

WARBA BANK K.S.C.P.

FINANCIAL STATEMENTS

31 DECEMBER 2016



Building a better
working world

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of financing receivables

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

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

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

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

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

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

Report on the Audit of the Financial Statements (continued)

Other information included in the Bank's 2016 Annual Report

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

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

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

Report on the Audit of the Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016 and its executive regulations, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016 and its executive regulations, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

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



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AL-AIBAN, AL-OSAIMI & PARTNERS



SAFI A. AL-MUTAWA
LICENSE NO 138 "A"
OF KPMG SAFI AL-MUTAWA & PARTNERS
MEMBER FIRM OF KPMG INTERNATIONAL


Kuwait: 11 January 2017

Warba Bank K.S.C.P.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

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


Abdulwahab A. Al Houti
Chairman


Shaheen H. Al Ghanem
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 2016

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

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

Warba Bank K.S.C.P.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

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

The accompanying notes 1 to 18 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 2016

	<i>Share capital KD'000</i>	<i>Accumulated losses KD'000</i>	<i>Fair value reserve KD'000</i>	<i>Total equity KD'000</i>
Balance at 1 January 2016	100,000	(7,373)	(347)	92,280
Net profit for the year	-	2,575	-	2,575
Other comprehensive loss	-	-	(83)	(83)
Total comprehensive income for the year	-	2,575	(83)	2,492
Balance at 31 December 2016	100,000	(4,798)	(430)	94,772
Balance at 1 January 2015	100,000	(8,373)	238	91,865
Net profit for the year	-	1,000	-	1,000
Other comprehensive loss	-	-	(585)	(585)
Total comprehensive income for the year	-	1,000	(585)	415
Balance at 31 December 2015	100,000	(7,373)	(347)	92,280

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

Warba Bank K.S.C.P.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

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

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

Warba Bank K.S.C.P.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

1. CORPORATE INFORMATION

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

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

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

The financial statements of the Bank for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 11 January 2017. The Annual General Assembly of the shareholders of the Bank has the power to amend these financial statements after issuance.

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

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

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

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

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

Annual Improvements 2012-2014 Cycle

IAS 19 Employee Benefits

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

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

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

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

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

Other amendments to IFRSs which are effective for accounting periods starting from 1 January 2016 did not have any significant impact on the accounting policies, financial position or performance of the Bank.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 – Financial Instruments

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

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 16 – Leases

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 – Leases (continued)

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

Amendments to IAS 7 Statement of Cash Flows

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Classification of financial instruments

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

Recognition

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

De-recognition

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

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

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

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

Measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Category of financial instruments

Placement with banks and financing receivables

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

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

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

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

Available-for-sale investments

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

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

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

Financial liabilities other than at fair value through profit or loss

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

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

Financial guarantees

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

Offsetting

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

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

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

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

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

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

Cash and cash equivalents

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

Investment properties

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

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

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

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

Impairment of non-financial assets

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

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

End of service indemnity

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

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

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

Revenue recognition

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

National Labour Support Tax (NLST)

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

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

Segment information

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

Foreign currencies

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

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

Provisions

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

Contingencies

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

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

Use of estimates

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

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

Impairment losses on financing facilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments

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

Impairment of available-for-sale equity investments

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

Classification of property

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

3. CASH AND CASH EQUIVALENTS

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

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

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NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

4. FINANCING RECEIVABLES (continued)

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

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

Movement in provision for impairment:

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

5. AVAILABLE-FOR-SALE INVESTMENTS

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

All available for sale investments are recorded at fair value except for unquoted investments with a carrying value of KD 25,168 thousand (2015: KD 16,482 thousand), which are recorded at cost less impairment (if any).

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

6. INVESTMENT PROPERTIES

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Balance at 1 January	15,127	15,340
Depreciation and impairment charged for the year	(312)	(213)
Balance at 31 December	<u>14,815</u>	<u>15,127</u>

The fair value of the investment properties at the reporting date is KD 15,632 thousand (2015: KD 15,916 thousand). The fair values of the properties are based on valuations performed by accredited independent valuers, who are specialists in valuing these types of investment properties.

	<i>2016</i> <i>KD'000</i>	<i>2015</i> <i>KD'000</i>
Rental income from investment properties	983	1,040
Direct operating expenses, depreciation and impairment (net)	(424)	(298)
Net rental income arising from investment properties (note 10)	<u>559</u>	<u>742</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

7. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

8. DEPOSITORS' ACCOUNTS

Depositors' accounts of the Bank comprise of the following:

- a) *Non-investment deposits in the form of current accounts*
These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank.
- b) *Investment deposits*
These include Mudaraba, Murabaha and Wakala deposits, which have fixed maturity as specified in the term of the contract except for investment saving accounts which are valid for an unlimited period.

9. EQUITY

Share capital

The authorised, issued and paid up capital of the Bank comprises 1,000 million ordinary shares of 100 fils each (2015: 1,000 million shares of 100 fils each). The share capital has been contributed in cash.

Statutory reserve

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

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

Voluntary reserve

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

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

Sukuk issuance

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

10. NET INVESTMENT INCOME

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

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11. NET FEES AND COMMISSION INCOME

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

12. BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

13. TRANSACTIONS WITH RELATED PARTIES

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

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

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

	<i>No. of major shareholders</i>	<i>No. of Board members and executive officials</i>	<i>No. of other related parties</i>
2016			
Finance facilities	-	5	2
Credit cards	-	14	3
Depositor's accounts	2	8	16
2015			
Finance facilities	-	4	-
Credit cards	-	10	2
Depositor's accounts	2	16	9

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

	<i>Major shareholders KD'000</i>	<i>Board members and executive officials KD'000</i>	<i>Other related parties KD'000</i>	<i>Total 31 December 2016 KD'000</i>	<i>Total 31 December 2015 KD'000</i>
Placements and financing income	-	3	-	3	2
Finance costs and distributions to depositors	5,094	-	-	5,094	2,715

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13. TRANSACTIONS WITH RELATED PARTIES (continued)**Compensation to key management personnel and remuneration of board members:**

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

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

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

14. COMMITMENTS AND CONTINGENT LIABILITIES

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

15. RISK MANAGEMENT

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

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

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

15. RISK MANAGEMENT (continued)

a) Risk management structure

Board of Directors

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

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

Risk Management Group

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

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

b) Credit risk

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

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

Credit risk management

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral

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

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

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

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

The maximum credit exposure to a single counterparty as at 31 December 2016 amounted to KD 15,192 thousand (2015: KD 14,068 thousand) before taking account of collateral.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

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

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

Credit risk mitigation

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

Credit quality of financial instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality of financial instruments (continued)

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

	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total KD'000</i>
	<i>High quality KD'000</i>	<i>Standard quality KD'000</i>	<i>KD'000</i>	
2016				
Balances with banks	3,864	-	-	3,864
Placements with banks	166,940	-	-	166,940
Financing receivables	523,346	291,921	25,299	840,566
Available-for-sale investments (investment in Sukuk)	59,579	14,241	-	73,820
Other assets	3,850	530	-	4,380
	<u>757,579</u>	<u>306,692</u>	<u>25,299</u>	<u>1,089,570</u>
2015				
Balances with banks	2,840	-	-	2,840
Placements with banks	133,355	-	-	133,355
Financing receivables	360,784	175,750	15,707	552,241
Available-for-sale investments (investment in Sukuk)	51,283	-	-	51,283
Other assets	3,424	284	-	3,708
	<u>551,686</u>	<u>176,034</u>	<u>15,707</u>	<u>743,427</u>

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

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

c) Market risk

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

Market risk management

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

15. RISK MANAGEMENT (continued)

c) Market risk (continued)

Market risk management (continued)

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that Bank does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits;
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions; and
- Measuring Value-at-Risk for market sensitive positions and monitoring the same against established limits

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

Profit rate risk

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial exposure or instrument. The Bank is susceptible to profit rate risk as value of Bank's fixed income investments and/ or return on financing are inversely proportional to movement in market rates. Moreover, change in profit rates might also impact Bank's net earnings or earnings spread.

Prepayment risk

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

Currency risk

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

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

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

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

Equity price risk

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

The Bank conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major change in fair value of listed equity instruments. For such investments classified as available-for-sale, a five percent increase in stock prices as at 31 December 2016 would have increased equity by KD 42 thousand (31 December 2015: KD 45 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

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As at 31 December 2016

15. RISK MANAGEMENT (continued)

d) Liquidity risk

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

Liquidity risk management

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

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

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

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

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

2016	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
Assets					
Cash and balances with banks	5,480	-	-	-	5,480
Placements with banks	153,346	13,594	-	-	166,940
Financing receivables	483,123	140,640	31,069	173,040	827,872
Available-for-sale investments	31,245	711	-	67,869	99,825
Investment properties	-	-	-	14,815	14,815
Other assets	1,708	439	251	3,989	6,387
Property and equipment	-	-	-	5,643	5,643
	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

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NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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

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

	<i>Within 3 months KD'000</i>	<i>3 to 6 months KD'000</i>	<i>6 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
2016					
Due to banks and other financial institutions	116,569	60,404	89,085	10,429	276,487
Depositors' accounts	492,019	137,398	124,828	-	754,245
Other liabilities	6,603	-	-	958	7,561
	<u>615,191</u>	<u>197,802</u>	<u>213,913</u>	<u>11,387</u>	<u>1,038,293</u>
2015					
Due to banks and other financial institutions	156,714	45,556	21,851	21,480	245,601
Depositors' accounts	241,613	122,055	71,115	-	434,783
Other liabilities	5,158	-	-	871	6,029
	<u>403,485</u>	<u>167,611</u>	<u>92,966</u>	<u>22,351</u>	<u>686,413</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

15. RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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

	<i>Within 3 months KD'000</i>	<i>3 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
2016				
Acceptances and letters of credit	6,166	2,974	-	9,140
Letter of guarantees	8,141	13,773	19,242	41,156
Capital commitments	-	238	-	238
	<u>14,307</u>	<u>16,985</u>	<u>19,242</u>	<u>50,534</u>
	<i>Within 3 months KD'000</i>	<i>3 to 12 months KD'000</i>	<i>Over 1 year KD'000</i>	<i>Total KD'000</i>
2015				
Acceptances and letters of credit	6,857	3,844	339	11,040
Letter of guarantees	3,719	9,876	10,232	23,827
Capital commitments	-	575	-	575
	<u>10,576</u>	<u>14,295</u>	<u>10,571</u>	<u>35,442</u>

e) Operational risk

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

Management of operational risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

16. SEGMENT REPORTING

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

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

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

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

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

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

17. CAPITAL MANAGEMENT

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may review the amount of dividend payment to shareholders or issue capital securities.

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

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

17. CAPITAL MANAGEMENT (continued)

The Bank follows Basel III regulations and the Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2016 are calculated in accordance with CBK circular number 2/RB/ RBA/336/2014 dated 24 June 2014 are shown below:

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

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

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

The disclosure relating to the capital adequacy regulations issued by the CBK as stipulated in CBK circular number 2/RB/RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in CBK circular number 2/RBA/343/2014 dated 21 October 2014 are included under the 'Risk Management' section in the annual report.

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As at 31 December 2016

18. FAIR VALUE MEASUREMENT

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

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

2016	Date of valuation	Total KD'000	Fair value measurement		
			Quoted prices in active markets (Level 1) KD'000	Significant observable inputs (Level 2) KD'000	Significant unobservable inputs (Level 3) KD'000
Assets measured at fair value					
Financial assets available-for-sale					
Sukuk		71,820	71,820	-	-
- Government Sukuk	31 December 2016	31,009	31,009	-	-
- Corporate Sukuk	31 December 2016	40,811	40,811	-	-
Quoted equity security	31 December 2016	837	837	-	-
Unquoted Sukuk	31 December 2016	2,000	-	-	2,000
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
Assets measured at fair value					
Financial assets available-for-sale					
Sukuk		51,283	51,283	-	-
- Government Sukuk	31 December 2015	31,387	31,387	-	-
- Corporate Sukuk	31 December 2015	19,896	19,896	-	-
Quoted equity security	31 December 2015	896	896	-	-
Assets measured at cost while fair value is disclosed					
Investment properties		15,916	-	-	15,916
- Kuwait	31 December 2015	10,450	-	-	10,450
- Other Middle East	31 December 2015	5,466	-	-	5,466

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

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

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

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