within the awareness plan for the new academic year, a team from the Department of Public Relations and Security Media, in collaboration with the Ministry of Education, distributed educational brochures and gifts to students in many schools in different governorates.

As part of its efforts to focus on its employees which it sees as the cornerstone of all its success and achievement, the Warba Bank has held a number of activities and events for its employees, through which it aims to enlighten them about sports and health issues, with the aim of encouraging them to adopt a healthy lifestyle that positively affects productivity. Last year, the Bank organized a bowling competition for employees and a health conscious day in collaboration with its medical and physical education partners, which included analyzes of diabetes and blood pressure, in which the Bank's staff were educated about the importance of healthy food.

KEY FINANCIAL INDICATORS



The total revenues for the year 2017 reached KD 61 million, at a growth rate of 62% compared to the revenues at the end of 2016. The total assets of the Bank grew to KD 1.773 billion at the end of 2017 at a growth rate of 57% at the end of 2017 while customers' deposits reached KD 1.009 Million at a growth rate of 34%. The Bank realized profit of KD 6.8 Million for the year 2017 at a growth rate of 163%. The Bank's capital adequacy ratio recorded 22.46%, while the minimum requirement mandated by CBK instructions is 13.0%. This reflects the Bank's solid financial position and future capabilities to expand assets base.

2018 OUTLOOK FOR THE BANK

The year 2017 saw the beginning of Warba Bank's new long-term strategy which has proven to be a great success. The Bank was able to channel in and develop its strengths for better customer satisfaction, competitive pricing, and divergence through innovation. It also allowed key challenges to be addressed through increasing its capital base through issuance of a tier 1 sukuk of USD 250 million and the acquiring of funding to support the planned growth of the new strategy in a sustainable manner.

Warba Bank has completed roughly ten investments and has launched more than twenty new products and services in the year 2017, many of which are innovations in the Kuwaiti Banking Industry. Warba Bank has spread its reach in Kuwait with the opening of two new branches and the introduction of a new digital distribution channel – The Express Banking Machine.

As a result of its outstanding performance, Warba Bank received four renowned awards and top ratings including:

- The Fastest Growing Bank in Kuwait
- Best Corporate Bank in Kuwait
- Best Investment Bank in Kuwait
- Bank of the Year in Kuwait
- An 'A+' rating from Fitch Ratings
- A 'Baa2' rating from Moody's Investor Services

These stand as testimony to Warba Bank's tremendous work on its strategy, giving itself a solid track record.

In 2018, the bank will continue in pursuing its mission of becoming a leader in Islamic Corporate and Investment Banking in Kuwait with dynamic digital retail business. The new strategy encompasses the priorities of reinforcing

outstanding customer services and experiences, building exclusive digital proficiency while making a constant capital-efficient growth.

The Corporate Banking Department will be focusing on acceleration the flow of income towards the bank as well as deepening its market penetration by improving its coverage over the nation. It will also be working on the diversification of their existing products portfolio and bespoke offerings. The flawlessly tailored solutions, quick execution, and transparent pricing would work as an open proposal for our target corporate clients.

The introduction of new and innovative digital services will further enhance the service schemes that Warba Bank has to offer.

The Bank foresees the growth and expansion of the Investment Banking Department by maintaining the effective track record that the existing products have gained while elevating the potential for new offerings on asset management and elaborate financial structure. The Bank will implement an originate-to-distribute model and will be taking up domestic and international opportunities that align with the strategic objectives of the various asset classes.

The Retail Banking Department shall focus on developing its operations and distribution model to improve customer attainment and increase revenues. The refurbished Distribution model shall have heavy emphasis on the digital capabilities to promote customer centricity and convenience. This would offer the customer a remarkable experience along with incomparable service. The new distribution model along with a range of innovative products, competitive pricing, convenient services and uniquely specified benefits to the target customers together would create a distinctive value-proposition in retail banking in Kuwait. Expansion of the bank's distribution network will be done through the opening of new branches across the nation and increase the number of Express Banking Machines.

In 2018, Warba Bank shall reposition its brand to support its new strategy and strengthening its value proposition, benefits and core values. There will be meticulous attention on several strategic priorities including cultural transformation, competency improvement, infrastructure development, quality in operations and investment in human capital of the bank.

The background of the cover features a magnifying glass with a green handle and a silver rim, positioned over a financial chart. The chart includes a bar chart with blue bars and a line graph with a blue line. The chart is set against a light blue background with a white grid. The magnifying glass is positioned in the lower right quadrant, with its lens focused on the chart. The text '2017 Annual Report' is overlaid on a dark blue triangular shape in the lower right quadrant.

2017

Annual Report

Governance Report

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THE CORPORATE GOVERNANCE REPORT

INTRODUCTION

Corporate Governance has become an integral part of the Warba Bank culture across all areas. Warba Bank is committed to applying best practices in governance within the framework of the Central Bank of Kuwait's instructions issued in June 2012 on Corporate Governance rules and regulations at Kuwaiti banks. The Bank has fully complied with these regulations in terms of designing the systems, organizational structures and functions that ensure institutional control. In addition, the Bank pays due diligence for full commitment to the implementation of the nine key pillars of the governance rules and regulations at Kuwaiti banks.

The commitment to corporate governance rules and regulations ensures that Warba Bank has the ability to balance risk-related activities appropriately, maximizing protection of shareholders' returns. In addition, Warba Bank believes that having robust corporate governance principles is a shield against all forms of mismanagement and fraud activities and enhances the accountability and transparency at the Bank.

Throughout 2017, Warba Bank set the infrastructure and updated all relevant governance charters, manuals, policies and procedures as part of a comprehensive review for improvements in accordance with the latest Sharia Governance instructions issued by CBK in December 2016, as well as the organizational structure reflecting all regulatory requirements in preparation for the actual implementation at the beginning of 2018.

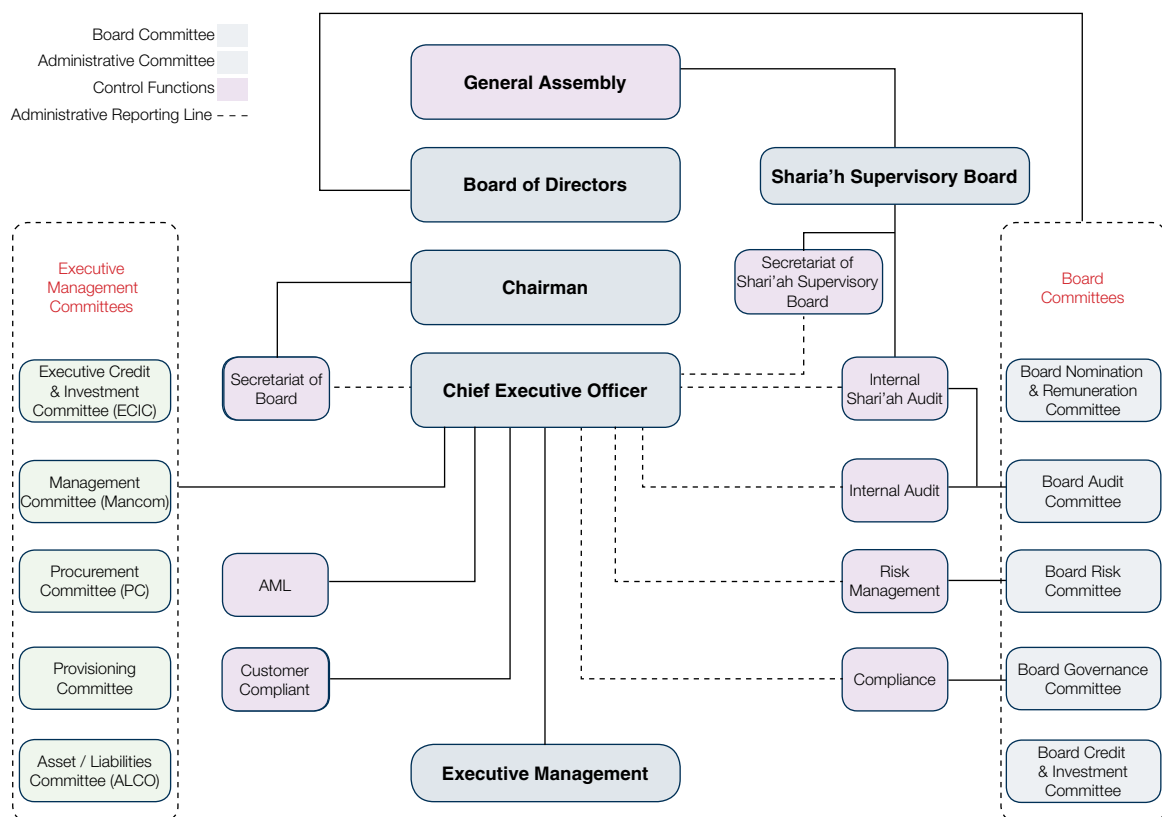
Therefore, Warba Bank prides itself on having a robust and sound governance framework, based on regulatory instructions, that helps to apply best practices of sound governance.

WARBA BANK'S KEY SHAREHOLDERS (5% AND ABOVE)

Name	Shareholding Percentage
Kuwait Investment Authority	24% Direct – 1.3 % Indirect
Al Sayer Group Holding Company	10.006% Indirect
The Public Institution for Social Security (PIFSS)	6.417% Indirect

ORGANIZATIONAL STRUCTURE

The Bank's organizational structure has been designed taking into consideration maintaining transparency and clarity to facilitate decision – taking process, achieve sound corporate governance and define authority limits that clearly set key responsibilities and duties of the Board of Directors, Executive Management and heads of supervisory and control functions in the Bank. In 2017, the Bank's organizational structure was updated to cover all CBK requirements specifically Sharia Governance instructions at Islamic Banks.



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. These generally focus on preserving the interests of depositors, shareholders, creditors and employees. As part of compliance with the Corporate Governance rules and instructions, the Board of Directors has approved all corporate governance policies, set new ones and ensured 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 targets 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 there are in-place written policies covering the Bank's various activities and that they are annually reviewed for enhancement and improvements. The Board of Directors, in cooperation with the Executive Management, reviews the policies and regulatory controls on regular basis, including internal control 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 that they perform effectively and independently.

BOARD MEMBERS TRAINING DURING 2017

Warba Bank pays utmost care to training programs provided to members of the Board of Directors as these programs are pivotal in developing leadership skills. The Bank's members of the Board of Directors attended training programs on corporate governance and its modern trends and participated in conferences on the banking industry.

BOARD MEMBERS FOR THE SESSION (2016 – 2018)

At the Ordinary General Assembly meeting held on 30 March 2016, a representative for Kuwait Investment Authority "KIA" was appointed for the third session of the board, and nine members were elected. Mr. Musab Omar Al Fulajj was appointed as representative for KIA instead of Dr. Mahmoud Ahmed Abdulrahman based on KIA letter dated 17/7/2017.

BRIEFS ON BOARD MEMBERS

1. Mr. Abdulwahab Abdullah Al Houti – Chairman (Elected):

Al Houti holds a Bachelor of Science degree in Business Administration from Kuwait University in 1976 and Master of Business Administration from Newhaven University – USA in 1979. He is a Board Member in Warba Bank since 2013 then elected to be the Board Chairman in March 2016 until date. He is also the advisor of the Chairman of the International Islamic Charity Organization from 2009. He commenced his career as a faculty member and head of Business Administration Department at the Commercial Institute during the period from 1979 to 1983, and 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, Bangladesh Islamic Bank, Capinvest Bank and Real Estate Asset Management Company (REEM).

2. Mr. Basel Ahmed AlHaroun – Vice Chairman (Elected):

AlHaroun holds a Bachelor of Science degree in Business Administration from Saint Augustine University in the United States of America 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 the Vice Chairman of Warba Bank's 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, he was appointed by an Amiri Decree as a member of Kuwait Capital Markets Authority's Board of Commissioners and continued in this position until 2014.

3. Mr. Ahmed Abdulaziz Al Ghannam – Board Member (Elected):

Al Ghannam holds a Bachelor of Science degree in 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 Trading Room & Credit Operations from 1987 to 1991. He then moved to Al Ghannam 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 or board member of many companies operating in educational and medical services, investment and trade sectors such as KAPICO Group Holding Company, Murabahat Investment Company, Gulf Land Holding Company, Sama Medical Services Company, Excellence Education Company for Educational Services, Dar Al Arqm Educational Services Company, Eyas Educational Holding Company and Al Oula Fuel Company. He has also been a member of the Board of Directors of the Public Authority of Minors Affairs since March 2017 to date.

4. Mr. Sami Fahad Al Rushaid – Board Member (Elected):

Al Rushaid holds a Bachelor of Science degree in 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 Chairman of the Board of Directors of the Scientific Center and a member of the Board of Directors of Kuwait Airways Company and appointed as a member of the Board of Directors in Kuwait Petroleum Corporation since January 2017 till date. He has long experience in the oil sector acquired throughout his career at Kuwait National Petroleum Company from 1978 to 2007 where he held several positions such as the Board Chairman and Managing Director in the last three years of his tenure. He then took over as a Board Chairman and Managing Director of Kuwait Oil Company from 2007 to 2013. He has been a Chairman or 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.

5. Mr. Abdulaziz Abdullah Al Jaber – Board Member (Elected):

Al Jaber holds a Bachelor of Science degree 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 until he became 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 began a new career in 2005 at Kuwait Finance House as Assistant General Manager of the Support Services Sector then the General Manager of Human Resources and General Services Sector then a consultant until 2014. He has been a Chairman or a member of the board of directors in a number of companies such as Petrochemical Industries Company, Gulf Oil Company and Human Investment Corporation.

6. Mr. Mohamed Riyad Al Mutawa – Board Member (Elected):

Al Mutawa holds a Bachelor of Science degree in Finance from Kuwait University in 2001. He is a member of Warba Bank's Board of Directors since March 2016 to date. He has been holding 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 Pakistan Kuwait Investment Company, Arabian Sea Limited Company, Farah Al Magrib Real Estate Company and National Offset Company. He has participated in several training courses, programs and seminars in various fields.

7. Mr. Mohamed Abdulredha Saleem – Board Member (Elected):

Saleem holds a Bachelor of Science degree in Business Administration , Finance major, from 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 Chairman or member of the board of directors in a number of companies such as Generations Fund Holding Company from 2010 till date, Kuwaiti Yemeni Real Estate Development Company, Kuwait Investment Company, the Egyptian Kuwaiti Real Estate Development Company, Gulf Custody Company, Kuwait Real Estate Holding Company, Kuwait Flour Mill & Bakeries Company and 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.

8. Dr. Mahmoud Ahmed Abdulrahman – Board Member (representing Kuwait Investment Authority till 17/7/2017):

Dr. Abdulrahman holds a Bachelor degree in Law from Kuwait University in 1988, and PhD in Commercial Law from University of Exeter - UK in 1995. He has been a Board Member in Warba Bank since 2013 to July 2017. Currently, he is the Manager of Legal Affairs Department at Kuwait Investment Authority from 2005. Now, he is the Board Chairman of VIVA Telecommunication Company and Board Member in Medical Insurance Hospitals Company since 2015 to 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.

9. Mr. Musab Omar Al Fulajj – Member of the Board of Directors (representing Kuwait Investment Authority from 11 September 2017 to date):

Al Fulajj holds a Bachelor of Science degree in Business Administration, Finance Major from Saint Louis University USA, 1997. He has been a member of the Board of Directors at Warba Bank, representing Kuwait Investment Authority since September 2017 to date. He started his career in EQUATE Petrochemical Company from 1997 to 2001. Then he moved to Kuwait Investment Authority in 2001 till date currently serving as Senior Investment Manager. He participated as a member in the board of directors in several companies and committees such as the International Civil Company in France, the Advisory Committee of the Agricultural Portfolio at Kuwait Industrial Bank. He has been participating as a member in the Advisory Committee of the Industry Finance Portfolio in accordance with the provisions of Islamic Sharia since 2010. In addition, he participates in many courses and training programs and seminars in various fields

10. Mr. Hani Abdulaziz Hussain Al Terkait – Board Member (Elected):

Al Terkait holds a Bachelor Degree in Chemical Engineering from Tulsa University 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 until 2007 where he held several leading positions such as the Vice Chairman & CEO for the last three years of his tenure in KPC. He was appointed Oil Minister in the Kuwaiti Government by virtue of an Amiri Decree in February 2012 and continued holding this position until 2013. He has been a board member in a number of local and international companies such as Petrochemical Industries Company, Kuwait National Petroleum Company, and The Public Authority for Industry, Hoechst Company in Germany. He is currently a member of the board of the Supreme Council of Planning and a member of the Board of directors of Kuwait Foundation for the Advancement of Sciences.

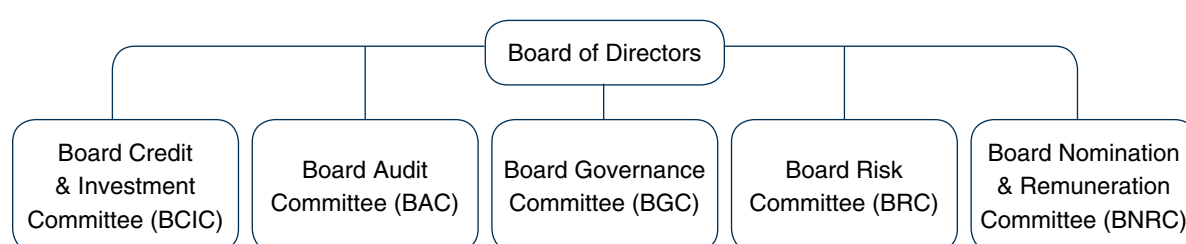
11. Mr. Hisham Abdulrazzaq Al Razuqi – Board Member (Elected):

Al Razuqi holds a Bachelor Degree in Public Administration from the American University of Beirut in 1973, and Senior Management Program from Harvard University in 1988. He is a Board Member in Warba Bank since 2013 to date. He commenced his career in Kuwait Foreign Trading & Contracting Investment Company 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, 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 Sulaiman Al Olayan School of Business Administration – American University of Beirut. He served as a board member or Chairman in more than 20 local and regional companies, banks and financial institutions, namely Bahrain Steel Company, International Gulf Bank of Bahrain, National Industrialization Company and Al Zamil Industrial Investment Company in 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 the applicable regulatory requirements.



BOARD CREDIT & INVESTMENT COMMITTEE (BCIC)

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

- 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 the scope, effect and extent of adequacy of the internal and external audit at the Bank as well as key accounting issues of material impacts on the Bank's financial information and internal controls. It ensures sufficiency of the resources designated for control functions. It reviews the Bank's financial statements before submission to the Board of Directors ensuring adequacy of the necessary provisions. It evaluates the performance of the Chief Internal Auditor and his remunerations, and considers the recommendation of the Executive Management regarding the appointment and termination of external auditors and determining their fees. The Committee is composed of the following members;

- Mr. Mohamed A. Saleem - Chairman
- Dr. Mahmoud A. Abdulrahman - Vice Chairman (till 17/7/2017 as per the Note in the Board Chairman and Members' schedule)
- Mr. Musab Omar Al Fulajj – Vice Chairman (from 9/10/2017 as per the Board of Directors decision in its meeting dated 9/10/2017 to assign all committees' memberships previously held by Dr. Mahmoud A. Abdulrahman to Mr. Musab Omar Al Fulajj) - Chairman and Members' schedule).
- Mr. Mohamed Riyad Al Mutawa - Member

BOARD GOVERNANCE COMMITTEE (BGC)

The Committee assists the Board of Directors to fulfill the governance responsibilities, prepares and updates the Bank's governance manual and ensures compliance of the Bank's related parties with implementing governance requirements and rules. The Committee submits reports to the Board of Directors on these issues, 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 & 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. The Committee is composed of the following members;

From 1 January 2017 to 17 July 2017

- Dr. Mahmoud A. Abdulrahman - Chairman
- Mr. Sami Fahad AlRushaid - Vice Chairman
- Mr. Abdulaziz Abdullah Al Jaber - Member

From October 2017 as per the notes below:

- Mr. Sami Fahad AlRushaid - Chairman
- Mr. Abdulaziz Abdullah Al Jaber - Vice Chairman
- Mr. Musab Omar Al Fulajj - Member

Notes to the composition of the Nomination & Remuneration Committee "NRC":

- Dr. Mahmoud A. Abdulrehman continued to be the chairman of NRC till 17 July 2017 (As per the attached Note in the Table of the members of the Board of Directors).
- NRC decided in its meeting held on 8 August 2017 to nominate Mr. Sami Fahad AlRushaid as chairman of NRC (The Committee decision was ratified by the Board of Directors in its meeting dated 9 October 2017) and Mr. Abdulaziz Abdullah Al Jaber as NRC deputy chairman.
- The Board of Directors decided in its meeting on 9 October 2017 to entrust Mr. Sami Fahad AlRushaid with the memberships of the committees previously held by Dr. Mahmoud A. Abdulrahman.

ATTENDANCE AT MEETINGS OF THE BOARD AND THE BOARD COMMITTEES FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017 (THIRD ROUND)

s.	Member	Position	BoD	BCIC	BAC	BRC	BGC	BNRC
12.	Abdulwahab Abdullah Al Houti	Chairman	12				4	
13.	Basel Ahmed AlHaroun	Vice Chairman	10			9	5	
14.	Ahmed Abdulaziz Al Ghannam	Member	9	28		6		
15.	Sami Fahad Al Rushaid	Member	11	24				9
16.	Abdulaziz Abdullah Al Jaber	Member	10	23				9
17.	Mohamed Riyad Al Mutawa	Member	10		8	8		
18.	Mohamed Abdulredha Saleem	Member	10		9		4	
19.	Dr. Mahmoud Ahmed Abdulrahman *	Member	6		5			5
20.	Musab Omar Al Fulajj**	Member	3		1			2
21.	Hani Abdulaziz Hussain Al Terkait	Member	10			9	5	
22.	Hisham Abdulrazzaq Al Razuqi	Member	10	20				
Total Number of Board & Committees' meetings in 2017			12	30	9	9	5	10

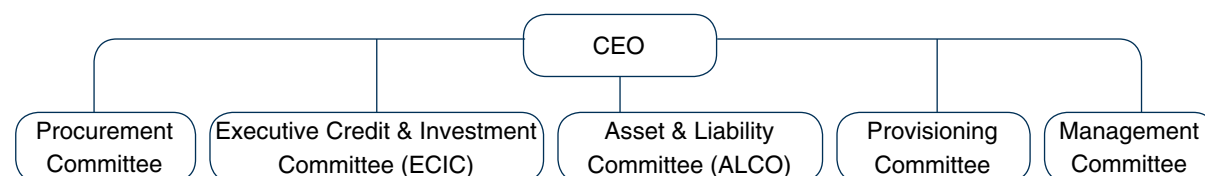
Notes:

* Membership of Dr. Mahmoud Ahmed Abdulrahman in the board of directors ended from the date of Kuwait Investment Authority's request via its letter dated 17/7/2017 appointing Mr. Musab Omar Al Fulajj as representative of the KIC in Warba Bank board of Directors instead of Dr. Mahmoud Ahmed Abdulrahman.

** Membership of Mr. Musab Omar Al Fulajj in the Warba Bank board of directors started from CBK approval on 11/9/2017.

MANAGEMENT COMMITTEES – DUTIES AND RESPONSIBILITIES

The Board of Directors has approved the formation of certain Executive Level Committees for performing ad-hoc tasks and responsibilities in order to assist the Chief Executive Officer "CEO" in the efficient and effective administration of the Bank.



EXECUTIVE CREDIT & INVESTMENT COMMITTEE (ECIC)

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

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

PROVISIONING COMMITTEE

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

THE EXECUTIVE MANAGEMENT

S	Name	Title	Experience	Nationality	Education
10.	Shaheen Hamad Al-Ghanem	Chief Executive Officer	29 years	Kuwait	Master
11.	Basel Jasem Al-Obeid	Chief Corporate Banking Officer	31 years	Kuwait	University
12.	Khaled Hasan Hafez	Chief Financial Officer	24 years	Egypt	University
13.	Mahmoud Mohammad Yousef	Chief Internal Auditor	37 years	Egypt	University
14.	Amin S.B. Abdulrahman	Acting Chief Risk Officer	37 years	Malaysia	University
15.	Haytham Abdulaziz Al Terkait	Chief Information Technology Officer	29 years	Kuwait	University
16.	Simon Larby Clements	Chief Retail Banking Officer	42 years	British	University
17.	Essam Abdulaziz Alshaya	Chief Human Resources & General Services Officer	29 years	Kuwait	University
18.	Mohamed Atif El Shareef	Chief Strategic Planning Officer	18 years	Palestine	Master
19.	Mohamed Iqbal	Treasurer	27 Years	Malaysia	University
20.	Zahid Rasheed	Deputy Chief Operations Officer	25 Years	Pakistan	Master
21.	Thuwaini AlThuwaini	Deputy Chief Investment Banking Officer	13 Years	Kuwait	University

BRIEF ON THE EXECUTIVE MANAGEMENT**Mr. 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. He has broad and long experience for more than 29 years in banking and investment. He began his career in the oil sector from 1988 to 1999, then moved to the financial and investment sector where he served as assistant chief financial officer in the International Investor Company in 1999. He 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. Al Ghanem joined Warba Bank in 2014 as Deputy CEO for Investment and Treasury then has assumed the position of chief executive officer since 2016 to date.

Mr. Basel Jasem Al-Obeid - Chief Corporate Banking Officer

Al-Obeid holds a Bachelor's degree in Finance from Faculty of Commerce & Political Sciences – Kuwait University. He has more than 31 years of experience in the banking and finance sector. He commenced his career in 1987 at Ahli United Bank (previously known as the Bank of Kuwait and the Middle East) where he assumed several posts, the last of which was head of corporate banking, commercial and international operations division in 1998. He then 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 2012, he joined the Bank as Chief Corporate Banking Officer.

Mr. Khaled Hasan Hafez - Chief Financial Officer

Hafez obtained bachelor degree in Accounting from Cairo University. In addition, he is a fellow member of the Chartered Accountants Association in USA, and holder of CPA from the Accounting Council of California, and a Diploma in Islamic Economy from Faculty of Sharia – Kuwait University. Hafez has over 24 years of experience in the area of Islamic Banks, financial institutions and auditing. He worked at a number of the world's big audit and consultancy firms as well he held an executive position in Kuwait Finance House. He joined Warba from incorporation and contributed to setting the Bank, its infrastructure and organization. Currently, he holds the position of the Chief Financial Officer.

Mr. Mahmoud Mohammad Yousef - Chief Internal Auditor

Yousef graduated from Brooklands Technical College, Weybridge, Surrey, England and holds High National Certificate "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 has long experience extending for more than 37 years. 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. He joined Warba Bank as a Chief Internal Auditor in 2011 to date.

Mr. Haytham Abdulaziz Al Terkait - Chief Information Technology Officer

Al-Terkait holds Bachelor of Science in Mechanical Engineering from Metro State - Denver, Colorado - USA. He attended many key specialized training courses on IT sciences. Al Terkait has over 29 years of experience in this field acquired throughout his career, as he worked for Kuwait Institute for Scientific Research from 1989 to 2002 and Kuwait Finance House from 2002 to 2012 as Infrastructure Services manager. He joined Warba Bank in 2012 as Chief Information Technology Officer.

Mr. Simon Larby Clements - Chief Retail Banking Officer

Clements holds bachelor degree in Business Administration from the UK. He has over 42 years of experience in financial services in Europe, Asia and the Middle East Region.

He has previously held senior executive positions at a number of leading banks where he headed the operations and technology group. He has in-depth experience of 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 2014 as Chief Operations Officer and now serves as the Chief Retail Banking Officer.

Mr. Essam Abdulaziz Alshaya - Chief Human Resources & General Services Officer

Alshaya holds a bachelor's degree in Human Resources Administration - USA. He has more than 29 years of experience. He started 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 then promoted to the position of Chief Human Resources Officer in 2004 and granted the administrative authorities of the Deputy Director General

for Financial and Administrative Affairs. AlShaya held many positions other than KAC including the Board Chairman of AlRawda Cooperative Society and a member of the Civil Defense Committee for the Capital and Hawally Governorates. In 2016, he joined Warba Bank as Chief Human Resources & General Services Officer.

Mr. Mohamed Atif El Shareef - Chief Strategic Planning Officer

El Shareef holds a Bachelor Degree in Electrical and Electronics Engineering from the Middle East Technical University and a Master's degree in Information Systems & Technology Management from Barrington - Atlanta University – USA. He has more than 18 years of experience in the banking industry, where he held several positions in National Bank of Kuwait “NBK” such as Executive Manager, Head of Performance Analysis and Reporting Division from 2001 to 2012 and then moved to Boubyan Bank in 2012 where he served as Assistant General Manager, Head of Business Performance and Planning Division till 2015. Finally, he joined Warba Bank as Chief Strategic Planning Officer.

Mr. Mohamed Iqbal - Treasurer

Mohamed Iqbal holds a B.Sc. Business Administration from Oklahoma State University, USA. He has long experience for over 27 years of experience in the banking and finance industry. He served in a number of major positions such as General Manager, Malaysia's Employees Provident Fund in 2004, Chief Officer at Kuwait Finance House Malaysia Berhad, Chief Treasury and International Business Officer 2011-2012 Kuwait Finance House Malaysia Berhad, Chief Retail and Commercial Banking Officer and as the Bank's Chief Transformation Officer. Mohamed Iqbal joined Warba Bank in 2016 and now holds the position of the Chief Treasury Officer.

Mr. Thuwaini Khalid Al-Thuwaini - Acting Chief Investment Officer

Thuwaini holds a Bachelor's degree in Economics from the University of Maryland, College Park. He has more than 13 years of experience in banking and finance. He started his career at The International Investor in 2004 and then moved to Boubyan Bank in 2006 as a senior financial analyst. In 2007, he moved to Al-Imtiaz Company - International Investment Division. Afterwards, He moved to Rasameel Investment Company in 2008 where he held several positions, including the Deputy Chief for the Restructuring Analysis Sector until 2015. Finally, he joined to Warba Bank in 2015 and now serves as acting Chief Investment Officer till date.

Mr. Amin S. B. Abdul Rahman - Acting Chief Risk Officer

Amin holds a bachelor's degree in economics from the University of Malaysia. He has more than 37 years of experience in the banking sector. He held several positions, including Assistant General Manager in HSBC 2002-2005, Chief Credit Officer 2008-2010 at Kuwait Finance House and then Chief Risk Officer 2010-2013 in KFH, Chief Risk Officer in HSBC 2013-2015. He has been acting CEO for HSBC in 2016, and then moved to Warba Bank in 2017 and now acting as Chief Risk Officer.

Zahid Rasheed Abdul Rasheed - Acting Chief Operations Officer

Zahid holds a Bachelor of Science from Punjab University – Pakistan and Master of Business Administration in Banking and Finance from Preston University, Islamabad, Pakistan, with more than 25 years of banking experience. He held several key positions such as Senior Business Analyst at Boubyan Bank from 2005 to 2008. He then worked as Head of Investment Operations Department from 2008 to 2011. After that, he moved to Warba Bank as manager of the Central Operations from 2011 to 2015. He then returned to Kuwait Finance House in 2015 as manager of the Central Operations and later moved to Al Ahli United Bank as head of the Central Operations Sector until 2017. He finally joined Warba Bank in 2017 and now acting as Chief Operations Officer.

COMPENSATION POLICY (SALARY & REMUNERATION)

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

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

- Basic salary and allowances paid monthly to the employee and determined according to the job evaluation rating and the Bank's grading system.
- Other benefits and rewards like, travel tickets, medical 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.

The annual compensation package (fixed and variable) is reviewed by the Nominations & Remunerations Committee and approved by the Board of Directors.

The Bank has outsourced an external consultant for updating the long and short term incentive scheme, updating the performance management framework, the new salary structure and the remuneration policy for senior management executives and all bank staff in addition to developing the commission scheme for staff at profit centers.

- The Nominations & Remunerations Committee held 10 meetings during the year ended 31/12/2017.

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 2017 amounted KD 80 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 2017 including the CEO, CFO, CRO, CIA amounted KD 1,387,801.362 . 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 2017 (CEO and his deputies and / or other senior executives whose appointment is subject to the approval of the regulatory and supervisory bodies, i.e., 15 individuals amounted KD 2,188,686.27 inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the Financial Control and Risk employees, i.e., 11 employees, amounted to KD 1,031,444.41 inclusive of basic salaries, allowances, entitlements and end of service benefits.

Total compensations paid to the risk takers employees i.e., 15 employees, amounted KD 1,779,442.11 inclusive 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 still 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 threats and risks of Money Laundering and other financial crimes including Financing of Terrorism. It complies with all laws and regulations issued 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 approach 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 needed 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.

Warba Bank also complies with the requirements of The USA Foreign Account Tax Compliance Act (FATCA), and the ministerial decisions issued in this respect. These efforts included amendments to applicable account opening forms, Know Your Customer forms "KYC" and other procedures for new account opening. A leading global audit firm has been engaged to act as the Bank's consultant for verifying the implementation of the law requirements and reviewing the FATCA report for 2016 to technically verify compliance and accuracy of the report. The FATCA report has been successfully uploaded in time to the Ministry of Finance website.

As for Warba Bank's compliance with implementing the agreement of the Common Reporting Standards signed by the State of Kuwait on 19/08/2016 and the ministerial decisions issued in this regard, Warba Bank is committed to implementing this agreement and the required amendments to the procedures, policies and forms to complete the reports required to be issued to the competent authorities in line with the terms of the agreement. An audit firm approved by the Ministry of Finance's has been contracted to review the Bank's processes to determine the

Bank's preparedness and procedures as well as to identify the aspects that need development to comply with the requirements of the Common Reporting Standards so that the Bank's report will be ready in the deadline in 2018 as determined by the competent authorities.

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 across the Bank, improve Compliance control over the banking systems and maintain full compliance with regulatory authorities' instructions.

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 instructions from the Central Bank of Kuwait, Capital Markets Authority and Bursa Kuwait 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 annual reports, financial statements and notes, information related to the Bank's activities such as the main products and services, and regular press releases published by media.

ADEQUACY OF INTERNAL CONTROLS

Warba Bank's Board of Directors is responsible for reviewing and approving the effectiveness of the Bank's system of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control, and compliance with laws and regulations. Senior Management is responsible for establishing and maintaining the system of internal control designed to manage the risk of failure to achieve the Bank's objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of gross loss.

The Board, through its Committees, reviews regularly the effectiveness of the internal control systems as assessed by the various internal control functions. The Board also ensures that these functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively. The Board also reviews the management letters issued by the external financial auditors and reviews the report on Accounting and Other Records and Internal Control System issued by the external auditor (ICR report).

The Board believes that the internal control systems as of 31 December 2017 are adequate to provide reasonable assurance regarding the achievement Warba Bank's objectives.

Based on CBK's instructions, the Bank has engaged an independent external auditor in 2017 for conducting independent review report on the Bank's internal controls for 2016. The report was presented to the Board Audit Committee and the Board of Directors in the Meeting held on 21/6/2017. The report, submitted to the CBK on 22/6/2017, indicated that the Bank has set internal controls and processes as per the regulatory requirements. The issues raised in the report have no material impact on the fair presentation of the Bank's financial statements for 2016. The actions taken by the Bank, for remedy of the issues raised in the report including issues from previous years, were satisfactory. The External Auditor's Report dated 13/12/2017 concerning follow - up of the unresolved findings in the internal control review report for the year ended 31/12/2016, has concluded that all findings in the said report had been resolved.

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

20 June 2017

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 29 March 2017, we have examined the accounting and other records and internal control systems of WARBA Bank K.S.C.P. ('The Bank') for the year ended December 31st, 2016. We covered the following departments and activities of the bank:

- Financial Control and Planning Group
- Investment Banking Group
- Compliance Department
- Corporate Banking Group
- Sharia'h Control Unit
- Strategic Planning Group
- Information Technology Group
- Corporate Governance
- Financial Securities Activities
- Fraud and Embezzlement
- Operations Group
- Human Resources and General Services Group
- Treasury Group
- Risk Management Group
- AML Unit
- Retail Banking Group
- Customers Complaints Unit
- Legal Department
- Internal Audit Group
- Confidentiality of Customer Information
- Entity Wide Control Environment

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 28 February 2017 considering the requirements contained in the Manual of General Directives issued by the CBK of 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 and the related instructions, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank and activities and instructions regarding internal control with respect to prevention and reporting of fraud and embezzlement cases.

As members of the board 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 objectives of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner because of inherent limitations in internal control system, errors or irregularities may never the less 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 2016, and the materiality and risk rating of our findings, we report that:

- A. The accounting and other records and internal control systems of the bank were 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 28 February 2017,
- 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 2016, and
- C. The actions taken by the bank to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,



Faisal Saqer AlSaqer
License NO. 172 (A)
Protiviti Member Firm Kuwait WLL



2017
Annual Report

Capital Adequacy Disclosures

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, Leverage Ratio Standard circular reference 2/RBA/343/2014 dated October 21, 2014, and Liquidity Coverage Ratio Standard circular reference 2/RBA/346/2014 dated December 23, 2014.

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

FIRST: BANK STRUCTURE

Warba Bank K.S.C.P. (the "Bank") is engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari'a to various customer and industry segments.

SECOND: CAPITAL STRUCTURE

The Bank's regulatory capital comprises:

- Equity Tier 1 (CET1) which demonstrates the Bank's underlying strength and includes share capital and reserves according to applicable rules and regulations.
- Additional Tier 1 (AT1) which comprises of the Tier 1 Perpetual Sukuk issued by the bank.
- Tier 2 Supplementary Capital which comprises of the allowed portion of general provisions (1.25% of the risk weighted assets).

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

WARBA Bank K.S.C.P.

Capital Adequacy Disclosures

As at 31 December 2017, Tier 1 “Core Capital” amounted to KD 98,842 thousand (2016: KD 94,772 thousand, and Tier 2 “Supplementary Capital” amounted to KD 9,672 thousand (2016: KD 6,591 thousand) as detailed below:

	2017 (KD'000)	2016 (KD'000)
Tier (1) Capital		
A. Common Equity Tier 1 (CET1)		
Common Shares	100,000	100,000
Eligible Minority Interest in Consolidated Subsidiaries	-	-
Retained earnings (loss)	(944)	(4,798)
Other reserves	37	(430)
Total (A) CET1 before deductions	99,093	94,772
Deductions from CET1		
Treasury shares	-	-
Dividends (Declared but not incurred)	-	-
Goodwill	-	-
Other deductions	-	-
Total (A) CET1 after deductions	99,093	94,772
B. Additional Tier 1 (AT1)	76,363	-
Deduction from AT1	-	-
Total (B) AT1 after deductions	76,363	-
Total (A+B) Tier 1 after Deductions	175,456	94,772
Tier (2) Supplementary Capital		
1- Capital Eligible as T2	-	-
2- General provisions	9,672	6,591
Total Tier (2) Supplementary Capital before deductions	9,672	6,591
Deduction from Tier (2) Supplementary Capital	-	-
Total Tier (2) Supplementary Capital after deductions	9,672	6,591
Total Available Capital (Tier 1 & Tier 2) before adjustments	185,128	101,363
Other Adjustments	-	-
Total Available Capital (Tier 1 & Tier 2) After adjustments	185,128	101,363

As at 31 December 2017, Profit Equalization Reserve and Investment Risk Reserve amounted to KD Nil (2016: KD Nil).

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	2017 (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	(944)	(4,798)
3	Accumulated other comprehensive income (and other reserves)	37	(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	99,093	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 C ET1 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	-	-

WARBA Bank K.S.C.P.

Capital Adequacy Disclosures

Item	2017 (KD'000)	2016 (KD'000)
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	99,093	94,772
Common Equity Tier 1 after the regulatory adjustments		
Additional Tier 1 capital: instruments		
30	76,363	-
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		
31	76,363	-
of which: classified as equity under applicable accounting standards		
32	-	-
of which: classified as liabilities under applicable accounting standards		
33	-	-
Directly issued capital instruments subject to phase out from Additional Tier 1		
34	-	-
Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35	-	-
of which: instruments issued by subsidiaries subject to phase-out		
36	76,363	-
Additional Tier 1 capital before regulatory adjustments		
Additional Tier 1 capital: regulatory adjustments		
37	-	-
Investments in own Additional Tier 1 instruments		
38	-	-
Reciprocal cross-holdings in Additional Tier 1 instruments		
39	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40	-	-
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
41	-	-
National specific regulatory adjustments		
42	-	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	-	-
Total regulatory adjustments to Additional Tier 1 capital		
44	76,363	-
Additional Tier 1 capital (AT1)		
45	175,456	94,772
Tier 1 capital (T1 = CET1 + AT1)		
Tier 2 capital: instruments and provisions		
46	-	-
Directly issued qualifying Tier 2 instruments plus related stock surplus		
47	-	-
Directly issued capital instruments subject to phase-out from Tier 2		
48	-	-
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	-	-
of which: instruments issued by subsidiaries subject to phase-out		
50	9,672	6,591
General provisions included in Tier 2 capital		
51	9,672	6,591
Tier 2 capital before regulatory adjustments		
Tier 2 capital: regulatory adjustments		
52	-	-
Investments in own Tier 2 instruments		
53	-	-
Reciprocal cross-holdings in Tier 2 instruments		

Item	2017 (KD'000)	2016 (KD'000)
54	-	-
55	-	-
56	-	-
57	-	-
58	9,672	6,591
59	185,128	101,363
60	824,081	563,240
Capital ratios and buffers		
61	12.02%	16.83%
62	21.29%	16.83%
63	22.46%	18.00%
64	9.50%	9.50%
65	2.50%	2.50%
66	0.00%	0.00%
67	0.00%	0.00%
68	4.20%	7.50%
National minimal		
69	78,288	53,508
70	90,649	61,956
71	107,131	73,221
Amounts below the thresholds for deduction (before risk weighting)		
72	-	-
73	-	-
74	-	-
75	-	-
Applicable caps on the inclusion of provisions in Tier 2		
76	15,437	10,249
77	9,672	6,591
78	-	-
79	-	-

RECONCILIATION REQUIREMENTS

The Group has adopted a three-step approach for reconciliation of balance sheet items and the regulatory capital components as detailed in the instructions are as follows:

Step 1 & 2 of the reconciliation requirements:

31 December 2017

Step 1 & 2 of the reconciliation requirements	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	(KD'000)	(KD'000)	
Assets			
Cash and balances with banks	13,201	13,201	
Placements with banks and CBK	246,484	246,484	
Financing receivables	1,263,322	1,263,322	
of which maximum general provisions (netted above) capped for Tier 2 inclusion	9,672	9,672	a
Available-for-sale investments	165,921	165,921	
Investments in joint ventures	31,102	31,102	
Investment properties	23,666	23,666	
Others assets	23,347	23,347	
Property and equipment	5,999	5,999	
Total Assets	1,773,042	1,773,042	
Liabilities			
Due to banks and other financial institutions	572,864	572,864	
Depositors accounts	1,008,853	1,008,853	
Other liabilities	15,869	15,869	
Total Liabilities	1,597,586	1,597,586	
Equity			
Share Capital	100,000	100,000	b
Accumulated losses	(944)	(944)	
of which retained earnings/ losses eligible for CET1	(944)	(944)	c
Fair value reserve	(214)	(214)	d
Forex reserve	251	251	e
Equity attributable to Shareholders of the Bank	99,093	99,093	
Perpetual Tier 1 Sukuk	76,363	76,363	f
Total Equity	175,456	175,456	
Total Liabilities and Equity	1,773,042	1,773,042	

STEP 3 OF THE RECONCILIATION REQUIREMENTS:

No	Step 3 of Reconciliation requirements	Component of regulatory capital reported by bank (KD'000)	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from Step 2
Common Equity Tier 1 capital: instruments and reserves			
1	Share Capital	100,000	b
2	Accumulated losses	(944)	c
3	Fair value reserve	(214)	d
4	Forex Reserve	251	e
5	Common Equity Tier 1 capital (CET1)	99,093	
Additional Tier 1 capital: Instruments			
6	Perpetual Tier 1 Sukuk	76,363	f
7	Additional Tier 1 capital	76,363	
8	Tier 1 Capital (Tier 1 = Common Tier 1 capital + Additional Tier capital)	175,456	
Tier 2 Capital : Instruments and provisions			
9	Tier 2 Instruments	-	
10	General provisions included in Tier 2 capital	9,672	a
11	Tier 2 Capital	9,672	
12	Total Capital (Total capital = Tier 1 + Tier 2)	185,128	

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.

CAPITAL ADEQUACY RATIOS ARE AS FOLLOWS:

2017

No.	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	13.00%	22.46%
2.	Tier 1 Capital Adequacy Ratio	11.00%	21.29%
3.	CET1 Capital Adequacy Ratio	9.50%	12.02%

2016

No.	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%

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

FINANCIAL LEVERAGE RATIO:

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

Item	2017 KD'000	2016 KD'000
No. On-balance sheet exposures		
On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	1,787,966	1,136,959
(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)	1,787,966	1,136,959
Exposures to Sharia compliant hedging contracts		
Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	-	-
Add-on amounts for potential future exposures " PFE" associated with all Sharia compliant hedging contracts	-	-
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.	-	-
(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts)	-	-
(Bank's exposures to exempted Central counter parties "CCP")	-	-
Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)	-	-
Other off-balance sheet exposures		
Off-balance sheet exposure (before any adjustment for credit conversion factors)	102,653	50,296
(Adjustments for conversion to credit equivalent amounts)	(63,262)	(27,889)
Off-balance sheet items (sum of lines 10 and 11)	39,391	22,407
Capital and total exposures		
Tier 1 capital	175,456	94,772
Total exposures (sum of lines 3, 9 and 12)	1,827,357	1,159,366
Leverage ratio		
leverage ratio (Tier 1 Capital (13)/total exposures (14))	9.60%	8.17%

As stated above, the Bank's leverage ratio for the present period is 9.60% compared to 8.17% in the previous year. The reduction in the leverage ratio is mainly ascribed to the following:

Issuance of Sukuk that are qualified to be included under tier 1 additional capital in 2017.

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	2017 KD'000	2016 KD'000
No. On-balance sheet exposures		
1. Total assets as per published financial statements	1,773,042	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)	39,391	22,407
6. Other exposures	14,924	9,997
7. Total exposures in calculation of leverage ratio (sum of the above items).	1,827,357	1,159,366

FOURTH: RISK WEIGHTED ASSETS

1. Credit risk

The minimum required capital for credit risk exposures as at 31 December 2017 was KD 99,845 thousand (31 December 2016: KD 68,068 thousand) as detailed below:

2017

(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash item	1,701	1,701	-	-
2	Claims on sovereigns	173,584	173,584	3,645	474
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	37,950	37,950	4,813	626
5	Claims on multilateral development banks	8,136	8,136	-	-
6	Claims on banks	224,344	224,344	41,115	5,345
7	Claims on corporates	987,753	798,302	462,975	60,187
8	Regulatory retail exposure	261,363	256,860	146,327	19,023
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	13,196	11,041	5,371	698
11	Goods and commodities positions	5,387	5,387	3,231	420
12	Real estate investments	54,767	54,767	62,416	8,114
13	Investment and financing with customers	9,439	6,199	5,256	683
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	49,737	49,737	32,881	4,275
	Total	1,827,357	1,628,008	768,030	99,845

2016

(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	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

The minimum required capital for financing receivable as at 31 December 2016 was KD 75,915 thousand (31 December 2016: KD 56,889 thousand) as detailed below:

2017

(KD'000)

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on sovereigns	25,999	25,999	-	-
2	Claims on public sector institutions	25,046	25,046	-	-
3	Claims on banks	43,178	43,178	13,114	1,705
4	Claims on corporates	900,025	710,682	411,327	53,473
5	Regulatory retail exposure	261,363	256,860	148,664	19,326
6	Qualifying residential housing financing facilities	-	-	-	-
7	Past due exposures	13,196	11,041	5,470	711
8	Investment and financing with customers	9,439	6,199	5,383	700
	Total	1,278,246	1,079,005	583,958	75,915

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

2. Market Risk

Market Risk-weighted exposure during the financial year 2017 amounted to KD 3,738 thousand (31 December 2016: KD 3,481 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 486 thousand (31 December 2016: KD 453 thousand).

3. Operational Risk

Operational Risk-weighted exposures calculated during the year 2017 amounted to KD 52,313 thousand (31 December 2016: KD 36,175 thousand) as per the Basic Indicator Approach. The minimum required capital for operational risk exposures amounts to KD 6,801 thousand (31 December 2016: KD 4,703 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)

2017

(KD'000)

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	1,701	-	1,701
2	Claims on sovereigns	173,584	146,680	26,904
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	37,950	2,000	35,950
5	Claims on multilateral development banks	8,136	8,136	-
6	Claims on banks	224,344	212,200	12,144
7	Claims on corporates	987,753	29,770	957,983
8	Regulatory retail exposure	261,363	-	261,363
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,196	-	13,196
11	Goods and commodities positions	5,387	-	5,387
12	Real estate investments	54,767	-	54,767
13	Investment and financing with customers	9,439	-	9,439
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	49,737	-	49,737
	Total	1,827,357	398,786	1,428,571

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

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

2017

(KD'000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	1,701	1,701	-
2	Claims on sovereigns	173,584	29,582	144,002
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	37,950	5,300	32,650
5	Claims on multilateral development banks	8,136	1,136	7,000
6	Claims on banks	224,344	38,231	186,113
7	Claims on corporates	987,753	169,501	818,252
8	Regulatory retail exposure	261,363	36,503	224,860
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,196	1,843	11,353
11	Goods and commodities positions	5,387	752	4,635
12	Real estate investments	54,767	7,649	47,118
13	Investment and financing with customers	9,439	1,318	8,121
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	49,737	27,558	22,179
	Total	1,827,357	321,074	1,506,283

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

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

2017

(KD'000)

SN	Description of Credit Risk Exposures	Average Credit Risk exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	2,928	2,928	-
2	Claims on sovereigns	142,204	23,544	118,660
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	47,989	6,820	41,169
5	Claims on multilateral development banks	8,582	1,228	7,354
6	Claims on banks	176,719	30,589	146,130
7	Claims on corporates	698,523	126,215	572,308
8	Regulatory retail exposure	232,930	32,969	199,961
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	5,011	706	4,305
11	Goods and commodities positions	2,197	304	1,893
12	Real estate investments	37,033	5,223	31,810
13	Investment and financing with customers	210,288	29,873	180,415
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	47,684	25,543	22,141
	Total	1,612,088	285,942	1,326,146

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

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**2017**

(KD'000)

SN	Description of Credit Risk Exposures	North				Total
		MENA	America	Europe	Asia	
1	Cash item	1,701	-	-	-	1,701
2	Claims on sovereigns	167,187	-	5,492	905	173,584
3	Claims on international organizations	-	-	-	-	-
4	Claims on public sector entities	30,619	-	-	7,331	37,950
5	Claims on multilateral development banks	8,136	-	-	-	8,136
6	Claims on banks	189,348	1,678	27,534	5,784	224,344
7	Claims on corporates	924,700	16,286	32,781	11,006	987,753
8	Regulatory retail exposure	261,363	-	-	-	261,363
9	Qualifying residential housing financing facilities	-	-	-	-	-
10	Past due exposures	13,196	-	-	-	13,196
11	Goods and commodities positions	5,387	-	-	-	5,387
12	Real estate investments	14,045	31,102	9,620	-	54,767
13	Investment and financing with customers	9,439	-	-	-	9,439
14	Sukuk and taskeek exposures	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-
16	Other exposures	39,105	10,632	-	-	49,737
	Total	1,664,226	59,698	75,427	25,026	1,827,357

2016

(KD'000)

SN	Description of Credit Risk Exposures	North				Total
		MENA	America	Europe	Asia	
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

Maturities of total “Credit Risk” exposures
2017

(KD'000)

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	1,701	-	-	1,701
2	Claims on sovereigns	85,597	42,261	45,726	173,584
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	25,046	-	12,904	37,950
5	Claims on multilateral development banks	-	-	8,136	8,136
6	Claims on banks	199,306	2,722	22,316	224,344
7	Claims on corporates	642,395	297,058	48,300	987,753
8	Regulatory retail exposure	1,022	2,486	257,855	261,363
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	13,196	-	-	13,196
11	Goods and commodities positions	-	5,387	-	5,387
12	Real estate investments	-	-	54,767	54,767
13	Investment and financing with customers	6,329	3,110	-	9,439
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	7,727	3,954	38,056	49,737
	Total	982,319	356,978	488,060	1,827,357

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

Main sectors of total Credit Risk exposures

2017

(KD'000)

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construction & Real Estate	Government	Others	Total
1	Cash item	-	-	-	-	1,701	1,701
2	Claims on sovereigns	-	-	-	147,584	26,000	173,584
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	25,046	-	-	12,904	-	37,950
5	Claims on multilateral development banks	-	8,136	-	-	-	8,136
6	Claims on banks	-	224,344	-	-	-	224,344
7	Claims on corporates	199,589	86,113	568,117	-	133,934	987,753
8	Regulatory retail exposure	-	-	-	-	261,363	261,363
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	-	-	-	-	13,196	13,196
11	Goods and commodities position	5,387	-	-	-	-	5,387
12	Real estate investments	-	-	54,767	-	-	54,767
13	Investment and financing with customers	-	-	5,935	-	3,504	9,439
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	49,737	49,737
	Total	230,022	318,593	628,819	160,488	489,435	1,827,357

2016

(KD'000)

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

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, 2017, the value of the irregular financing facilities (impaired), including the Bank's accounts receivable, is amounted at KD 18,649 thousand (31 December 2016: KD 5,759 thousand) after excluding the deferred revenues and KD 16,494 thousand (31 December 2016: KD 5,758 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 2017, the Bank's provisions are KD 20,890 thousand (31 December 2016: KD 15,437 thousand) including a general provision of KD 12,945 thousand (31 December 2016: KD 10,249 thousand).

Irregular and past due exposures as per standard portfolios:
2017

(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	16,156	14,001	3,902	10,099	53,504
3	Regulatory retail exposures	2,493	2,493	1,551	942	5,490
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
	Total	18,649	16,494	5,453	11,041	58,994

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
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	5,968
	Total	5,759	5,758	2,696	3,062	19,540

Irregular and past due exposures as per geographical location:

2017

(KD'000)

SN	Description of geographical location	Impaired	Specific Provision	Net Facilities	Past Due
1	MENA	18,649	5,453	11,041	58,994
2	Europe	-	-	-	-
3	Asia	-	-	-	-
	Total	18,649	5,453	11,041	58,994

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

Irregular and past due exposures by industrial sector:

2017

(KD'000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing & Trade	4,066	2,108	1,245	3,905
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	11,103	1,301	8,360	47,022
4	Others	3,480	2,044	1,436	8,067
	Total	18,649	5,453	11,041	58,994

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

Aging of Irregular and past due exposures:

2017

(KD'000)

	Description of Irregular SN 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	-	9,847	5,310	3,492	18,649
2	Past Due	58,994	-	-	-	58,994
	Total	58,994	9,847	5,310	3,492	77,643

2016

(KD'000)

	Description of Irregular SN 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

General Provisions Balance:

	2017 (KD'000)	2016 (KD'000)
SN Distribution of General Provisions to credit risk exposures		
1 Claims on sovereigns	-	78
2 Claims on public sector institutions	250	151
3 Claims on banks	368	292
4 Claims on corporates	12,154	6,761
5 Regulatory retail exposures	2,571	1,725
6 Real estate investments	-	-
7 Investment and financing with customers	94	1,242
Total	15,437	10,249

	2017 (KD'000)	2016 (KD'000)
SN Distribution of General Provisions to geographical location		
1 MENA	14,651	9,897
2 Europe	547	178
3 Asia	46	143
4 Rest of the World	193	31
Total	15,437	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

2017

(KD'000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	1,701	-	-
2	Claims on sovereigns	173,584	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	37,950	-	-
5	Claims on multilateral development banks	8,136	-	-
6	Claims on banks	224,344	-	-
7	Claims on corporates	987,753	189,451	-
8	Regulatory retail exposure	261,363	4,503	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	13,196	2,155	-
11	Goods and commodities positions	5,387	-	-
12	Real estate investments	54,767	-	-
13	Investment and financing with customers	9,439	3,240	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	49,737	-	-
	Total	1,827,357	199,349	-

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	-

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 Framework

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, Net Stable Funding 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 2017 is 103% (31 December 2016: 84%) calculated as follows:

SN		2017	2016
1	Current assets (KD '000)	1,335,608	861,606
2	Current liabilities (KD '000)	1,302,568	1,021,109
	Current ratio	103%	%84

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

2017

(KD'000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	106,884	-	-	106,884
2	Unrestricted investment account	754,470	418,317	293,004	1,465,791
3	Restricted investment account	-	-	-	-
4	Other Deposits	9,042	-	-	9,042
	Total	870,396	418,317	293,004	1,581,717

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

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, 2017 was KD 140.96 million of which Central Bank reserves constituted about 75%. Average cash outflows over a 30 day horizon amounted to KD 215.6 million while average inflows from assets were KD 102.6 million.

Bank's LCR of 125% (based on average of last three months position) is above the minimum 80% prescribed by CBK for 2017. 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 2017

		"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)		140,958
Cash Outflows			
2	Retail deposits and small business	169,207	30,267
3	Stable deposits	-	-
4	Less stable deposits	169,207	30,267
5	Unsecured wholesale funding excluding the deposits of small business customers:		
6	Operational deposits	-	-
7	Non-operational deposits (other unsecured commitments)	282,292	163,450
8	Secured Funding		
9	Other cash outflows, including:		
10	Resulting from Shari'ah compliant hedging contracts	-	-
11	Resulting from assets-backed sukuk and other structured funding instruments	-	-
12	Binding credit and liquidity facilities	-	-
13	Other contingent funding obligations	437,491	21,875
14	Other contractual cash outflows obligations	-	-
15	Total Cash Outflows		215,591
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from fully performing exposures (as per the counterparties)	106,425	102,557
18	Other cash Inflows	-	-
19	Total Cash Inflows	106,425	102,557
Liquidity Coverage Ratio (LCR)			Total Adjusted Value
20	Total HQLA (after adjustments)		140,958
21	Net Cash Outflows		113,034
22	LCR		125%

*Simple Average for all days of the reported quarter.

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)*	
1 Total HQLA (before adjustments)			117,782
Cash Outflows			
2 Retail deposits and small business	83,372	14,110	
3 Stable deposits	-	-	
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	-	-	
7 Non-operational deposits (other unsecured commitments)	203,969	98,563	
8 Secured Funding			-
9 Other cash outflows, including:	-	-	
10 Resulting from Shari'ah compliant hedging contracts	-	-	
11 Resulting from assets-backed sukuk and other structured funding instruments	-	-	
12 Binding credit and liquidity facilities	-	-	
13 Other contingent funding obligations	279,594	13,980	
14 Other contractual cash outflows obligations	-	-	
15 Total Cash Outflows			126,653
Cash Inflows			
16 Secured lending transactions	-	-	
17 Inflows from fully performing exposures (as per the counterparties)	54,382	51,503	
18 Other cash Inflows	-	-	
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.

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).

2017

(KD'000)

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	271	483	527	266	64	1,611
Liabilities	(232)	(528)	(818)	(401)	(101)	(2,080)
Net Impact	39	(45)	(291)	(135)	(37)	(469)

2017

(KD'000)

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	(271)	(483)	(527)	(266)	(64)	(1,611)
Liabilities	232	528	818	401	101	2,080
Net Impact	(39)	45	291	135	37	469

2016

(KD'000)

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

2016

(KD'000)

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)

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 2017, the Bank's available for sale equity investment amounting to KD 25,781 thousand (31 December 2016: KD 26,005 thousand) as detailed below:

Investments types	2017 (KD '000)	2016 (KD '000)
Quoted equity security	756	837
Unquoted equity security	4,098	4,098
Unquoted Portfolios and Funds	16,923	16,789
Other unquoted investments	4,004	4,281
Total	25,781	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 81 thousand (31 December 2016: KD 59 thousand) in the other comprehensive income.

The minimum required capital for equity investment as at 31 December 2017 was KD 1,940 thousand (31 December 2016: KD 1,978 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 Shari'a.

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

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

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

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

2017

SN	Account Category	Q1-2017	Q2-2017	Q3-2017	Q4-2017
1	Saving accounts	1.023 %	1.030 %	1.006 %	1.005 %

2016

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

SEVENTH: SHARI'A REGULATIONS

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

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

Shari'a Board remuneration for the year ended 31 December 2017 amounted to KD 27 thousand (31 December 2016: KD 27 thousand).

EIGHTH: BANK'S REMUNERATION POLICIES**Board Nominations & Remunerations Committee**

The Committee is chaired by Mr. Sami ALRusheid, and includes as members Mr. Musaab Al Fulajj, 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 Mercer consultancy firm as an external advisor to prepare a long-term and short-term incentive scheme, the performance management framework, new salary structure, remuneration policy for the senior management and all the employees and review the incentive scheme for the employees.

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

- Conduct periodic review of the policy or as recommended by the Board of Directors, give recommendations to the Board of Directors for amending / updating the policy.
- Conduct periodic assessment of the adequacy and effectiveness of the Remuneration Policy to ensure accomplishment of the declared objectives.
- Evaluate the practices under which remunerations are awarded against future revenues under uncertain timing and potentials.
- Make recommendations to the Board of Directors on the level and components of remunerations for the Chief Executive Officer, his assistants and similar executives level at the Bank to obtain Board approval;
- Identify a system for awarding remunerations in line with the principles of sound practices in respect of awarding remunerations;
- Work closely with the Risk Management Committee at the Bank and / or the Chief Risk Management Officer when assessing the proposed incentives in the Remuneration Scheme.
- Review the relevant policy and procedures periodically or at least when needed to ensure meeting the established goals in light of the information reviewed by the Committee about the progress of the Remuneration Scheme.

Adjustments on the Remuneration:

The annual remuneration amounts (fixed and variable) are reviewed by the Board Nomination and Remuneration Committee (BNRC) and then approved by the Board of Directors.

The variable deferred remunerations are subject to the following criteria:

Remunerations are subject to the clawback arrangements in case of breaches, misrepresentation or exceeding risk thresholds previously approved.

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 12 thousand for the year ending on 31 December 2017 (31 December 2017: KD 9 Thousand).

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.

Remunerations paid to staff categories at the Bank:

Senior Management: This category includes the CEO, deputies, assistants and key executive managers whose appointment is subject to the approval of regulatory and supervisory bodies. The number of employees in this category is 15 staff member and their remunerations include basic salaries, benefits, allowances and end of service benefits.

The Financial Control and Risk employees: The number of staff in this category is 15 employees. The remunerations paid to this category include basic salaries, benefits, allowances and end of service benefits. This category include Financial Control, Risk Management, Compliance Department, Internal Audit and AML Unit.

Risk takers: Total compensations paid to this category include basic salaries, benefits, allowances and end of service benefits. The Number of employees is 11 staff members. This category includes Top Management, Groups and Departments Heads, with financial authorities who delegate responsibilities to their staff members but still have the ultimate responsibility and accountability for the risks.

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

The Board of Directors provides effective oversight on remuneration systems and schemes and reviews salaries structures to ensure sound implementation in close connection with the BNRC whose duties include setting the Remuneration Policy and submitting it for Board approval, conducting periodic review of the policy and providing recommendations thereon so as to ensure proper remuneration payment.

Risk Management Group, Internal Audit Department and Compliance Department are independent functions that report to their ad-hoc committees of the Board which undertake the assessment of these functions. The total remunerations paid to these functions are determined and approved by the BRC, the BAC and the BGC which are fully independent.

Risk Management Group and Compliance Department are independent functions that report to the BRC and the BGC. CRO's performance is annually assessed by the BRC and his remuneration is independently determined by the BRC.

The Remuneration Policy is in line with prudent risk taking.

Job Assessment:

1. Job evaluation is used to determine the fair financial value of individual functions within the Bank.
2. The elements to be taken into consideration in the job evaluation process, using the IPE methodology, are based on the following factors:
 - Impact on the organization
 - Communication (internal and external)
 - Knowledge
 - Innovation
 - Risk Environments
3. For each of these elements, the work is evaluated on a separate scale. The results of the evaluation of the Bank's functions determine the function within the relevant grade structure in line with best practices.
4. The Total Rewards Unit is responsible for job evaluation based on accurate job descriptions

No employees were awarded remunerations on signing employment contracts (sign-on awards) during 2017 (31 December 2016: One employee awarded a remuneration of KD 10 thousand on signing employment contract).

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

2017

SN Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
Fixed remuneration		
1 Cash-based	1,608,348	-
2 Shares and share-linked instruments	-	-
3 Other	74,082	-
Variable remuneration		
4 Cash-based	365,818	145,838
5 Shares and share-linked instruments	-	-
6 Other	-	-
Total	2,048,248	145,838

2016

SN Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
Fixed remuneration		
1 Cash-based	1,247,114	-
2 Shares and share-linked instruments	-	-
3 Other	53,993	-
Variable remuneration		
4 Cash-based	251,348	137,245
5 Shares and share-linked instruments	-	-
6 Other	-	-
Total	1,552,455	137,245

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

2017

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	Cash-based	1,321,444	-
2	Shares and share-linked instruments	-	-
3	Other	45,693	-
	Variable remuneration		
4	Cash-based	284,731	127,574
5	Shares and share-linked instruments	-	-
6	Other	-	-
	Total	1,651,868	127,574

2016

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
	Fixed remuneration		
1	Cash-based	1,262,285	-
2	Shares and share-linked instruments	-	-
3	Other	41,755	-
	Variable remuneration		
4	Cash-based	204,687	135,270
5	Shares and share-linked instruments	-	-
6	Other	-	-
	Total	1,508,727	135,270

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

2017

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	“Unrestricted” salaries and remunerations paid during the year (in KD)
1	Senior Management	15	67,438	2,048,248
2	Material Risk Takers	15	67,438	1,651,868
3	Financial & Control Functions	11	67,438	1,088,399

2016

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	“Unrestricted” salaries and remunerations paid during the year (in KD)
1	Senior Management	12	507,256	1,552,455
2	Material Risk Takers	15	507,256	1,508,727
3	Financial & Control Functions	10	-	883,443



2017
Annual Report

**Financial Statements and
Independent Auditor's Report**



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

REPORT ON THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Warba Bank K.S.C.P. (the «Bank») and its subsidiaries (collectively «the Group»), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) , as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

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 its assessment and future cash flows expected from financing receivables..

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, is set out in note 2.4 to the consolidated financial statements.

Our audit procedures included assessment of 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.

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

Other information included in the Group's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our Auditors' report, and we expect to obtain the remaining sections of the Group's 2017 Annual Report after the date of our Auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this Auditors' 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 Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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 consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations

issued by the Central Bank of Kuwait («CBK») as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/1.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as and by the Bank's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/1.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2017 that might have had a material effect on the business of the Bank or on its financial position.



WALEED A. AL OSAIMI

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



SAFI A. AL-MUTAWA

License No. 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

January 14, 2018
Kuwait

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 KD'000	2016 KD'000
ASSETS			
Cash and balances with banks	3	13,201	5,480
Placements with banks and CBK		246,484	166,940
Financing receivables	4	1,263,322	827,872
Available-for-sale investments	5	165,921	99,825
Investments in joint ventures	6	31,102	-
Investment properties	7	23,666	14,815
Other assets		23,347	6,387
Property and equipment		5,999	5,643
TOTAL ASSETS		1,773,042	1,126,962
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	8	572,864	274,131
Depositors' accounts	9	1,008,853	750,498
Other liabilities		15,869	7,561
TOTAL LIABILITIES		1,597,586	1,032,190
EQUITY			
	10		
Share capital		100,000	100,000
Accumulated losses		(944)	(4,798)
Fair value reserve		(214)	(430)
Foreign currency translation reserve		251	-
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		99,093	94,772
Perpetual Tier 1 Sukuk	11	76,363	-
TOTAL EQUITY		175,456	94,772
TOTAL LIABILITIES AND EQUITY		1,773,042	1,126,962



Abdulwahab A. Al Houti
Chairman



Shaheen H. Al Ghanem
Chief Executive Officer

The accompanying notes 1 to 21 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Notes	2017 KD'000	2016 KD'000
Placements and financing income		51,704	31,094
Finance costs and distribution to depositors		(23,061)	(14,678)
Net financing income		28,643	16,416
Net investment income	12	6,259	4,439
Net fees and commission income	13	2,178	1,583
Other income		303	234
Foreign exchange gain		601	261
Operating income		37,984	22,933
Staff costs		(11,640)	(9,304)
General and administrative expenses		(5,092)	(4,067)
Depreciation		(1,270)	(1,631)
Operating expenses		(18,002)	(15,002)
Operating profit before provision for impairment		19,982	7,931
Provision for impairment	14	(12,876)	(5,212)
Profit before deductions		7,106	2,719
National Labor Support Tax (NLST)		(184)	(64)
Zakat		(74)	(20)
Directors' remuneration		(80)	(60)
Net profit for the year		6,768	2,575
Basic and diluted earnings per share	15	4.32 fils	2.58 fils

The accompanying notes 1 to 21 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 KD'000	2016 KD'000
Net profit for the year		6,768	2,575
Other comprehensive income (loss) :			
Items that are or may be reclassified subsequently to consolidated statement of income:			
Change in fair value of available-for-sale investments		563	(39)
Gain on sale of available-for-sale investments realized during the year, transferred to consolidated statement of income	12	(347)	(44)
Foreign currency translation adjustment		251	-
Other comprehensive income (loss) for the year		467	(83)
Total comprehensive income for the year		7,235	2,492

The accompanying notes 1 to 21 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Accumulated losses	Fair value reserve	Foreign currency translation reserve	Equity attributable to shareholders of the Bank	Perpetual Tier 1 Sukuk	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2017	100,000	(4,798)	(430)	-	94,772	-	94,772
Net profit for the year	-	6,768	-	-	6,768	-	6,768
Other comprehensive income for the year	-	-	216	251	467	-	467
Total comprehensive income for the year	-	6,768	216	251	7,235	-	7,235
Issue of Perpetual Tier 1 Sukuk (Note 11)	-	-	-	-	-	76,363	76,363
Transaction costs on issue of Perpetual Tier 1 Sukuk (Note 11)	-	(463)	-	-	(463)	-	(463)
Profit paid on Perpetual Tier 1 Sukuk (Note 11)	-	(2,451)	-	-	(2,451)	-	(2,451)
Balance at 31 December 2017	100,000	(944)	(214)	251	99,093	76,363	175,456
Balance at 1 January 2016	100,000	(7,373)	(347)	-	92,280	-	92,280
Net profit for the year	-	2,575	-	-	2,575	-	2,575
Other comprehensive loss for the year	-	-	(83)	-	(83)	-	(83)
Total comprehensive income for the year	-	2,575	(83)	-	2,492	-	2,492
Balance at 31 December 2016	100,000	(4,798)	(430)	-	94,772	-	94,772

The accompanying notes 1 to 21 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 KD'000	2016 KD'000
OPERATING ACTIVITIES			
Net profit for the year		6,768	2,575
Adjustments for:			
Realised gain on sale of available-for-sale investments	12	(347)	(44)
Dividend income	12	(1,535)	(1,759)
Sukuk income	12	(3,500)	(1,873)
Share of results from investments in joint ventures	12	67	-
Net rental income from investment properties	12	(796)	(659)
Other investment income	12	(148)	(104)
Provision for end of service benefits		888	368
Depreciation		1,270	1,631
Provision for impairment	14	12,876	5,212
		15,543	5,347
<i>Changes in operating assets and liabilities:</i>			
Placements with banks		(22,684)	(46,351)
Financing receivables		(447,224)	(289,064)
Other assets		(16,903)	(1,489)
Due to banks and other financial institutions		298,342	29,798
Depositors' accounts		258,355	317,033
Other liabilities		8,485	426
Net cash generated from operating activities		93,914	15,700
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		(149,646)	(45,673)
Proceed from sale and redemption of available-for-sale investments		82,318	14,919
Purchase of investment in joint ventures		(31,686)	-
Dividend received from joint ventures	6	392	-
Purchase of investment property	7	(8,891)	-
Purchase of property and equipment		(1,651)	(898)
Dividend income received		1,535	1,759
Sukuk income received		3,709	2,099
Rental income received		1,138	963
Net cash used in investing activities		(102,782)	(26,831)
FINANCING ACTIVITIES			
Perpetual Tier 1 Sukuk issuing costs	11	(463)	-
Proceeds from issue of Perpetual Tier 1 Sukuk	11	76,363	-
Profit paid on perpetual Tier 1 Sukuk	11	(2,451)	-
Net cash generated from financing activities		73,449	-
NET CHANGE IN CASH AND CASH EQUIVALENTS		64,581	(11,131)
Cash and cash equivalents at 1 January		116,505	127,636
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	181,086	116,505

The accompanying notes 1 to 21 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2017

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 consolidated financial statements of the Bank and its wholly owned special purpose vehicles (collectively the "Group") for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 14 January 2018. The Annual General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

2.1 BASIS OF PREPARATION

Statement of compliance

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

The consolidated 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 consolidated 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 Group, effective as of 1 January 2017. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9: Financial Instruments

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014, that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group will avail of the exemption allowing it not to restate comparative information for prior periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

During the year 2017, the Group has performed a detailed impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group, until the Group presents its first consolidated financial statements that include the date of initial application.

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively) and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The Group has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI"). The impact from the adoption of classification and measurement approach of IFRS 9 is as follows:

- The Group does not expect a significant impact on its consolidated statement of financial position from applying the classification and measurement requirements of IFRS 9 except for certain financial assets held as available-for-sale mainly representing Bank's investment in open-ended funds and certain equity investments will, instead, be measured at FVTPL.
- At 31 December 2017, the Group has equity securities classified as available-for-sale held for long term strategic purposes. Under IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses will be recognised in consolidated income statement and no gains or losses will be classified to consolidated income statement on disposal.
- Debt securities (sukuk), currently classified as "available-for-sale", are expected to be measured at FVOCI under IFRS 9 as the Group expects to hold these assets under the business model to collect contractual cash flows or to sell a significant amount on a relatively frequent basis.
- Financing receivables will continue to be held under the business model to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest, except for Qard

Hassan which will be reclassified to FVTPL. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

- There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.
- Upon adoption of the new classification and measurement principles under IFRS 9 as noted above, the fair value reserve will increase approximately by KD 670 thousand and decrease in the Accumulated losses by KD 2,443 thousand as at 1 January 2018.

(b) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under IFRS 9, the impairment requirements apply to financial assets measured at amortised cost, debt instruments classified as fair value through other comprehensive income and certain financing facilities and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The Bank will determine the potential impact of the expected provision for credit losses in accordance with IFRS 9 during the period ended 31 March 2018. The Bank will also comply with instructions of Central Bank of Kuwait in this regard.

(c) Hedge accounting

As at 31 December 2017, the Group does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 will not have a significant impact on Group's consolidated financial statements.

(d) Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group's assessment included an analysis to identify data gaps against current process and the Group is in process of implementing the system and controls changes that it believes will be necessary to capture the required data.

IFRS 15 – Revenue from Contracts with customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases). Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Group is in the process of evaluating the effect of IFRS 15 on the amounts reported and disclosed in the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of consolidation**

The consolidated financial statements comprise the financial information of the Bank and its wholly owned special purpose vehicles (investees which are controlled by the Bank). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a wholly owned special purpose vehicle begins when the Group obtains control over the wholly owned special purpose vehicle and ceases when the Group loses control of the wholly owned special purpose vehicle. Assets, liabilities, income and expenses of a wholly owned special purpose vehicle acquired or disposed off during the year are included in the Group's consolidated financial statements from the date the Group gains control until the date the Group ceases to control the wholly owned special purpose vehicle.

When necessary, adjustments are made to the financial information of wholly owned special purpose vehicles to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a wholly owned special purpose vehicle, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a wholly owned special purpose vehicle, it derecognises the related assets, liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The principal operating wholly owned special purpose vehicles of the Group are as follows:

Name of company	Principal activities	Country of incorporation	Effective interest as at 31 December 2017	Effective interest as at 31 December 2016
Abyat Real Estate Company L.L.C.	Real Estate	Oman	100%	100%
Thamer Al Omania Company L.L.C.	Real Estate	Oman	100%	100%
Al Kout Holdings Limited	Real Estate	Jersey	100%	-
Warba Tier 1 Sukuk Limited	Financial Securities	Cayman Islands	100%	-

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 Group classifies financial instruments as "placement with banks and CBK", "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 Group 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 Group 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 Group 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 Group 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 Group'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 Group 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 consolidated 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 consolidated statement of income.

Category of financial instruments

Placement with banks and financing receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group offers Sharia'h compliant products and services only, such as Wakala, Murabaha and Ijara. Placement with banks and financing receivables are stated in the consolidated 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 Group 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 Group has acquired the asset.

Ijara is an agreement whereby the Group (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 consolidated statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the fair value reserve to the consolidated statement of income. Profit earned, whilst holding the available-for-sale investments, is reported as investment income using the effective profit rate method.

The Group 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 Group is unable to trade these financial assets due to inactive markets, the Group 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 Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the consolidated 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 consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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 consolidated 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. Mid 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 consolidated financial statements on a recurring basis, the Group 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 Group 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 Group 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 Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

The carrying amount of the asset is reduced by the amount of impairment and the amount of impairment loss is recognised in the consolidated 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 Group 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 consolidated statement of income is removed from fair value reserve and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated 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 consolidated 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.

Investments in joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its joint venture are accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the investee, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of joint venture is recognized in the consolidated statement of income.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in joint venture is impaired.

If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Impairment loss on joint venture' in the consolidated statement of income.

Upon loss of significant influence over the joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in consolidated statement of income.

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 consolidated 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.

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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated 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 Group 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 Group 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 consolidated 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 Group 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 Group makes contribution to Public Institution for Social Security as a percentage of the employees' salaries.

The Group's 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 Group 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.

Foreign currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the consolidated statement of income, foreign exchange differences are recognised in the consolidated statement of income.

As at the reporting date, the assets and liabilities of wholly owned special purpose vehicles are translated into the Bank's presentation currency (KD) at the rate of exchange ruling on the reporting date, and their statement of incomes are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to other comprehensive income. On disposal of a foreign wholly owned special purpose vehicle, the deferred cumulative amount recognised in other comprehensive income relating to that particular wholly owned special purpose vehicle is recognised in the consolidated statement of income.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the respective wholly owned special purpose vehicles and translated at the rate of exchange ruling on the reporting date.

Taxation*National Labour Support Tax (NLST)*

The Group 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 Group 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 Group of the Group 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 Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Group 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.

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 consolidated financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the consolidated 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 receivables

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated 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.

Judgments

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

Fair value measurement

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts.

Considerable judgement by management is required in the estimation of the fair value of the assets acquired and liabilities assumed as a result of business combination including intangibles and contingent liabilities.

Impairment of available-for-sale equity investments

The Group 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 Group 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

	2017 KD'000	2016 KD'000
Cash	1,700	1,616
Current account with the CBK	6,206	352
Current accounts with commercial banks	5,295	3,512
Cash and balances with banks	13,201	5,480
Placements with the CBK whose original maturity is within 3 months	17,053	44,054
Placements with banks whose original maturity is within 3 months	150,832	66,971
Cash and cash equivalents	<u>181,086</u>	<u>116,505</u>

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

4. FINANCING RECEIVABLES

Financing receivables mainly comprise of facilities extended to the customers of the Group 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.

	2017 KD'000	2016 KD'000
Murabaha receivables	1,181,210	747,578
Ijara receivables	165,243	143,198
Others	8,007	1,585
Less: deferred profit	(70,762)	(51,795)
Financing receivables before provision for impairment	1,283,698	840,566
Less: provision for impairment	(20,376)	(12,694)
	<u>1,263,322</u>	<u>827,872</u>

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

	2017 KD'000	2016 KD'000
Corporate	809,004	479,597
Individuals	474,694	360,969
Financing receivables before provision for impairment	1,283,698	840,566
Less: provision for impairment	(20,376)	(12,694)
	<u>1,263,322</u>	<u>827,872</u>

Movement in provision for impairment:

	2017			2016		
	Specific provision KD'000	General provision KD'000	Total KD'000	Specific provision KD'000	General provision KD'000	Total KD'000
<i>Cash facilities</i>						
Balance at 1 January	2,696	9,998	12,694	1,808	6,639	8,447
Provision charged during the year (Note 14)	6,853	4,962	11,815	1,631	3,355	4,986
Written off balances during the year	(4,078)	-	(4,078)	(750)	-	(750)
Foreign currency movement	(18)	(37)	(55)	7	4	11
Balance at 31 December	5,453	14,923	20,376	2,696	9,998	12,694
<i>Non-cash facilities</i>						
Balance at 1 January	-	251	251	-	174	174
Provision charged during the year (Note 14)	-	263	263	-	77	77
Balance at 31 December	-	514	514	-	251	251
<i>Total facilities</i>						
Balance at 1 January	2,696	10,249	12,945	1,808	6,813	8,621
Provision charged during the year	6,853	5,225	12,078	1,631	3,432	5,063
Written off balances during the year	(4,078)	-	(4,078)	(750)	-	(750)
Foreign currency movement	(18)	(37)	(55)	7	4	11
Balance at 31 December	5,453	15,437	20,890	2,696	10,249	12,945

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

5. AVAILABLE FOR SALE INVESTMENTS

	2017 KD'000	2016 KD'000
Quoted sukuk	138,140	71,820
Quoted equity security	756	837
Unquoted sukuk	2,000	2,000
Unquoted equity security	4,098	4,098
Unquoted funds and portfolio	20,927	21,070
	165,921	99,825

All available for sale investments are recorded at fair value except for unquoted investments with a carrying value of KD 25,025 thousand (2016: KD 25,168 thousand), which are recorded at cost less impairment (if any).

Management has performed a review of the financial assets to assess whether impairment has occurred in the value of these financial assets. Based on the assessment, management has recorded an impairment loss of KD 215 thousand (2016: KD nil) in the consolidated statement of income for the year in respect of available for sale investments.

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in note 21.

6. INVESTMENTS IN JOINT VENTURES

The Group has the following investments in joint ventures:

<i>Name of joint ventures</i>	Country of incorporation	* Legal ownership
		2017
MP Property Corporation (Delaware Corp)	USA	99%
Banyan Grove Om LLC (Delaware LLC)	USA	99%
Brazos TX Investors LLC (Delaware Corp)	USA	98%
DCS Parent Corporation (Delaware Corp)	USA	99%

The movement in the carrying value of joint ventures is as follows:

	2017 KD'000
As at 1 January	-
Additions	31,686
Share of results	(67)
Dividends received	(392)
Foreign currency translation adjustment	(125)
As at 31 December	31,102

*The Group exercises "joint control" over the above investees, whereby all decisions relating to these joint ventures' activities require "unanimous consent" from all parties of the joint ventures.

The joint ventures have no contingent liabilities or capital commitments as at 31 December 2017 (2016: KD nil).

The following table illustrates summarised financial information of the Group's investment in the joint ventures:

<i>Joint ventures' statement of financial position:</i>	2017 KD'000
Current assets	1,656
Non-current assets	80,839
Current liabilities	(918)
Non-current liabilities	(49,568)
Net assets	32,009
Loss for the year	(69)
Other comprehensive income	-
Revenue	2,279

7. INVESTMENT PROPERTIES

	2017 KD'000	2016 KD'000
Balance at 1 January	14,815	15,127
Additions	8,891	-
Depreciation charged for the year	(238)	(212)
Impairment charged for the year (Note 14)	(558)	(100)
Foreign currency translation adjustment	756	-
Balance at 31 December	<u>23,666</u>	<u>14,815</u>

The fair value of the investment properties at the reporting date is KD 24,656 thousand (2016:KD 15,632 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.

	2017 KD'000	2016 KD'000
Rental income from investment properties	1,234	983
Direct operating expenses and depreciation	(438)	(324)
Net rental income from investment properties (Note 12)	<u>796</u>	<u>659</u>

The Group 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 21.

8. 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.

9. 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.

10. EQUITY*Share capital*

The authorised, issued and paid up capital of the Bank comprises 1,000 million ordinary shares of 100 fils each (2016: 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.

11. PERPETUAL TIER 1 SUKUK

On 14 March 2017, the Bank, through a Sharia's compliant Sukuk arrangement, issued Tier 1 Sukuk amounting to USD 250 million. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending 14 March 2022 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb), on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Tier 1 Sukuk bears a profit rate of 6.5% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 4.374% per annum.

At the Bank's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default. The Bank made profit payment during the year on 13 September 2017.

12. NET INVESTMENT INCOME

	2017 KD'000	2016 KD'000
Realised gain on sale of available-for-sale investments	347	44
Dividend income	1,535	1,759
Sukuk income	3,500	1,873
Share of results from investments in joint ventures (Note 6)	(67)	-
Net rental income from investment properties (Note 7)	796	659
Other investment income	148	104
	6,259	4,439

13. NET FEES AND COMMISSION INCOME

Net fees and commission income included financing syndication fees earned on the successful completion of syndicated deals by the Group amounting to KD 991 thousand (2016: KD 1,005 thousand).

14. PROVISION FOR IMPAIRMENT

	2017 KD'000	2016 KD'000
Impairment on financing receivables (Note 4)	11,815	4,986
Recovery of written-off financing receivables	(41)	-
Impairment of available-for-sale investments (Note 5)	215	-
Impairment of investment properties (Note 7)	558	100
Impairment of property and equipment	25	-
Impairment of non-cash facilities (Note 4)	263	77
Impairment of other assets	41	49
	12,876	5,212

15. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net profit for the year of the Group adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of shares outstanding during the year as follows:

	2017	2016
Net profit for the year (KD'000)	6,768	2,575
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	(2,451)	-
	4,317	2,575
Weighted average number of shares outstanding ('000)	1,000,000	1,000,000
Basic and diluted earnings per share (fils)	4.32	2.58

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

16. 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 Group 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 consolidated statement of financial position are as follows:

	Major shareholders KD'000	Board members and executive officials KD'000	Other related parties KD'000	Total 31 December 2017 KD'000	Total 31 December 2016 KD'000
Finance facilities	-	1,065	23	1,088	134
Credit cards	-	7	1	8	49
Depositor's accounts	676,205	560	310	677,075	394,011

	No. of major shareholders	No. of Board members and executive officials	No. of other related parties
2017			
Finance facilities	-	7	2
Credit cards	-	6	2
Depositor's accounts	26	16	26
2016			
Finance facilities	-	5	2
Credit cards	-	14	3
Depositor's accounts	2	8	16

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

	Major shareholders KD'000	Board members and executive officials KD'000	Other related parties KD'000	Total 31 December 2017 KD'000	Total 31 December 2016 KD'000
Placements and financing income	-	94	20	114	3
Finance costs and distributions to depositors	9,819	1	1	9,821	5,094

Compensation to key management personnel and remuneration of board members:

	2017 KD'000	2016 KD'000
Salaries and other short-term benefits	2,048	1,552
Post-employment benefits	146	137
Remuneration of Board members *	166	126
	<u>2,360</u>	<u>1,815</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.

17. COMMITMENTS AND CONTINGENT LIABILITIES

	2017 KD'000	2016 KD'000
Acceptances and letters of credit	39,788	9,140
Letter of guarantees	62,865	41,156
Contingent liabilities	102,653	50,296
Capital commitments	232	238
Operating lease rental commitments – the Group as a lessee		
Future minimum lease payments:		
Within one year	1,485	1,508
Within two to five years	5,992	6,049
	<u>7,477</u>	<u>7,557</u>
Operating lease rental commitments – the Group as a lessor		
Future minimum lease receivable:		
Within one year	1,526	833
Within two to five years	5,976	3,336
	<u>7,502</u>	<u>4,169</u>

18. RISK MANAGEMENT

Risk is inherent in all activities of the Group 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 Group's financial health and continuing profitability. The Group'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 Group's exposure to each of the risks, the Group's framework of policies, models and quantification techniques and processes for identifying, measuring, mitigating, monitoring and managing risk, and the management of Group's capital.

a) Risk management structure

Board of Directors

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

risk types like credit, market, 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 Group's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management framework. The Group'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 Group 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 Group.

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 Group 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 Group'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 Group.

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 Group 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 Group 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 Group 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 Group, to identify any abnormal situations and difficulties associated with a customer's position which may require the exposure to be classified as irregular, and to determine an appropriate provisioning required for impaired/ potential impairment of assets and investments.

Maximum exposure to credit risk without taking account of any collateral

The following table summarizes the maximum exposure to credit risk for the components of the consolidated statement of financial position, including off statement of consolidated 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.

	Net maximum exposure	
	2017 KD'000	2016 KD'000
Balances with banks	11,501	3,864
Placements with banks	246,484	166,940
Financing receivables	1,263,322	827,872
Available-for-sale investments (investment in Sukuk)	140,140	73,820
Other assets	10,187	4,380
	1,671,634	1,076,876
Acceptances and letters of credit	39,590	9,094
Letter of guarantees	62,550	40,951
Total	102,140	50,045
Total credit risk exposure	1,773,774	1,126,921

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 Group's performance to developments affecting similarly connected counterparties.

The maximum credit exposure to a single counterparty as at 31 December 2017 amounted to KD 25,595 thousand (2016: KD 15,192 thousand) before taking account of collateral.

Risk concentrations of the maximum exposure to credit risk

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

	2017		2016	
	Financial assets KD'000	Off- statement of financial position items KD'000	Financial assets KD'000	Off- statement of financial position items KD'000
Geographic region:				
Kuwait	1,305,642	96,592	870,756	45,357
Other Middle East	257,236	-	175,673	-
Rest of the World	108,756	5,548	30,447	4,688
	1,671,634	102,140	1,076,876	50,045

	2017		2016	
	Financial assets KD'000	Off-statement of financial position items KD'000	Financial assets KD'000	Off-statement of financial position items KD'000
Industry sector:				
Banks and Financial Institutions	475,665	5,417	288,819	4,688
Construction and Real Estate	551,531	58,713	375,412	32,898
Trading and Manufacturing	205,196	27,364	150,463	8,962
Other	439,242	10,646	262,182	3,497
	1,671,634	102,140	1,076,876	50,045

Credit risk mitigation

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

Credit quality of financial instruments

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

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

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

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

	Neither past due nor impaired		Past due or impaired	Total KD'000
	High quality KD'000	Standard quality KD'000	KD'000	
2017				
Balances with banks	11,501	-	-	11,501
Placements with banks	246,484	-	-	246,484
Financing receivables	747,474	458,583	77,641	1,283,698
Available-for-sale investments (investment in Sukuk)	122,447	17,693	-	140,140
Other assets	7,123	3,153	-	10,276
	1,135,029	479,429	77,641	1,692,099

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

	Neither past due nor impaired		Past due or impaired	Total KD'000
	High quality KD'000	Standard quality KD'000	KD'000	
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>

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

	Less than 30 days KD'000	31 to 60 days KD'000	61 to 90 days KD'000	Total KD'000
2017				
Financing receivables	<u>39,435</u>	<u>13,590</u>	<u>5,969</u>	<u>58,994</u>
2016				
Financing receivables	<u>12,941</u>	<u>5,612</u>	<u>987</u>	<u>19,540</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.

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that Group 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 Group 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 Group'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 Group is susceptible to profit rate risk as value of Group'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 Group's net earnings or earnings spread.

Prepayment risk

Prepayment risk is the risk that the Group 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 Group 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 Group is susceptible to currency risk as the Group's base currency is KD and all foreign currencies are revalued against KD. Any long or short open position in any currency exposes the Group to currency risk.

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

The tables below indicate the currencies to which the Group 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	2017			2016		
	Change in currency rate %	Effect on result KD 000's	Effect on equity KD 000's	Change in currency rate %	Effect on result KD 000's	Effect on equity KD 000's
USD	+1	(557)	320	+1	(201)	8
SAR	+1	(22)	-	+1	(21)	-
GBP	+1	(43)	47	+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 Group 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 2017 would have increased equity by KD 38 thousand (31 December 2016: KD 42 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.

d) Liquidity risk

Liquidity risk arises when the Group 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 Group 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 Group 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 Group'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 Group's reputation.

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

	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
2017					
Assets					
Cash and balances with banks	13,201	-	-	-	13,201
Placements with banks and CBK	246,484	-	-	-	246,484
Financing receivables	728,610	256,494	23,710	254,508	1,263,322
Available-for-sale investments	44,021	-	6,019	115,881	165,921
Investments in joint ventures	-	-	-	31,102	31,102
Investment properties	-	-	-	23,666	23,666
Other assets	7,728	9,051	290	6,278	23,347
Property and equipment	-	-	-	5,999	5,999
	1,040,044	265,545	30,019	437,434	1,773,042
Liabilities					
Due to banks and other financial institutions	175,788	69,639	61,884	265,553	572,864
Depositors' accounts	694,608	187,206	99,588	27,451	1,008,853
Other liabilities	13,855	-	-	2,014	15,869
	884,251	256,845	161,472	295,018	1,597,586
2016					
Assets					
Cash and balances with banks	5,480	-	-	-	5,480
Placements with banks and CBK	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
Investments in joint ventures	-	-	-	-	-
Investment properties	-	-	-	14,815	14,815
Other assets	1,708	439	251	3,989	6,387
Property and equipment	-	-	-	5,643	5,643
	674,902	155,384	31,320	265,356	1,126,962
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
	614,243	196,095	210,771	11,081	1,032,190

The table below summarizes the maturity profile of the Group'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
2017					
Due to banks and other financial institutions	176,082	70,128	62,794	276,065	585,069
Depositors' accounts	694,925	188,974	101,284	29,722	1,014,905
Other liabilities	13,855	-	-	2,014	15,869
	884,862	259,102	164,078	307,801	1,615,843
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
	615,191	197,802	213,913	11,387	1,038,293

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

	Within 3 months KD'000	3 to 12 months KD'000	Over 1 year KD'000	Total KD'000
2017				
Acceptances and letters of credit	26,704	13,084	-	39,788
Letter of guarantees	10,533	27,125	25,207	62,865
Capital commitments	-	232	-	232
	37,237	40,441	25,207	102,885
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
	14,307	16,985	19,242	50,534

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 Group 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 Group. Suitable operational risk procedures have been agreed with various groups and departments of the Group 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 Group 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 Group has established its Business Continuity Management (“BCM”) policy to meet any internal or external failures and eventualities enabling smooth functioning of the Group’s operations.

The Group 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 Group pays special attention to operational risks that may arise from non-compliance to Sharia’h principles and any possible failure in fiduciary responsibilities.

19. SEGMENT REPORTING

The Group'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 Group's reportable segments.

	Corporate KD'000	Retail KD'000	Treasury KD'000	Investment KD'000	Other KD'000	Total KD'000
2017						
Operating income	24,670	6,361	2,171	4,782	-	37,984
Net profit	13,165	(1,498)	1,880	3,143	(9,922)	6,768
Total assets	1,004,046	259,277	246,484	220,688	42,547	1,773,042
Total liabilities	157,419	324,632	1,099,666	-	15,869	1,597,586
2016						
Operating income	13,467	4,484	801	4,181	-	22,933
Net profit	8,358	(1,649)	622	3,716	(8,472)	2,575
Total assets	655,687	172,185	166,940	114,640	17,510	1,126,962
Total liabilities	104,295	155,383	764,951	-	7,561	1,032,190

20. CAPITAL MANAGEMENT

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

The Group 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 Group may review the amount of dividend payment to shareholders or issue capital securities.

A key objective of the Group 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 Group's management and governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group follows Basel III regulations and the Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2017 are calculated in accordance with CBK circular number 2/RB/ RBA/336/2014 dated 24 June 2014 are shown below:

	2017 KD'000	2016 KD'000
Risk weighted assets	824,081	563,240
Capital required	107,131	73,221
Capital available		
Common equity Tier 1 "CET1" capital	99,093	94,772
Additional Tier 1 perpetual Sukuk	76,363	-
Total Tier 1 capital	175,456	94,772
Total Tier 2 capital	9,672	6,591
Total capital available	185,128	101,363
CET1 capital adequacy ratio	12.02%	16.83%
Total Tier 1 capital adequacy ratio	21.29%	16.83%
Total capital adequacy ratio	22.46%	18.00%

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

	2017 KD'000	2016 KD'000
Tier 1 capital	175,456	94,772
Total exposure	1,827,357	1,159,366
Financial leverage ratio	9.60%	8.17%

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.

21. FAIR VALUE MEASUREMENT

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

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

2017	Date of valuation	Fair value measurement			
		Total KD'000	Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
Assets measured at fair value					
Available-for-sale Investments:					
Quoted Sukuk		138,140	138,140	-	-
Sovereign Sukuk	31 December 2017	41,276	41,276	-	-
Corporate Sukuk	31 December 2017	96,864	96,864	-	-
Quoted equity security	31 December 2017	756	756	-	-
Unquoted Sukuk	31 December 2017	2,000	-	-	2,000
Managed portfolio	31 December 2017	4,004	-	-	4,004
Assets measured at cost while fair value is disclosed					
Investment properties		24,656	-	-	24,656
Kuwait	31 December 2017	9,801	-	-	9,801
Other Middle East	31 December 2017	4,554	-	-	4,554
Europe	31 December 2017	10,301	-	-	10,301

2016	Date of valuation	Fair value measurement			
		Total KD'000	Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
Assets measured at fair value					
Available-for-sale Investments:					
Quoted Sukuk		71,820	71,820	-	-
Sovereign 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
Managed portfolio	31 December 2016	4,281	-	-	4,281
Assets measured at cost while fair value is disclosed					
Investment properties		15,632	-	-	15,632
Kuwait	31 December 2016	10,307	-	-	10,307
Other Middle East	31 December 2016	5,325	-	-	5,325
Europe	31 December 2016	-	-	-	-

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

	At 1 January 2017 KD 000's	Change in fair value KD 000's	Impairment KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 31 December 2017 KD 000's
Available for sale investments							
Unquoted Sukuk	2,000	-	-	-	-	-	2,000
Managed Portfolio	4,281	-	-	-	(277)	-	4,004
	6,281	-	-	-	(277)	-	6,004

During the years ended 31 December 2017 and 2016, there were no transfer between Level 1, Level 2 and Level 3.

Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating a range of input assumptions that are appropriate in the circumstances. Carrying value of financial assets and liabilities that are carried at amortised cost are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in profit rates and is only used for disclosure purpose. Fair value of such financial instruments is classified under level 3 determined based on discounted cash flows, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

The impact on the consolidated statement of financial position or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used to fair value the securities classified under level 3 were altered by 5 per cent.



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