

WARBA BANK K.S.C.P.
FINANCIAL STATEMENTS
31 DECEMBER 2015



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

Report on the Financial Statements

We have audited the accompanying financial statements of Warba Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2015, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

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



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

Report on Other Legal and Regulatory Requirements (continued)

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations, during the year ended 31 December 2015 that might have had a material effect on the business of the Bank or on its financial position.

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10 January 2016
Kuwait

Warba Bank K.S.C.P.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

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



Imad Abdullah Al Thaqib
Chairman



Jassar D. Al Jassar
Vice Chairman and Chief Executive Officer

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



Warba Bank K.S.C.P.

STATEMENT OF INCOME

For the year ended 31 December 2015

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

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

Warba Bank K.S.C.P.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

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

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

Warba Bank K.S.C.P.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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

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

Warba Bank K.S.C.P.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

1. CORPORATE INFORMATION

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

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

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

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

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

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

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

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

IFRS 13 Fair Value Measurement

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

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 9 – Financial Instruments

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Bank's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Bank is in the process of quantifying the impact of this standard on the Bank's financial statements, when adopted.

Amendments to IAS 1 Disclosure Initiative

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Classification of financial instruments

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

Recognition

A financial asset or a financial liability is recognised when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

De-recognition

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

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

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

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

Measurement

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

Category of financial instruments

Placement with banks and financing receivables

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Category of financial instruments (continued)

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

Available-for-sale investments

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

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

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

Financial liabilities other than at fair value through profit or loss

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

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

Financial guarantees

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

Offsetting

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

Fair value measurement

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Impairment of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

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

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

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

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

Cash and cash equivalents

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

Investment properties

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

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

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

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

Impairment of non-financial assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

End of service indemnity

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

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

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

Revenue recognition

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

National Labour Support Tax (NLST)

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

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

Segment information

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

Foreign currencies

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

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

Provisions

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

Contingencies

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

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

Use of estimates

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

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

Impairment losses on financing facilities

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates (continued)

Impairment losses on financing facilities (continued)

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

Judgments

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

Impairment of available-for-sale equity investments

The Bank treats investments available-for-sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

Classification of property

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

3. CASH AND CASH EQUIVALENTS

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

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

4. FINANCING RECEIVABLES

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

4. FINANCING RECEIVABLES (continued)

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

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

Movement in provision for impairment:

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

5. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

6. INVESTMENT PROPERTIES

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

7. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

8. DEPOSITORS' ACCOUNTS

Depositors' accounts of the Bank comprise of the following:

a) *Non-investment deposits in the form of current accounts:*

These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank.

b) *Investment deposits:*

These include Mudaraba, Murabaha and Wakala deposits, which have fixed maturity as specified in the term of the contract except for investment saving accounts which are valid for an unlimited period.

9. EQUITY

Share capital

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

Statutory reserve

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

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

Voluntary reserve

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

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

10. NET INVESTMENT INCOME

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

11. NET FEES AND COMMISSION INCOME

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

12. BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

13. TRANSACTIONS WITH RELATED PARTIES

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

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

	<i>Major shareholders</i>	<i>Board members and executive officials</i>	<i>Other related parties</i>	<i>Total 31 December 2015</i>	<i>31 December 2014</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Finance facilities	-	134	-	134	115
Credit cards	-	5	-	5	4
Depositor's accounts	191,004	638	118	191,760	84,475

	<i>No. of major shareholders</i>	<i>No. of Board members and executive officials</i>	<i>No. of other related parties</i>
Finance facilities	-	4	-
Credit cards	-	10	2
Depositor's accounts	2	16	9

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

13. TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation to key management personnel:

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

14. COMMITMENTS AND CONTINGENT LIABILITIES

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

15. RISK MANAGEMENT

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

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

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

a) Risk management structure

Board of Directors

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

15. RISK MANAGEMENT (continued)

a) Risk management structure (continued)

Risk Management Group

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

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

b) Credit risk

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

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

Credit risk management

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

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

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

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

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

Maximum exposure to credit risk without taking account of any collateral

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

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

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

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

Risk concentrations of the maximum exposure to credit risk

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

	<i>2015</i>		<i>2014</i>	
	<i>Financial assets</i>	<i>Off- statement of financial position items</i>	<i>Financial assets</i>	<i>Off- statement of financial position items</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Geographic region:</i>				
Kuwait	594,384	34,693	448,662	14,717
Other Middle East	112,944	-	80,550	-
Rest of the world	27,652	-	29,536	-
	734,980	34,693	558,748	14,717

	<i>2015</i>		<i>2014</i>	
	<i>Financial assets</i>	<i>Off- statement of financial position items</i>	<i>Financial assets</i>	<i>Off- statement of financial position items</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
<i>Industry sector:</i>				
Banks and financial institutions	161,414	-	147,938	-
Construction and real estate	252,249	13,509	170,098	10,159
Trading and manufacturing	92,519	5,301	91,329	613
Other	228,798	15,883	149,383	3,945
	734,980	34,693	558,748	14,717

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit risk mitigation

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

Credit quality of financial instruments

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

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

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

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

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

c) Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

15. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

Liquidity risk management

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

15. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

15. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

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

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

d) Market risk

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

Market risk management

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

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

The market risk framework comprises of the following elements:

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2015

15. RISK MANAGEMENT (continued)

d) Market risk

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

Profit rate risk

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

Currency risk

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

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

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

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

Equity price risk

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

The Bank conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major change in fair value of equity instruments. For such investments classified as available-for-sale, a five percent increase in stock prices as at 31 December 2015 would have increased equity by KD 45 thousand (31 December 2014: KD 7 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

15. RISK MANAGEMENT (continued)

e) Prepayment risk

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

f) Operational risk

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

Management of operational risk

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

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

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

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

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

16. SEGMENT REPORTING

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

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

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

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As at 31 December 2015

16. SEGMENT REPORTING (continued)

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

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

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

17. CAPITAL MANAGEMENT

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

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

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

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

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17. CAPITAL MANAGEMENT (continued)

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

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

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

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

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

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As at 31 December 2015

18. FAIR VALUE MEASUREMENT

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

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

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

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

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

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