BOUBYAN TIER 1 CAPITAL SPC LIMITED

(incorporated as a special purpose company with limited liability in the Dubai International Financial Centre)

U.S.$250,000,000 Tier 1 Capital Certificates

The U.S.$250,000,000 Tier 1 Capital Certificates (the **Certificates**) of Boubyan Tier 1 Capital SPC Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the **Trustee**) will be constituted by a declaration of trust (the **Declaration of Trust**) dated 16 May 2016 (the **Issue Date**) entered into between the Trustee, Boubyan Bank K.S.C.P. (the **Bank**) and BNY Mellon Corporate Trustee Services Limited as the delegate of the Trustee (the **Delegate**). The Certificates confer on the holders of the Certificates from time to time (the **Certificateholders**) the conditional right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the **Trust**) over the Trust Assets (as defined herein) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the **Conditions**).

If a Non-Viability Event (as defined herein) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations (as defined herein) and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates. See "*Risk Factors – Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event*".

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 16 May 2021 (the **First Call Date**) at a rate of 6.750 per cent. per annum from amounts of Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as further described below). If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five Year Reset Rate (as defined in the Conditions) plus a margin of 5.588 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 16 May and 16 November in each year, commencing 16 November 2016. Payments on the Certificates will be made free and clear of and without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined herein) (the **Taxes**) to the extent described under Condition 13 (*Taxation*). Each payment of a Periodic Distribution Amount will be made by the Trustee provided that the Bank (in its capacity as Mudareb (as defined herein)) shall have paid Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined herein). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined herein) occurs, and are otherwise at the sole discretion of the Bank (as Mudareb). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

The payment obligations of the Bank under the Mudaraba Agreement (as defined herein) (including all payments which are the equivalent of principal and profit) (the **Relevant Obligations**) will rank in priority to all Junior Obligations (as defined in the Conditions).

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided in the Conditions, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem all but not some only of the Certificates on the First Call Date or on any Periodic Distribution Date falling after the First Call Date in accordance with Condition 10.1(b) (*Trustee's Call Option*). In addition, upon the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions), the Certificates may be redeemed in whole (but not in part), or the terms thereof may be varied (by the Trustee (but only upon the instructions of the Bank (acting in its sole discretion)), in each case at any time on or after the Issue Date in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*). Any redemption or variation is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

The Bank has been assigned long term ratings of "A+" with a stable outlook by Fitch Ratings Limited (**Fitch**) and "Baa1" with a stable outlook by Moody's Investors Service Cyprus Ltd. (**Moody's**). Each of Fitch and Moody's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The Certificates will not be rated by any rating organisation upon their issue.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Certificates will be limited recourse obligations of the Trustee. An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank of Ireland**) as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc (the **Irish Stock Exchange**) for the Certificates to be admitted to the official list (the **Official List**) and to trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/ EC) (**MiFID**). This Prospectus has been approved by the Dubai Financial Services Authority (the **DFSA**) under the DFSA's Markets Rule 2.6 and is therefore an approved prospectus for the purposes of Article 14 of the DFSA's Markets Law 2012. Application has also been made to the DFSA for the Certificates to be admitted to the official list of securities maintained by the DFSA (the **DFSA Official List**) and to NASDAQ Dubai for such Certificates to be admitted to trading on NASDAQ Dubai. References in this Prospectus to Certificates being **listed** (and all related references) shall mean that such Certificates have been (a) admitted to the Official List and the DFSA Official List and have been (b) admitted to trading on the Main Securities Market and on NASDAQ Dubai.

The Certificates will be represented by interests in a global certificate in registered form (the **Global Certificate**) deposited on or before the Issue Date with, and registered in the name of a nominee for, a common depositary (the **Common Depositary**) for, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

This Prospectus relates to an Exempt Offer in accordance with the Markets Rules (the *Markets Rules*) of the DFSA. This Prospectus is intended for distribution only to persons of a type specified in the Markets Rules. It must not be delivered to, or relied on by, any other person. The DFSA does not accept any responsibility for the content of the information included in this Prospectus, including the accuracy or completeness of such information, nor has it determined whether the Certificates are *Shari'a-compliant*. The liability for the content of this Prospectus lies with the Trustee and the Bank. The DFSA has also not assessed the suitability of the Certificates to which this Prospectus relates to any particular investor or type of investor. If you do not understand the contents of this Prospectus or are unsure whether the Certificates to which this Prospectus relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on page vii of this Prospectus for information regarding certain restrictions on marketing and sales to retail investors.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa & Shari'a Supervisory Board of the Bank, the Shari'a Supervision Board of Dubai Islamic Bank, the Executive Shariah Committee of HSBC Saudi Arabia Limited, the KFH Capital Sharia Committee and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Joint Global Co-ordinators

Boubyan Capital | **HSBC** | **Standard Chartered Bank**

Joint Lead Managers

Boubyan Capital | **Dubai Islamic Bank P.J.S.C.** | **Emirates NBD Capital**

HSBC | **KFH Capital** | **National Bank of Kuwait S.A.K.P.** | **Standard Chartered Bank**

Co-managers

Abu Dhabi Islamic Bank | **Ajman Bank P.J.S.C.** | **Noor Bank**

The date of this Prospectus is 12 May 2016

This Prospectus complies with the requirements in Part 2 of the Markets Law (DIFC Law No.1 of 2012) and Chapter 2 of the Markets Rules and comprises a prospectus for the purposes of Article 5.3 of the Prospectus Directive, in each case, for the purpose of giving information with regard to the Trustee, the Bank and its subsidiaries and affiliates taken as a whole and the Certificates which, according to the particular nature of the Trustee, the Bank and of the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Trustee and the Bank and of the Certificates. The Trustee and the Bank accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Trustee and the Bank, each having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to the Trustee and the Bank are honestly held by the Trustee and the Bank, have been reached after considering all relevant circumstances and are based on reasonable assumptions and are not misleading in any material respect.

Each reference in this Prospectus to the Joint Lead Managers shall be read and construed as a reference to the Co-managers also unless the context requires otherwise. None of the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate nor the Agents (as defined in the Agency Agreement) has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Trustee or the Bank in connection with the Certificates.

To the fullest extent permitted by law, the Joint Lead Managers, the Delegate and the Agents accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager, the Delegate or any Agent or on its behalf in connection with the Trustee, the Bank or the issue and offering of the Certificates. Each Joint Lead Manager, the Delegate and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by the Trustee, the Bank, the Delegate or the Agents to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Trustee, the Bank, the Delegate, the Agents or any of the Joint Lead Managers. None of the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate nor the Agents or any of their respective affiliates make any representation or warranty or accept any liability as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in this Prospectus is correct subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or the financial or trading position of the Trustee or the Bank since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

No comment is made, or advice given by, the Trustee, the Delegate, the Agents, the Bank or the Joint Lead Managers or, any of their directors, affiliates, advisers or agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa & Shari'a Supervisory Board of the Bank, the Shari'a Supervision Board of Dubai Islamic Bank, the Executive Shariah Committee of HSBC Saudi Arabia Limited, the KFH Capital Sharia Committee and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

Each prospective investor is advised to consult its own tax adviser, legal adviser and business adviser as to tax, legal, business and related matters concerning the purchase of any Certificates.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. None of the Joint Lead Managers, the Trustee, the Delegate, the Agents or the Bank makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Trustee, the Bank, the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Agents represents that this Prospectus may be lawfully distributed, or that Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, the Bank, the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Agents which is intended to permit a public offering of the Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Accordingly, the Certificates may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession this Prospectus comes are required by the Trustee, the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Certificates in the United States, the United Kingdom, the Cayman Islands, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait (**Kuwait**), the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Qatar, Japan, Hong Kong, Malaysia, Singapore and Switzerland.

For a description of the restrictions on offers, sales and deliveries of Certificates and on the distribution of this Prospectus and other offering material relating to the Certificates, see "*Subscription and Sale*".

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase Certificates and should not be considered as a recommendation by the Trustee, the Bank, the Delegate, the Agents, the Joint Lead Managers, or any of their directors, affiliates, advisers, agents or any of them that any recipient of this Prospectus or any other information supplied in connection with the issue of the Certificates should subscribe for, or purchase, the Certificates. Each recipient of this Prospectus should make, and shall be taken to have made, its own independent investigation and appraisal of the condition (financial or otherwise) and affairs, and its own appraisal of the creditworthiness, of the Trustee and the Bank. None of the Joint Lead Managers, the Delegate or any Agent undertakes to review the financial condition or affairs of the Trustee or the Bank during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Certificates of any information coming to the attention of any of the Joint Lead Managers, the

Delegate or any Agent. None of the Joint Lead Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Agents accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Trustee or the Bank in connection with the Certificates.

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Certificates are legal investments for it; (b) the Certificates can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

STABILISATION

In connection with the issue of the Certificates, Standard Chartered Bank (the **Stabilising Manager**) (or persons acting on behalf of the Stabilising Manager) may over-allot Certificates or effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager shall act as principal and not as agent of the Trustee or the Bank. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the Issue Date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Certificates. The Stabilising Manager (or persons acting on behalf of the Stabilising Manager) must conduct such stabilisation in accordance with all applicable laws and rules.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be forward looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in this Prospectus, including, without limitation, those regarding the financial position of the Bank, or the business strategy, management plans and objectives for future operations of the Bank, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of the Bank*" and other sections of this Prospectus. The Bank has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These forward looking statements are based on numerous assumptions regarding the Bank's present, and future, business strategies and the environment in which the Bank expects to operate in the future. Important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in this Prospectus (see "*Risk Factors*").

Forward looking statements speak only as at the date of this Prospectus and, without prejudice to any requirements under applicable laws and regulations, the Trustee and the Bank expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in this Prospectus to reflect any change in the expectations of the Trustee or the Bank or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Trustee and the Bank cannot assure potential investors that projected results or events will be achieved and the Trustee and the Bank caution potential investors not to place undue reliance on these statements.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

PRESENTATION OF FINANCIAL INFORMATION

Historical financial statements

The financial statements relating to the Bank and its subsidiaries (collectively, the **Group**) included in this Prospectus are for the three months ended 31 March 2016 (the **2016 Interim Financial Statements**) and the years ended 31 December 2015 (the **2015 Financial Statements**) and 31 December 2014 (the **2014 Financial Statements** and, together with the 2015 Financial Statements, the **Financial Statements**), each prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (**IASB**), as adopted by Kuwait for financial services institutions regulated by the Central Bank of Kuwait (the **CBK**). These regulations require the adoption of all IFRS requirements except for the International Accounting Standard (IAS) 39, '*Financial Instruments: Recognition and Measurement*', requirement for a collective provision. This has been replaced by the CBK's requirement for a minimum general provision to be made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

The 2015 Financial Statements and the 2014 Financial Statements have been audited in accordance with International Standards on Auditing by Ernst & Young Al Alban, Al Osaimi & Partners (**Ernst & Young Kuwait**) and Deloitte & Touche, Al Wazzan & Co. (**Deloitte Kuwait**), without qualification as stated in their reports appearing herein.

The Group's financial year ends on 31 December and references in this Prospectus to **2015**, **2014** and **2013** are to the 12 month period ending on 31 December in each such year.

Certain non-IFRS financial information

This Prospectus includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Group believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels. The Group's interpretation of any future planned ratios and the basis of its calculation of these ratios may be different from those of other financial institutions.

PRESENTATION OF OTHER INFORMATION

Rounding

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. For the purposes of calculating certain figures and percentages, the underlying numbers used have been extracted from the relevant financial statements rather than the rounded numbers contained in this Prospectus. Accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Currencies

Unless otherwise indicated, in this Prospectus, all references to:

- **KD** and **dinar** are to the lawful currency of Kuwait; and
- **U.S. dollars** and **U.S.$** are to the lawful currency of the United States.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in dinar. The Group's functional currency is the dinar and the Group prepares its financial statements in dinar.

Third party and market share data

There is no independently determined financial services industry data available in Kuwait. As a result, any Group market share data included in this Prospectus represents the Group's own estimates of its market shares based on the financial statements published by Kuwaiti banking groups and, where available, industry data, such as that produced by the CBK. All such market share information is referred to herein as having been estimated and potential investors should note that the data so derived includes significant assets and liabilities outside Kuwait and excludes any Kuwaiti assets and liabilities of non-Kuwaiti banking groups. As a result, it simply represents an approximation of the Group's actual market shares. Nevertheless, the Group believes that its estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Group's knowledge of the market within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Kuwait included in this Prospectus has been derived from official public sources, including the Organization of Petroleum Exporting Countries (**OPEC**), the International Monetary Fund (the **IMF**), the Sovereign Wealth Fund Institute and the U.S. Central Intelligence Agency (the **CIA**), the Kuwait Public Authority for Civil Information, the CBK and the Kuwait Central Statistical Bureau (the **KSB**). All such statistical information may differ from that stated in other sources for a variety of reasons, including the fact that the underlying assumptions and methodology (including definitions and cut-off times) may vary from source to source. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased the Certificates.

Certain statistical and other information in this Prospectus, including in relation to Gross Domestic Product (**GDP**), balance of payments, revenues and expenditures, and indebtedness of the Kuwaiti government, have been obtained from public sources identified in this Prospectus. All statistical information provided in this Prospectus, and the component data on which it is based, may not have been compiled in the same manner as data provided by, and may be different from statistics published by, other sources, for a variety of reasons, including the use of different definitions and cut-off times. Accordingly, the statistical data contained in this Prospectus should be treated with caution by prospective investors. The Trustee and the Bank accept responsibility for accurately reproducing all such third party information and as far as each of the Trustee and Bank is aware and is able to ascertain from that published information, no facts have been omitted which would render such reproduced information inaccurate or misleading.

Where information has not been independently sourced, it is the Group's own information.

No incorporation of website information

The Bank's website is www.bankboubyan.com. The information on this website or any other website mentioned in this Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Prospectus, and investors should not rely on it.

Definitions

Capitalised terms which are used but not defined in any section of this Prospectus will have the meaning attributed thereto in the Conditions or any other section of this Prospectus. In addition, the following terms as used in this Prospectus have the meanings defined below:

- references to **GCC** are to the Gulf Co-operation Council;
- references to **Kuwait** are to the State of Kuwait;
- references to a **Member State** are references to a Member State of the European Economic Area;
- references to the **MENA region** are to the Middle East and North Africa region;
- references to **OPEC** are to the Organisation of the Petroleum Exporting Countries; and
- references to **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Restrictions on marketing and sales to retail investors

The Certificates are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Certificates to retail investors.

By purchasing, or making or accepting an offer to purchase, any Certificates from the Trustee, the Bank and/or the Joint Lead Managers, each prospective investor represents, warrants, agrees with and undertakes to the Trustee, the Bank and each of the Joint Lead Managers that:

(a) it will not sell or offer the Certificates (or any beneficial interests therein) to retail clients in the European Economic Area (the **EEA**) (as defined in article 4(1)(12) of the Markets in Financial Instruments Directive (2004/39/EC) (**MiFID**)) or do anything (including the distribution of this Prospectus) that would or might result in the buying of the Certificates (or such beneficial interests therein) or the holding of a beneficial interest in the Certificates by a retail client in the EEA, other than in relation to any sale or offer to sell Certificates to a retail client in any EEA member state, where (i) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Certificates (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Certificates (or such beneficial interests therein) and (ii) it has at all times acted in relation to such sale or offer in compliance with MiFID to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(b) it has complied and will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Certificates (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Certificates by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Certificates (or any beneficial interests therein) from the Trustee, the Bank and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

NOTICE TO RESIDENTS OF THE UK

The Certificates represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Conduct Authority. Accordingly, this Prospectus is not being distributed to and must not be passed on to the general public in the United Kingdom.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Financial Promotion Order**), and (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the **Promotion of CISs Order**), (ii) persons falling within any of the categories of person described in Article 22(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the United Kingdom in the Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

No invitation whether directly or indirectly may be made to any member of the public of the Cayman Islands to subscribe for the Certificates and this Prospectus shall not be construed as an invitation to any member of the public of the Cayman Islands to subscribe for the Certificates.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the **Capital Market Authority**).

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain (the **CBB**) in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This offer does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside Bahrain.

The CBB has not reviewed, approved or registered this Prospectus or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this document. No offer of securities will be made to the public in the Kingdom of Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

This Prospectus does not and is not intended to constitute an offer, sale or delivery of the Certificates under the laws of the State of Qatar and has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Exchange or the Qatar Central Bank. The Certificates have not been, and will not be, offered, sold or delivered at any time, directly or indirectly, in the State of Qatar, including the Qatar Financial Centre, in a manner that would constitute a public offering. The Certificates are not and will not be traded on the Qatar Exchange.

NOTICE TO RESIDENTS OF KUWAIT

Unless all necessary approvals from the Kuwait Capital Markets Authority (the **CMA**) pursuant to Law No. 7/2010 and the implementing regulations thereto (as amended), and the various Resolutions, Instructions and Announcements issued pursuant thereto, or in connection therewith, have been given in relation to the marketing of, and sale of, the Certificates, the Certificates may not be offered for sale, nor sold, in Kuwait. Neither this Prospectus nor any of the information contained herein is intended to lead to the conclusion of any contract of whatsoever nature within Kuwait.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or the Bank and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

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RISK FACTORS

The purchase of the Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Trustee and the Bank believes that the following factors may affect the Trustee's ability to fulfil its obligations under the Certificates. All of these factors are contingencies which may or may not occur and neither the Trustee nor the Bank is in a position to express a view on the likelihood of any such contingency occurring. Factors which the Trustee and the Bank believe may be material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of the Trustee and the Bank believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee to pay any amounts on or in connection with any Certificate may occur for other reasons and neither the Trustee nor the Bank represents that the statements below regarding the risks of holding any Certificate are exhaustive.

Although the Trustee and the Bank believe that the various structural elements described in this Prospectus lessen some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or the Dissolution Distribution Amount or any other amounts payable in respect of the Certificates on a timely basis or at all. There may also be other considerations, including some which may not be presently known to the Trustee or the Bank or which the Trustee or the Bank currently deems immaterial, that may impact any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in the Conditions and "Global Certificate" shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE TRUSTEE'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE CERTIFICATES

The Trustee has no operating history and no material assets

The Trustee is a special purpose company with limited liability incorporated under the laws of the Dubai International Financial Centre on 10 January 2016 and has no operating history. The Trustee has not as at the date of this Prospectus, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents. As the Trustee is a Dubai International Financial Centre company, it may not be possible for Certificateholders to effect service of process on it outside the Dubai International Financial Centre.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement. Therefore, the Trustee is subject to all the risks to which the Bank is subject to the extent that such risks could limit the Bank's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The ability of the Trustee to pay amounts due on the Certificates will be dependent upon receipt by the Trustee from the Bank of amounts to be paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

RISKS RELATING TO THE BANK AND ITS ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS

The Group's business, financial condition, results of operations and prospects are affected by global and regional financial markets and economic conditions and any deterioration in economic conditions in Kuwait and the wider MENA region could materially adversely impact the Group

There has been significant volatility and disruption in the global capital and credit markets since the onset of the global financial crisis (the **Global Financial Crisis**) that began in the latter half of 2007 and intensified in 2008. At times since then, there has also been a material reduction in the availability of financing, for both financial institutions and their customers. As a result, many financial institutions have been compelled to rely on central banks and governments to provide liquidity and, in some cases, additional capital. Governments around the world, including in Kuwait and other countries in the Middle East and North Africa region, have taken actions intended to stabilise financial markets and prevent the failure of financial institutions. See "*Overview of Banking and Finance Regulations in Kuwait*". Despite such measures, international capital and credit markets have continued to experience volatility.

The Group's business and results of operations were adversely affected by these conditions and the impact they had in Kuwait and other countries in the MENA region. In particular, countries in the MENA region experienced significant declines in real estate prices and in stock exchange indices and these factors adversely affected companies engaged in the real estate sector (including developers, construction companies and others) and investment companies. Reflecting a lack of diversification in the economy, these companies formed a significant part of Kuwaiti banks' customers and, as a result of the difficulties they experienced, Kuwaiti banks, including the Group, significantly increased their provisions in 2008 and 2009 compared to prior years, which in turn adversely affected their results of operations. In the Group's case, its operating profit before tax in 2008 fell by KD 17.4 million, or 90.0 per cent., driven by increased specific and general provisions for credit losses and impairment losses for investment securities. In 2009, reflecting continuing challenging market conditions, its operating income was lower and its operating profit before tax increased by KD 54.0 million, due to high provisions and impairment losses.

If comparable market disruptions and levels of volatility recur, the Group may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, credit losses and impairment charges, and lower profitability and cash flows. The Group's business and financial performance may also be adversely affected by future recovery rates on assets, particularly as the historical assumptions underlying asset recovery rates may prove to be inaccurate.

The Group is exposed to volatility in international oil prices and the recent significant fall in these prices could materially adversely affect the Group's results of operations

The Group's operations are focused in Kuwait. In 2015, 99.7 per cent. of the Group's operating income was derived from its operations in Kuwait and 88.9 per cent. of its maximum exposure to credit risk (including contingent liabilities) was concentrated in Kuwait. Kuwait's economy and the economies of a number of other countries in the MENA region are dependent on oil and gas and related industries, as well as the prices and production quantities of these commodities. Oil prices have, however, been volatile in recent years, which has impacted economic growth in Kuwait. For example, following the significant decline in international oil prices in the second half of 2008 and comparatively very low prices for most of 2009, Kuwait's real GDP contracted by 7.1 per cent. in 2009 and by 2.4 per cent. in 2010, according to CBK data. Since the middle of 2014, international oil prices have fallen significantly, with the monthly average price of the OPEC reference basket falling from U.S.$ 105.61 in July 2014 to a low of U.S.$ 31.15 in December 2015. On 28 January 2016, the OPEC daily reference basket price was U.S.$ 28.28. This deterioration in pricing may have a material adverse effect on Kuwait's economy in 2015 and, potentially, 2016, which could materially adversely affect many of the Group's customers and contractual counterparties and result in a reduction in the Group's government deposits. This, in turn, would adversely affect the Group's business, financial condition, results of operations and prospects, in particular through increased provisions for credit losses and reduced demand for Islamic finance facilities and other banking services. See "*—The Group's Islamic financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region*" below.

The Group's business may be impacted by ongoing unrest in the Middle East

Many of the Group's customers and a significant part of its business are based in Kuwait. The Group intends to continue to focus on growing its business in Kuwait in the near future. Since the beginning of 2011, there has been political unrest in a range of countries in or proximate to the MENA region, including Algeria, Bahrain, Egypt, Iraq, Israel/Palestine, Lebanon, Libya, Jordan, Syria, Tunisia, Turkey and Yemen. . However, this unrest has not substantially affected Kuwait to date. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and civil war, has led to the collapse of political regimes in Tunisia, Egypt and Libya, civil war in Syria and armed insurrection in Iraq and has given rise to significantly increased political uncertainty across the region. This situation has caused significant disruption to the economies of affected countries and has had a destabilising effect on oil and gas prices.

Wars, acts of terrorism and uncertain political or economic prospects or instability in Kuwait or the wider MENA region may adversely impact regional financial markets and the Group's business. Renewed protests in the MENA region could lead to significant political uncertainties in a number of countries. Financial market and political uncertainty in the MENA region could decrease the Group's depositors' accounts or its customers' demand for Islamic finance facilities or other products offered by the Group. Continued instability in the MENA region could impact the Group's MENA-based operations and investments and could materially impact the financial prospects and conditions of its MENA-based customers and, consequently, the Group's business. Such instability could also negatively affect the value of its investments in affected countries.

The Group is exposed to the credit risk of customers and anticipated future growth in, or deterioration in the quality of, the Group's Islamic financing portfolio could result in an increase in its credit risk profile

Risks arising from adverse changes in the credit quality and recoverability of finance facilities, securities and amounts due from counterparties are inherent in a wide range of the Group's businesses, principally in its financing and investment activities. In particular, the Group is exposed to the risk that customers may not pay amounts due under their Islamic finance facilities according to their contractual terms and that the collateral (if any) securing the payment of these finance facilities may be insufficient. The Group regularly reviews and analyses its Islamic financing portfolio and credit risks, and the Group's provision for losses on Islamic finance facilities is based on, among other things, its analysis of current and historical delinquency rates and Islamic finance facilities management and the valuation of the underlying assets, as well as numerous other management assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in a volatile economic climate. See "*—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

As at 31 March 2016, the Group's Islamic financing provided to customers (its **Islamic financing portfolio**) amounted to KD 2.3 billion compared to KD 2.2 billion as at 31 December 2015 and KD 1.8 billion as at 31 December 2014. The Group's provision for impairment of finance facilities in respect of its Islamic financing portfolio amounted to 0.2 per cent., 0.5 per cent. and 0.6 per cent. of its gross Islamic financing portfolio as at 31 March 2016, 31 December 2015 and 31 December 2014, respectively.

The Group's strategy envisages that it will grow its market shares in Kuwait and will develop particular product areas within its Islamic banking franchise and enhance its investment banking capabilities. See "*Description of the Group—Strategy*". As the Group expands its Islamic financing portfolio, this will increase its credit exposure and management at the Group will need to continually monitor the credit quality of the Islamic financing portfolio. See "*—Financial Instruments And Risk Management—Credit risk*", note 30.2 to the Financial Statements and "*—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

Credit losses could also arise from a deterioration in the credit quality of specific issuers and counterparties of the Group, from a general deterioration in local or global economic conditions, or from systemic risks within these financial systems, which could affect the recoverability and value of the Group's assets and require an increase in its provisions for the impairment of finance facilities, securities and other credit exposures.

Any failure by the Group to maintain the quality of its assets through effective risk management policies could lead to higher impairment provisioning and result in higher levels of defaults and write-offs, which, in turn, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Security interests or guarantees provided in favour of the Group may not be sufficient to cover any losses and may not be legally enforceable

The Islamic financing structure that the Bank utilises in relation to its Islamic financing products is predominantly the Ijara structure, which permits the registration of the relevant underlying assets, such as real estate, in the Bank's name enabling the Bank to maintain ownership and control over a customer's real estate until the customer has repaid the Ijara finance facility in full. However, some of the Bank's products require a customer to pledge assets. The practice of pledging assets (such as share portfolios and real estate assets) to obtain a finance facility is subject to certain limitations and administrative restrictions under Kuwaiti law. In particular, such security may not be enforced without a court order. As a result, security over certain pledged assets may not be enforced in Kuwaiti courts. Accordingly, the Group may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third party credit support arrangements when customers default on their Islamic finance facilities.

In addition, even if such security interests are enforceable in Kuwaiti courts, the time and costs associated with enforcing security interests in Kuwait may make it uneconomic for the Group to pursue such proceedings, adversely affecting the Group's ability to recover its finance facility losses. As at 31 March 2016, approximately 60.0 per cent. of the Group's corporate financing facilities were secured by collateral, including share pledges governed by Kuwaiti law and real estate collateral.

The Group typically requires additional collateral in the form of cash and/or other assets in situations where the Group may not be able to exercise rights over pledged shares or where it enters into guarantees or other third party credit support arrangements for finance facilities made to individuals and corporations. Any decline in the value or liquidity of such collateral may prevent the Group from foreclosing on such collateral for its full value or at all in the event that a customer becomes insolvent and enters bankruptcy, and could thereby adversely affect the Group's ability to recover the full amounts advanced to the customer.

The occurrence of any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's Islamic financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region

The Group's Islamic financing to customers and investment securities portfolios are concentrated, geographically, in Kuwait and the MENA region. The Group's Islamic financing portfolio and investment securities portfolio (including its portfolio of available for sale investments, funds and equity securities) together constituted 73.7 per cent. of its total assets, or KD 2,404.0 million, as at 31 March 2016, 74.0 per cent. of its total assets, or KD 2,313.0 million, as at 31 December 2015 and 73.0 per cent. of its total assets, or KD 1,932 million, as at 31 December 2014. More than 98.6 per cent. of the Group's Islamic financing portfolio as at 31 March 2016 was advanced to customers in the MENA region, principally in Kuwait, and, in terms of the Group's maximum exposure to credit risk, 94.6 per cent. of this exposure as at 31 March 2016 was to counterparties located in the MENA region, principally in Kuwait.

The Group's investment securities portfolio as at 31 December 2015 principally comprised sukuk instruments, with KD 42.9 million, or 44.3 per cent. of the sukuk instrument portfolio, comprising exposure to MENA region issuers. These issuers are principally Kuwaiti and other governments.

The Group's depositors' accounts constituted 89.2 per cent. of its total liabilities, or KD 2.6 billion, as at 31 March 2016, 85.3 per cent. of its total liabilities, or KD 2.4 billion, as at 31 December 2015 and 89.1 per cent. of its total liabilities, or KD 2.1 billion, as at 31 December 2014. In particular, the Group has a significant concentration of deposits from the Kuwaiti government and its related agencies, which approximated 39 to 42 per cent. of the Group's total funding over the three years to 31 March 2016.

As a result, any deterioration in general economic conditions in Kuwait and the wider MENA region or any failure by the Group to manage effectively its geographic risk concentrations could have a material adverse effect on its business, financial condition, results of operations and prospects. See "*—The Group's business, financial condition, results of operations and prospects are affected by global and regional financial markets and economic conditions and any deterioration in economic conditions in Kuwait and the wider MENA region could materially adversely impact the Group*" *above.*

The Group has significant customer and sector concentrations

The Group's 20 largest Islamic financings provided to customers outstanding as a percentage of its gross Islamic financing portfolio as at 31 March 2016 was 19.0 per cent. compared to 19.6 per cent. as at 31 December 2015 and 22.1 per cent. as at 31 December 2014.

Although diversified by industry sector, the Group's maximum exposure to credit risk has concentrations of exposure to banking and other financial institutions which, as at 31 March 2016, accounted for 23.4 per cent. of its maximum exposure to credit risk compared to 22.8 per cent. as at 31 December 2015 and 22.2 per cent. as at 31 December 2014. The highest sector concentration as at 31 March 2016 was the retail sector, which accounted for 32.3 per cent. of the Group's maximum exposure to credit risk. The real estate sector accounted for 21.8 per cent. of the Group's maximum exposure to credit risk as at 31 March 2016. The Group's Islamic financing book includes significant investment-related financing (such as regulated finance facilities, investments in sukuk, unquoted funds and securities and quoted securities), which could expose it to increased credit risk if the equity markets and other financial markets in which its customers have invested decline significantly. See further "*Financial Review—Financing*".

In terms of liabilities, the Group's 20 largest depositors' accounts as at 31 March 2016, 31 December 2015 and 31 December 2014 constituted 56.0 per cent., 55.0 per cent. and 59.0 per cent. of its total depositors' accounts, respectively.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Group's large Islamic financing customers or issuers of sukuk instruments, or any factors which particularly negatively impacted the financial sector or other sectors to which the Group has significant exposure, could result in the Group making significant additional impairment provisions and experiencing reduced Islamic financing income. Similarly, the withdrawal or non-renewal of its deposits by any one or more of the Group's large depositors could require the Group to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive. Either of such eventualities would be likely to have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group has significant credit-related contingent liabilities and commitments that may lead to potential losses

As part of its normal banking business, the Group issues guarantees, letters of credit and acceptances which are accounted for off the Group's balance sheet until such time as they are actually funded or cancelled. In addition, the Group makes irrevocable commitments to advance credit to its customers. Although these commitments are contingent, they nonetheless subject the Group to both credit and liquidity risks. As at 31 March 2016, the Group had KD 255.9 million in such contingent liabilities and commitments outstanding, equal to 10.1 per cent. of its combined Islamic financing portfolio and contingent liabilities. Although the Group anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Group may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This would result in the Group needing to obtain additional funding, potentially at relatively short notice, which could have an adverse effect on its financial condition and results of operations.

The Group is exposed to reputational risks related to its operations and industry

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Group is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Group's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it extends financing or in which it has invested. For example, if one of the Group's customers becomes associated with financial scandals or widely publicised improper behaviour, the Group's own reputation may be affected.

In common with other banks, the Group is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Group or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Group's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Group. Any of these developments could have an adverse effect on the Group's business, results of operations and financial condition.

The Group could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties

Against the backdrop of constraints on liquidity and the high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions that became most evident following the bankruptcy of Lehman Brothers in 2008, the Group is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009, concerns about, or a default by, one institution could also lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Group or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with which the Group interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Group's ability to raise new funding and on its business, financial condition, results of operations and prospects.

The Group is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business or results of operations

Liquidity risk is the risk that the Group will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009. Since then, market conditions have been volatile with financial institutions continuing to experience periods of reduced liquidity.

The perception of counterparty risk between banks has also increased significantly since the final quarter of 2008, which led to reductions in certain traditional sources of liquidity, such as the debt markets, asset sales and redemption of investments. The Group's access to these traditional sources of liquidity may be restricted or available only at a higher cost and there can be no assurance that the Kuwaiti government will continue to provide the levels of support that it has provided to date to the Kuwaiti banking sector. See "—*The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*" below.

In addition, uncertainty or volatility in the capital and credit markets may limit the Group's ability to refinance maturing liabilities with long-term funding or increase the cost of such funding. The Group's access to any additional financing it may need will depend on a variety of factors, including market conditions, the availability of credit generally and to customers in the financial services industry specifically, and the Group's financial condition, credit ratings and credit capacity.

The Group has historically relied on both customer and interbank deposits to meet most of its funding needs. The availability of deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time. As at 31 March 2016, 66.7 per cent. of the Group's non-equity funding (which comprises amounts due to banks and other financial institutions, and depositors' accounts) had remaining contractual maturities of up to three months or was payable on demand and 29.3 per cent. had remaining maturities of one year or less. In addition, the Group's deposits are geographically concentrated and the Group is reliant on certain large deposits from a limited group of government-related and private sector corporate customers. See "—*The Group's Islamic financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region*" above and "—*The Group has significant customer and sector concentrations*" above.

If a substantial portion of the Group's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Group may need to seek other sources of funding or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. There can be no assurance that the Group will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Group is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Group is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on its business, financial condition, results of operations and prospects and could, potentially, result in its insolvency.

The Group is subject to extensive regulation and changes in this regulation, or the interpretation and enforcement of this regulation, or any failure by the Group to comply with this regulation could have a material adverse effect on the Group

The Group is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. These controls include laws and regulations promulgated by the CBK, the CMA and the Kuwait Stock Exchange (the **KSE**) and are further described under "*Overview of Banking and Finance Regulations in Kuwait*".

The regulations to which the Group is subject may limit its ability to carry on certain parts of its business, to increase its Islamic financing portfolio or to raise capital and may also increase its cost of doing business. In addition, increased regulations or changes in applicable laws and regulations and the manner in which they are interpreted or enforced in Kuwait may impose significant additional costs on the Group and may have a material adverse effect on the Group's business, financial condition, results of operations or prospects. Furthermore, non-compliance by the Group with any applicable regulations could expose it to potential liabilities and fines, which may be significant.

In order to carry out and expand its businesses, it is necessary for the Group to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Group is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired.

The Group is also required to comply with applicable know your customer, anti-money laundering and counter-terrorism financing laws and regulations in Kuwait and other jurisdictions where it operates, including those related to countries subject to sanctions by the United States Office of Foreign Assets Control (**OFAC**), similar regulations of the European Union (the **EU**) and other jurisdictions, and applicable anticorruption laws in the jurisdictions in which it conducts business. To the extent that the Group fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged and it could be subject to fines or other monetary penalties, with consequent adverse effects on its business, financial condition, results of operations and prospects.

A negative change in the Obligor's credit rating could limit its ability to raise funding and may increase its funding costs

The Obligor has a long-term foreign currency issuer default rating and a long-term bank deposits rating of Baa1 with stable outlook from Moody's and an issuer credit rating of A+ with stable outlook from Fitch. These ratings, which are intended to measure the Obligor's ability to meet its financing obligations as they mature, are an important factor in determining the Obligor's cost of funding.

There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade of the Obligor's credit ratings, or a negative change in their outlook, may:

- limit the Obligor's or any member of the Group's ability to raise funding;
- increase the Obligor's or any member of the Group's cost of funding; and
- limit the Obligor's or any member of the Group's ability to raise capital,

each of which could adversely affect its business, financial condition, results of operations and prospects. Moreover, actual or anticipated changes in the Obligor's credit rating may affect the market value of the Certificates.

According to each of Moody's and Fitch, a significant factor underpinning the Obligor's ratings is their assessment that there is an extremely high probability of support for the Obligor from the Kuwaiti authorities. Any event that causes these or any other applicable rating agency in the future to adjust this view would be likely to result in a negative change in the Obligor's rating. See "*—The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*" below.

In addition, the credit ratings assigned to the Obligor may not reflect the potential impact of all risks related to an investment in the Certificates, the market, additional factors discussed in this Prospectus and other factors that may affect the value of the Certificates. A security rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past

In light of the Global Financial Crisis and its impact on the Kuwaiti banking sector, the Kuwaiti government initiated several plans to support its domestic banks (including the Obligor). Although the Kuwaiti government has in the past supported the domestic banking industry (including the Obligor), there can be no assurance that it will continue to provide support to the domestic banking industry (including the Obligor) in the future. The Certificates are not guaranteed by the Kuwaiti government, any of the Obligor's shareholders or any other party.

The NBK Group exerts significant control over the Group and its interests may conflict with those of Certificateholders and/or of the Group itself

As at the date of this Prospectus, the NBK Group is the Group's majority shareholder, holding directly 58.3 per cent. of the Group's outstanding voting shares. The NBK Group, as a shareholder of the Bank, has the right to appoint and remove members of the Board for so long as the NBK Group's current shareholding is maintained. Even if the NBK Group ceases to own 58.3 per cent. or more of the Group's outstanding voting shares, the NBK Group would still be able to appoint a number of Board members pro-rata to the number of shares it holds with the remaining members of the Board not appointed by the NBK Group being elected (by the General Assembly). Notwithstanding its ability to appoint a number of Board members, the NBK Group does not have any direct legal control over the directors and management of the Bank.

The NBK Group, by virtue of its direct ownership of 58.3 per cent., is able to exercise indirect control over, among other things:

the election of the Group's directors and, in turn, selection of the Group's management and any related business policies and strategies;

- the Group's budget approval; and
- the issuance of debt or equity and other securities.

The interests of the NBK Group and Certificateholders may not necessarily coincide. There can be no assurance that the resolution of any matter, involving the interests of the NBK Group, will be resolved in what Certificateholders would consider to be their best interests or the best interests of the Group. The NBK Group is able to exercise significant influence over all matters requiring shareholder approval and it may use its influence over the Group to pursue its own interests. If such interests do not coincide with the interests of the Group and the Certificateholders, this could have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

The Group's financing portfolio is highly concentrated in the real estate sector in Kuwait and any adverse developments in the real estate sector or in the Kuwaiti market may have a material adverse effect on the Group's business and financial results.

The Group's operations are principally located in Kuwait, where it generated the majority of its revenue in the three months ended 31 March 2016 and the three financial years ended 31 December 2013, 31 December 2014 and 31 December 2015. For the three months ended 31 March 2016, the Group generated 100.0 per cent. of its revenue in Kuwait and the Middle East, with the remaining revenue in Europe. The Group is thus exposed to a high level of concentration risk and adverse developments in Kuwait or in the real estate market in Kuwait, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Following a severe downturn associated with the Global Financial Crisis the Kuwaiti residential property market has since 2011 been experiencing a strong recovery since 2011 across the various property sectors, with a slight slowdown in recent years. As an increasing number of developments are launched and reach completion, the number of properties available in the Kuwaiti market may exceed the demand for such properties leading to "saturation". Saturation in the Kuwaiti real estate market could result in both (or either) an increase in vacancy rates and a decrease in market rental rates and sale prices. Likewise, demand for properties in Kuwait could decrease as a result of a range of possible factors, including changes in law, macroeconomic conditions, events in neighbouring countries or factors inherent to the Kuwaiti property market. If the property market in Kuwait were to become saturated, or demand for properties, in particular residential properties, in Kuwait were to decline or to be lower than expected, the Group may have to sell its portfolio of properties used as collateral at reduced prices, or at a loss, or may not be able to sell them at all. In addition, a large portion of the Group's customers purchase properties as investments, generally with a view to selling them for profit or leasing them for rental income. Any perceived or actual oversupply of properties in Kuwait, or a decrease in demand for rental space in Kuwait, may result in potential customers having experienced or experiencing difficulty selling properties provided as collateral to the Group, either for an expected profit or at all. In addition, any perceived or actual oversupply of rental space in Kuwait or a decrease in demand for such rental space, for either commercial or residential properties, may cause rental rates to decline. This could result in a decrease in demand for the Group's customers' properties among customers who expect to receive revenue from the part-time rental of their properties or who purchase properties for the explicit purpose of rental.

As the Group's revenue is derived partly from sales of customers' properties provided as collateral to the Group, principally in Kuwait, any adverse change in the demand for the Group's customers' properties for the reasons described above or otherwise (including, but not limited to, events similar to the Global Financial Crisis) may result in the Group being unable to realise the expected prices on the sale of its customers' properties provided as collateral or being unable to sell its collateral properties at all, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's profitability is dependent on infrastructure projects invested in by the government or other persons responsible for the provision of infrastructure support, and any failure of this infrastructure support to materialise could cause the Group to incur losses.

The Group's profitability is dependent on the investment by the government in infrastructure, such as roads connecting a project with the city and the main regional road network and utilities, and other infrastructure projects. There can be no assurance that the government's investment in projects will continue. For example, in Kuwait, the demand for electricity, water and gas has substantially increased and may continue to increase if the population and/or economy of Kuwait grows. As a result, the government's investment in such infrastructure may be exposed to the risk that the economy may not grow or to similar risks and that infrastructure projects may be delayed and future projects may be hindered due to a decrease in the rate of Kuwait's economic growth and a decrease in the demand for infrastructure. Any decrease in the government's investment in infrastructure projects, even if due to circumstances outside the Group's control, could adversely affect the Group's profitability, which could in turn materially adversely affect the Group's business, financial condition, results of operations and prospects.

The banking industry is competitive and the Group is exposed to significant competition in Kuwait

The Group faces high levels of competition for all of its products and services in Kuwait. In particular, the Group competes with other domestic Islamic banks and such competition may increase. See "*Description of the Group—Competition*".

The Kuwaiti banking sector comprises five locally based conventional commercial banks and branches of 11 other non-Kuwaiti banks. In addition, a specialised bank, five banks operating according to the requirements of Islamic Shari'a and a branch of a Saudi Arabian bank are also licensed to operate in Kuwait.

The Group believes that, in order to compete effectively, it will need to continue to upgrade its existing IT capabilities and infrastructure, with a particular focus on automation and the need to move beyond frameworks towards a greater array of capabilities at higher rates in the deployment of technology-enabled solutions.

In addition, the Group believes that the single Obligor's ratio has been to some extent a constraint on its ability to grow its Islamic financing book across different businesses compared to local larger peers, which therefore requires significantly more effort to grow faster than the market on the gross level to maintain the Obligor's net market share of financing receivables.

The competitive nature of the Kuwaiti banking market and any failure by the Group to continue to compete successfully in Kuwait may adversely affect the Group's business, financial condition, results of operations and prospects.

The Group's financial condition and results of operations could be adversely affected by market risks

The Group's financial condition and results of operations could be adversely affected by market risks that are outside its control, including, without limitation, volatility in prices of securities and currency exchange rates. See "*Financial review—Principal factors affecting results of operations—Factors affecting net income from Islamic financing*".

The Group maintains a small portfolio of available for sale investments in sukuk, investments in unquoted funds and unquoted securities and investments in quoted securities in its investment securities portfolio. Any changes in the fair value of these securities, for example as a result of changing equity prices where the securities are quoted on an active market, has an impact on the Group's equity and note 30.3 to the Financial Statements illustrates the Group's sensitivity to a 5 per cent. increase in relevant market indices as at 31 December 2015 and 31 December 2014. In addition, the Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, fluctuations in currency exchange rates and general market volatility.

As a financial intermediary, the Group is also exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by the CBK. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks. See note 30.3 to the Financial Statements, which illustrates the Group's sensitivity to a 5 per cent. strengthening in the exchange rate of a number of different currencies against the Kuwaiti dinar as at 31 December 2015 and 31 December 2014.

The Group enters into derivative transactions, such as forward foreign exchange contracts, to manage its foreign currency positions and cash flows. These derivative contracts had a notional value of KD 7.7 million as at 31 March 2016, KD 1.3 million as at 31 December 2015 and KD 0.04 million as at 31 December 2014 and the Group's derivatives portfolio had a negative net fair value of KD 0.004 million as at 31 March 2016, a positive fair value of KD 0.001 million as at 31 December 2015 and a positive fair value of KD 0.003 million as at 31 December 2014. There is no assurance that the Group's derivative contracts will be successful in mitigating its foreign exchange exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

Adverse movements in foreign exchange rates may also adversely impact the revenues and financial condition of the Group's depositors and customers which, in turn, may impact the Group's deposit base and the quality of its exposures to certain customers.

Ultimately, there can be no assurance that the Group will be able to protect itself from any adverse effects of a currency revaluation or future volatility in currency exchange rates, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group is exposed to a range of operational risks. In particular, any failure of the Group's information technology systems could have a material adverse effect on its business and reputation

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, information technology (**IT**) failures), natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). The Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

The Group depends on its IT systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, is critical to the Group's business and ability to compete effectively. The Group's business activities would be materially disrupted if there were a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of factors, many of which are wholly or partially outside the Group's control, including natural disasters, extended power outages, computer viruses and malicious third party intrusions. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties. The Group has implemented and tested business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective and any failure may have a material adverse effect on the Group's business and reputation.

The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the Global Financial Crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate.

Other risk management methods depend upon the evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up to date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group's internal compliance systems might not be fully effective in all circumstances

The Group's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Group is subject to oversight by regulatory authorities, including regular examination activity, and performs regular internal audits and employs an external auditing firm to review its internal control systems, the Group cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it. In the case of actual or alleged non-compliance with applicable regulations, the Group could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Although the Group currently has strong capital ratios, it may need to raise further capital in the future for a variety of reasons and such capital may be difficult to raise when needed

As at 31 March 2016, the Group's tier 1 capital adequacy ratio (calculated according to Basel III standards) was 16.0 per cent. and its total capital adequacy ratio was 17.1 per cent., in each case comfortably above the level required by the CBK of 12.0 per cent. The total capital adequacy ratio required by the CBK increased to 12.5 per cent. from 31 December 2015 and is scheduled to increase to 13.0 per cent. from 31 December 2016. Pursuant to a letter dated 28 March 2016, the CBK informed the Bank that it had designated the Bank as a domestic systemically important bank (**D-SIB**) in Kuwait. Following its designation as a D-SIB, the Bank will be required to comply with an additional capital requirement comprised of common equity tier 1 at a rate of 0.5 per cent. by 31 December 2016, bringing the total minimum capital requirement applicable to the Bank as at that date to 13.5 per cent. (which includes a capital conservation buffer). The CBK has advised the Bank that the results of the study conducted by the CBK in identifying D-SIBs are subject to periodic review and that the Bank will be informed by the CBK should there be any change to the capital buffer requirements applicable to the Bank as at the date of this Prospectus.

The Group is also subject to a CBK Basel III leverage ratio requirement of 3 per cent. The Group's leverage ratio was 7.8 per cent. as at 31 March 2016. The Group expects several Basel-driven regulations to take effect in Kuwait in the near to medium term regarding liquidity and anticipates that a number of new regulations under the Basel regulatory reform regime will be adopted by home and host regulators in the countries in which the Group operates.

A variety of factors affect the Group's capital adequacy levels, including, in particular, changes in its risk-weighted assets and its profitability from one period to another. A significant increase in financing in the future is likely to reduce the Group's capital adequacy ratios and any future losses experienced by it would have a similar effect. In addition, regulatory requirements in relation to the calculation of capital adequacy and required levels of capital adequacy may change from time to time including as a result of new guidelines issued by the Basel Committee on Banking Supervision. The Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

As a result, the Group may need to obtain additional capital in the future. Such capital, whether in the form of Islamic financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Group's capital ratios fall close to regulatory minimum levels or the Group's own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

The Group's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in the Middle East is intensely competitive and includes competition from the government and government-related entities, which attract employees of the Group, which causes the Group to face challenges in recruiting and retaining such personnel to manage its businesses.

The Group depends on the efforts, skill, reputation and experience of its executive management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Group from implementing its strategies. The Group is also subject to the government's Kuwaitisation requirements. The Group is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's accounting policies and methods are critical to how it reports its financial condition and results of operations and require management to make estimates about matters that are uncertain

Accounting policies and methods are fundamental to how the Group records and reports its financial condition and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies and methods so they comply with IFRS.

Management has identified the most significant judgements and estimates made by it in note 4 to the Financial Statements. These judgements and estimates include, for example, the determination of when assets may be impaired, the classification of financial assets, the determination of provisions for credit losses and fair values of assets and liabilities.

A variety of factors could affect the ultimate value that is obtained when either earning income, recognising an expense, recovering an asset or reducing a liability. The Group has established policies and control procedures that are intended to ensure that its significant accounting estimates and judgements are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. However, due to the uncertainty surrounding the Group's judgements and the estimates pertaining to these matters, the Group cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

RISKS RELATING TO THE REGION IN WHICH THE OBLIGOR OPERATES

Investing in securities involving emerging markets generally involves a higher degree of risk

Investors in emerging markets, such as Kuwait, should be aware that these markets are subject to greater risks than more developed markets, including, but not limited to, higher volatility, limited liquidity and changes in the political and economic environment. In addition, there can be no assurance that the market for securities bearing emerging market risk, such as the Certificates, will not be affected negatively by events elsewhere, especially in the emerging markets.

Specific risks in Kuwait and the MENA region that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects include, without limitation, the following:

- political, economic or social instability;
- external acts of warfare, civil clashes or other hostilities or conflict;
- domestic unrest or violence;
- increases in inflation and the cost of living;
- changing tax regimes and tax laws, including the imposition of taxes in tax-free jurisdictions or the increase of taxes in low-tax jurisdictions;
- government interventions and protectionism;
- potential adverse changes in laws and regulatory practices, including legal structures and tax laws;
- difficulties in staffing and managing operations;
- legal systems which could make it difficult for the Group to enforce its intellectual property and contractual rights;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles; and
- logistical and communications challenges.

Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must determine for themselves whether, in light of those risks, an investment in the Certificates is appropriate.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Kuwait may introduce VAT

Although Kuwait does not currently impose value added tax (**VAT**) on the sale of goods or services, there is a risk that this may change. In the period preceding the Global Financial Crisis, the government of Kuwait announced that it was investigating the possibility of introducing a VAT system across Kuwait and that draft VAT laws were in preparation. To date, details of any proposed VAT system have not been provided nor has a possible date of introduction been announced. Any introduction of VAT may increase the pricing of the services provided by the Group. Furthermore, the introduction of VAT could have more widespread economic impact, for example, reducing the levels of disposable income of investors and individuals who are customers, which could negatively impact on the demand for the Group's services. Accordingly, it is difficult to assess the effect of a new VAT system on the business, financial condition, results of operations and prospects of the Group. However, investors should be aware that the effects could have an adverse impact on the Group's business, financial condition, results of operations and prospects.

Kuwait may introduce corporate income tax

The Group is not currently subject to corporation tax on its earnings within Kuwait, although there is no guarantee that this will continue to be the case. If the Kuwaiti authorities impose new tax regimes on the Group (whether related to corporation tax or otherwise), or introduce any other changes in tax laws which make doing business in Kuwait less attractive, this may have a material adverse effect on the Group's business, results of operations, cash flows and financial condition. In addition, any imposition of a tax on earnings would reduce the amount of funds which would ordinarily be distributed to the Group's shareholders through dividends.

Kuwait and other GCC legal systems continue to develop and this may create an uncertain environment for investment and business activity

Kuwait and many of the other GCC countries are in various stages of developing their legal and regulatory institutions that are characteristic of more developed markets. As a result, procedural safeguards as well as formal regulations and laws may not be applied consistently. In some circumstances it may not be possible to obtain the legal remedies provided under the relevant laws and regulations in a timely manner. As the legal environment remains subject to continuous development, investors in Kuwait and the GCC countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in Kuwait and the GCC may have a material adverse effect on the rights of holders of the Certificates or the investments that the Group has made or may make in the future, which may in turn have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

RISKS RELATING TO THE CERTIFICATES

Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event

If a Non-Viability Event (as defined in the Conditions) occurs , the Certificates will be cancelled (in the case of a Write-down in whole) or written down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations and all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Bank Event) shall as the case may be, be cancelled or written-down *pro rata* among the Certificateholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Bank should absorb losses prior to the Certificates, a Write-down in full or in part of the Certificates could occur prior to the ordinary shares of the Bank absorbing losses in full. A Write-down shall not constitute a Dissolution Event. As a result, Certificateholders will lose the entire amount or, as the case may be, a material amount, of their investment in the Certificates. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 11 (*Write-down at the Point of Non-Viability*) has not been tested in Kuwait and therefore some degree of uncertainty may exist in its application.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control. The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Financial Regulator. As a result, the Financial Regulator may require a Write-down in circumstances that are beyond the control of the Bank and with which the Bank may not agree.

See "*Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) upon the occurrence of a Non-Viability Event*".

The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations

Payments of Periodic Distribution Amounts will be made by the Trustee provided that the Bank (as Mudareb) shall have paid to the Trustee profit amounts equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement. In this regard, prospective investors should note that the payment obligations of the Bank under the Mudaraba Agreement rank subordinate to all Senior Obligations (as defined in the Conditions), rank *pari passu* with the Pari Passu Obligations and rank in priority to all Junior Obligations, as more particularly described in Condition 4.2 (*Subordination*).

Further, the payment obligations of the Bank under the Mudaraba Agreement are unsecured and no collateral is or will be given by the Bank in relation thereto.

The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement only in the manner provided in Condition 12.3 (*Winding-up, dissolution or liquidation*)). If the Bank were wound up, liquidated or dissolved, the Bank's liquidator would apply the assets of the Bank to satisfy all claims of creditors in respect of Senior Obligations in priority to the claims of the holders of the Certificates and *pari passu* with creditors whose claims are in respect of the Pari Passu Obligations. In such case, there may not be sufficient assets to satisfy the claims of the holders of the Certificates in full.

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital by the Bank as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Tier 1 Capital of the Bank can be issued that ranks senior to the Certificates, there is no restriction in the Conditions or in the terms of the Transaction Documents on the Bank (in its capacity as Mudareb or otherwise) incurring additional financing or issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Certificates and the obligations of the Bank under the Mudaraba Agreement (**Bank Senior Obligations**). The issue of or the creation of any such Bank Senior Obligations may reduce the amount recoverable by Certificateholders on a winding-up of the Bank. Accordingly, in the winding-up of the Bank and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the Certificateholders. See also "—*The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*".

Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative

The Bank may elect, in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on the corresponding Periodic Distribution Date, except that no such election may be made in respect of the Periodic Distribution Amount payable on the Dissolution Date or if the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 10 (*Redemption and Variation*).

In addition, if a Non-Payment Event (as defined in the Conditions) occurs, the Bank (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Mudaraba Agreement, and as a result thereof the Trustee shall be prohibited from paying Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Date, as more particularly provided in, Condition 8.1 (*Non-Payment Event*).

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of the Bank's election or a Non-Payment Event then, from the date of such election or Non-Payment Event, the Bank will be prohibited from declaring or paying certain distributions or dividends and from redeeming, purchasing, cancelling, reducing or otherwise acquiring certain securities, in each case for a limited period of time, as more particularly described in Condition 8.4 (*Dividend and Redemption Restrictions*). However, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either an election by the Bank or a Non-Payment Event and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

If such a situation occurs, the Certificateholders shall not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders shall have any claim in respect thereof. Any non-payment of Periodic Distribution Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Certificates.

The Certificates are Perpetual Securities

The Certificates are perpetual securities which have no scheduled payment date. The Trustee is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless a Bank Event occurs.

The Bank Events and Certificateholders' rights following a Bank Event are set out in Condition 12 (*Dissolution Events and Winding-up*). The Dissolution Events in the Conditions are limited to: (a)

Bank Events (being (i) a default by the Mudareb for a period of five days or more in the payment of any principal or fourteen days or more in the payment of any profit amount due and payable by it under the Mudaraba Agreement; (ii) an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and the Conditions) or by an Extraordinary Resolution of the Certificateholders); and (b) Trustee Events (being similar in nature to Bank Events in respect of the Trustee), all as more fully described in the Conditions.

In certain circumstances the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, redeem the Certificates, including on the First Call Date or any Periodic Distribution Date thereafter and if a Tax Event or a Capital Event occurs, as more particularly described in Condition 10 (*Redemption and Variation*), although there is no assurance that the Bank will require it to do so.

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely, unless:

(i) the Trustee exercises its rights to redeem the Certificates in accordance with Condition 10 (*Redemption and Variation*);

(ii) the Trustee is directed by an Extraordinary Resolution of the Certificateholders, or by the Delegate (acting in accordance with the Declaration of Trust and the Conditions), following a Bank Event to redeem the Certificates; or

(iii) they sell their Certificates.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Certificates may limit their market value, which is unlikely to rise substantially above the price at which the Certificates can be redeemed.

If the Certificates are redeemed, there can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time. See also "*Absence of secondary market/limited liquidity*" for a description of the risks relating to the ability of holders of Certificates to sell the Certificates in the secondary market.

The Certificates will cease to accrue profit from the due date for redemption (if any)

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption (following liquidation of the Mudaraba). Consequently, should payments owing to Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.3 (*Cessation of Accrual*).

Due to the deeply subordinated nature of the obligations arising under the Certificates, the Conditions contain limited Dissolution Events and remedies

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Trustee to pay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 10.1(b) (*Trustee's Call Option*), a redemption in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*), a redemption in accordance with Condition 10.1(d) (*Redemption or Variation for Capital Event*) or following the occurrence of a Bank Event in accordance with Condition 12.1 (*Bank Events*). In addition, the Trustee may be prohibited from making, or instructed by the Bank not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 (*Periodic Distribution Restrictions*) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions.

Moreover, pursuant to Condition 12 (*Dissolution Events and Winding-up*), upon the occurrence of any Bank Event, the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Trustee and the Bank that the Certificates are, and shall immediately become, due and payable without presentation, demand, protest or other notice of any kind at the applicable Dissolution Distribution Amount together with any Outstanding Payments and thereafter: (i) instituting any steps, actions or proceedings for the winding-up or bankruptcy of the Bank and/or (ii) proving in the winding-up of the Bank and/or (iii) claiming in the liquidation of the Bank and/or (iv) taking such other steps, actions or proceedings which, under the laws of the State of Kuwait, have an analogous effect to the actions referred to paragraphs (i) to (iv) above, in each case, for the payment of amounts due under the Mudaraba Agreement. Therefore, it will only be possible to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the Certificates when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the claims of Senior Creditors of the Bank will first have to be satisfied in any winding-up, bankruptcy, dissolution, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

Resettable fixed rate instruments have a market risk

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for the Certificates with effect from each Reset Date (as defined in the Conditions) if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on the Certificates is fixed until the First Call Date (with a reset of the initial profit rate on the First Call Date as set out in the Conditions and every five years thereafter), the current investment return rate in the capital markets (the market return rate) typically changes on a daily basis. As the market return rate changes, the market value of the Certificates may also change, but in the opposite direction. If the market return rate increases, the market value of the Certificates would typically decrease. If the market return rate falls, the market value of the Certificates would typically increase. Certificateholders should be aware that movements in these market return rates can adversely affect the market value of the Certificates and can lead to losses for the Certificateholders if they sell the Certificates.

Variation upon the occurrence of a Capital Event or a Tax Event

Upon the occurrence and continuation of a Capital Event or a Tax Event, the Bank may (acting in its sole discretion), instruct the Trustee to, whereupon the Trustee shall, subject as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be) and without any requirement for consent or approval of the Certificateholders, vary the terms of the Mudaraba Agreement and the Certificates such that the Certificates become or remain (as appropriate) Qualifying Tier 1 Instruments (as defined in the Conditions).

A Capital Event is deemed to have occurred if the Bank is notified in writing by the Financial Regulator to the effect that the outstanding face amount of the Certificates is excluded (in full or in part) from the consolidated Tier 1 Capital of the Bank (save where such non- qualification is only as a result of any applicable limitation on the amount of such capital). A Tax Event will arise if the Bank or the Trustee (as the case may be) would, as a result of a Tax Law Change (as defined in the Conditions), in making any payments under the Mudaraba Agreement or on the Certificates (as the case may be) on the next due date for such payment, be required to pay Additional Amounts (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it). Each of Tax Event and Capital Event are more particularly described in Condition 10.1 (*Redemption and variation*).

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 10.1 (*Redemption and variation*) could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and none of the Trustee, the Delegate, the Agents or the Bank shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders, no assurance can be given as to whether any of these changes will negatively affect any particular Certificateholder.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect the Certificates is limited to the Trust Assets and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon receipt by the Trustee of a Dissolution Notice in accordance with the terms of Condition 12.1 (*Bank Events*), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders), will be (subject to Condition 12.3 (*Winding-up, dissolution or liquidation*)) against the Bank to perform its obligations under the Transaction Documents. Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its obligations under the Transaction Documents to which it is party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. The Bank is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against the Bank to recover such payments due to the Trustee pursuant to the Transaction Documents.

After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.3, the obligations of the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be (in accordance with Condition 12.3 (*Winding-up, dissolution or liquidation*)), to enforce their respective obligations under the Transaction Documents.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. The Certificates generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "—*The Certificates are Perpetual Securities*"), are subordinated (see "—*The payment obligations of the Bank under the Mudaraba Agreement are subordinated and unsecured obligations*"), will be fully and permanently written down upon the occurrence of a Non-Viability Event (see "—*Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit may be written-down upon the occurrence of a Non-Viability Event*") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "—*Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*"). Furthermore, certain shareholders and related parties of the Bank may participate in the offering of the Certificates. The secondary market liquidity of the Certificates may be adversely affected if, and to the extent that, such person(s) intend to adopt a buy and hold strategy in respect of the Certificates.

Application has been made for the Certificates: (i) to be admitted to the Official List and for such Certificates to be admitted to trading on the Irish Stock Exchange; and (ii) to be admitted to the DFSA Official List and for such Certificates to be admitted to trading on NASDAQ Dubai. However, there can be no assurance that any such listing or admission to trading will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

The Certificates may be subject to early redemption; redemption is conditional

Upon the occurrence of a Tax Event or a Capital Event, the Bank may (acting in its sole discretion), instruct the Trustee to, whereupon the Trustee shall, at any time, having given not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption) redeem in accordance with the Conditions, all, but not some only, of the Certificates together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 10.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 10.1(d) (*Redemption or Variation for Capital Event*) in relation to a Capital Event).

Any redemption of the Certificates is subject to the requirements in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior approval of the Financial Regulator. There can be no guarantee that the approval of the Financial Regulator will be received on time or at all.

There is no assurance that the Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates. During any period when the Bank may instruct the Trustee to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the relevant redemption amount payable in respect of the Certificates. Potential investors should consider re-investment risk in light of other investments available at that time.

Investment in the Mudaraba Assets

Pursuant to the Mudaraba Agreement, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb which proceeds shall form the initial capital of the Mudaraba (the **Mudaraba Capital**). The Mudaraba Capital will be invested by the Bank (as Mudareb), on an unrestricted co-mingling Mudaraba basis, in its general business activities carried out through the General Mudaraba Pool (as defined in the Conditions) and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the **Mudaraba Assets**) with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by the Bank, and the Certificateholders shall have no ability to influence such activities. The Bank shall be granted the express entitlement to co-mingle its own assets in the General Mudaraba Pool assets and, as a result, it may not be possible to identify the Mudaraba Assets separately from the assets of the Bank.

If any of the risks relating to the business of the Bank mentioned above (see "—*Risks relating to the Bank*") materialise or otherwise impact the Bank's business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on the Bank's ability to fulfil its payment obligations under the Mudaraba Agreement and consequently, the Trustee's ability to make payments in respect of the Certificates.

Furthermore, whilst the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital is invested in accordance with the Investment Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee except to the extent such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's gross negligence, wilful misconduct or fraud. If the Mudareb is able to provide such proof, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

RISKS RELATING TO ENFORCEMENT

The insolvency regime in Kuwait is relatively untested with limited guidance as to how the legislative framework will be applied in practice by the courts in Kuwait

In the event of the Bank's Insolvency, Kuwaiti bankruptcy law will apply and such law may adversely affect the Bank's ability to perform its obligations under the Mudaraba Agreement, and obtaining a final bankruptcy judgment in Kuwait may take several years. There is little precedent to predict how any claims by holders of the Certificates against the Bank would be resolved in the event of the Bank's insolvency and therefore there can be no assurance that holders of the Certificates will receive payment of their claims in full or at all in these circumstances.

Enforcing foreign judgments and arbitral awards in Kuwait

The Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and the Certificates (the **Documents**) each contain a provision to the effect that disputes arising under the Documents will, unless the option to litigate set out therein is exercised, be referred to arbitration under the London Court of International Arbitration Rules. If such option to litigate is exercised, the Bank has agreed to the courts of England (the **Courts of England**) having exclusive jurisdiction to settle any such disputes.

Foreign Judgments

Although the choice of submission to the jurisdiction of the Courts of England in the Documents is valid and binding as a matter of Kuwaiti law, if a claim is brought before the courts of Kuwait (the **Kuwaiti Courts**), the Kuwaiti Courts may still accept jurisdiction in any suit, action or proceedings in the situations identified in Articles 23, 24 and 26 of Kuwaiti Law No. 38 of 1980 (the Code of Civil and Commercial Procedure), as amended (the **Code**). These situations include (a) where the defendant in the proceedings expressly or impliedly accepted the jurisdiction of the Kuwaiti Courts, (b) where the defendant is a Kuwaiti national or is resident, domiciled or has a place of business or a chosen domicile in Kuwait or (c) if such legal proceedings relate to property (movable or immovable) located in Kuwait, an obligation is created, executed or required to be performed in Kuwait or a bankruptcy is declared in Kuwait.

There can therefore be no assurance that the Kuwaiti Courts will decline jurisdiction to adjudicate any dispute under the Documents, notwithstanding that the Documents provide that the Courts of England shall have exclusive jurisdiction to settle any disputes arising thereunder. The Kuwaiti Courts could be influenced when deciding whether or not to decline jurisdiction by the existence of proceedings relating to such dispute in another jurisdiction.

The enforcement of a monetary judgment (not involving the payment of taxes or the like) obtained in the Courts of England by the Kuwaiti Courts would require the filing of an enforcement action in the Kuwaiti Courts. Such action does not involve either a re-trial or an examination of the merits of the case; its sole purpose is to establish whether the judgment is compliant with the provisions of Article 199 of the Code which require that: (a) the courts of the jurisdiction by which the judgment was rendered must afford reciprocal treatment to judgments rendered in Kuwait; (b) the judgment must be rendered by a competent authority according to the law of the jurisdiction in which it was rendered; (c) the parties must have been duly summoned to appear and were duly represented at the proceedings; (d) the judgment must be final and non-appealable (*res judicata*) according to the law of the jurisdiction in which it was rendered; (e) the judgment must not contradict any prior judgment rendered by a Kuwaiti Court; and, finally (f) the judgment must not contain anything in conflict with the general morals or public order of Kuwait.

In respect of the requirement that the courts of the jurisdiction in which the judgment was issued must afford reciprocal treatment to judgments issued by the Kuwaiti Courts, there is no treaty between Kuwait and the United Kingdom that affords such required reciprocal treatment. There are no known instances of the Courts of England enforcing Kuwaiti judgments, while there are different decisions issued by the Court of Cassation (the highest court in Kuwait) with regard to the enforcement in Kuwait of a monetary judgment issued by the Courts of England. In 2004 and again in 2005, the Court of Cassation had to consider applications for the enforcement in Kuwait of an English judgment. In the 2004 case, the Court of Cassation was satisfied that, on the facts, the criteria for enforcement set out in Article 199 of the Code had been satisfied and therefore approved enforcement. In the 2005 case, however, the Court of Cassation concluded that the criteria had not been satisfied and therefore did not approve enforcement. It should be noted that precedents are not binding on but only of persuasive value to the Kuwaiti Courts.

Arbitral awards

Kuwait is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **New York Convention**). A foreign arbitral award will be recognised and enforced in Kuwait (without re-trial or examination of the merits of the case) in accordance with the Code. Article 200 of the Code provides that foreign arbitral awards are to be recognised and enforced under the same conditions (applied *mutatis mutandis* to foreign arbitral awards) as are applied in respect of the enforcement of foreign judgments under Article 199 of the Code (as detailed above) save that, in addition, the subject matter of the award must be considered arbitrable under Kuwaiti law and the arbitral award must be enforceable in the jurisdiction in which it was rendered. The requirement to establish reciprocal enforcement under Article 199 of the Code with respect to the recognition and enforcement of arbitral awards issued in England is satisfied as England and Kuwait are both signatories to the New York Convention.

As noted above, enforcement of a foreign arbitral award or foreign judgment in Kuwait requires the filing of an enforcement action in the Kuwaiti Courts. Proceedings before the Kuwaiti Courts, including enforcement actions, can take a relatively long time before a final and non-appealable judgment is issued.

There have not been many occasions in which the Kuwaiti Courts have been asked to consider the enforcement of foreign arbitral awards or foreign judgments and so (notwithstanding that on those occasions when they have been asked to do so they have shown that they will follow the provisions of the Code and enforce an arbitral award) there is not a large body of decided cases in which the practical implications of complying with Article 199 of the Code have been analysed.

Change in law

The Documents are governed by English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee or the Bank to make payments under the Documents, as applicable.

ADDITIONAL RISK FACTORS

Certificateholders must rely on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate.

While the Certificates are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.

Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

No assurance can be given as to *Shari'a* rules

The Fatwa & Shari'a Supervisory Board of the Bank, the Shari'a Supervision Board of Dubai Islamic Bank P.J.S.C., the Executive Shariah Committee of HSBC Saudi Arabia Limited, the KFH Capital Sharia Committee and the Shariah Supervisory Committee of Standard Chartered Bank have confirmed that the Transaction Documents are, in their view, *Shari'a*-compliant. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a*-compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, the Bank, the Delegate, the Agents, or the Joint Lead Managers makes any representation as to the

Shari'a-compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Conditions or the Transaction Documents would be, if in dispute, the subject of arbitration in London under the LCIA Rules. The Bank has also agreed under certain of the Transaction Documents to submit to the jurisdiction of the courts of England. In such circumstances, the arbitrator or judge, as the case may be, will first apply the relevant law of the relevant Transaction Document rather than *Shari'a* principles in determining the obligation of the parties.

Shari'a requirements in relation to interest awarded by a court

In accordance with applicable *Shari'a* principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under the Mudaraba Agreement. Should there be any delay in the enforcement of a judgment given against the Bank, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive all, or any part of, such interest.

Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

As the Certificates have a denomination consisting of the minimum Authorised Denomination (as defined in the Conditions and further described in Condition 2.1 (*Form and Denomination*) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Authorised Denomination that are not such integral multiples of such minimum Authorised Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Authorised Denomination would need to purchase an additional amount of Certificates at or in excess of the minimum Authorised Denomination such that it holds an amount equal to at least the minimum Authorised Denomination to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Authorised Denomination in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least an Authorised Denomination in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

Consents are required in relation to the variation of Transaction Documents and other matters

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Declaration of Trust and whose Certificates are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by Trustee, the Delegate or the Bank or given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Delegate and/or the Bank by accountholders in the clearing systems with entitlements to the Global Certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Trustee has obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Trustee, in the circumstances described in Condition 12.2 (*Trustee Events*).

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the variation of the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(d) (*Redemption or Variation for Capital Event*).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without the consent or approval of the Certificateholders to make any modification to the Declaration of Trust if, in the sole opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error; or (c) is not materially prejudicial to the interests of the Certificateholders then outstanding and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust) or any provision of the Declaration of Trust referred to in the definition of Reserved Matter. Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Exchange rate risks and exchange controls

The Trustee will make all payments on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Neither the Bank nor the Trustee has any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency-equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of the principal payable on the Certificates (to the extent that any Dissolution Distribution Amount becomes payable as provided in the Conditions); and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payments including of any Periodic Distribution Amount on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts. Even if there are no actual exchange controls, it is possible that U.S. dollars may not be available at the date of redemption of the Certificates.

RISK FACTORS RELATING TO TAXATION

The recently implemented CMA Amendment (as defined in "*Taxation—Kuwait*") provides that the yields of securities, bonds, finance sukuk and all other similar securities regardless of the issuer are exempted from taxation. Additionally, the Minister of Finance has recently issued an administrative resolution acknowledging the tax exemption provided under the CMA Amendment. Although the Tax Exemptions (as defined in "*Taxation – Kuwait*") are yet to be tested, they clearly provide for a tax exemption to the Certificateholders.

Notwithstanding the above, it remains a possibility that the DIT may seek to bifurcate the sukuk structure – i.e. they may only consider the Tax Exemptions effective against those yields that are distributed from the Trustee to the Certificateholders and leave the distributions from the Mudareb to the Trustee as taxable. However, this possibility remains highly unlikely.

It is important to note that the Kuwaiti courts (who will be the final arbiters on the matter) have not been required to interpret the Tax Exemptions. Although there has been no precedent of the DIT enforcing the imposition of income tax on distributions from a Mudareb to a Trustee in the circumstances described above, it is not possible to state definitively how the DIT and/or the Kuwaiti courts may implement or enforce the Taxation Laws (as defined in "*Taxation—Kuwait*") in practice. Furthermore, the DIT has to date not always adopted consistent rulings on Kuwaiti tax matters more generally.

Prospective purchasers of the Certificates are advised to consult their tax advisers as to the consequences under Kuwaiti and other applicable tax laws of acquiring, holding and disposing of the Certificates and receiving payments under the Certificates.

See "*Taxation—Kuwait*" for further details.

Kuwait may introduce corporate income tax

The Group is not currently subject to corporation tax on its earnings within Kuwait. However, on 14 March 2016 the Kuwait Cabinet of Ministers approved plans to implement a corporate tax of 10 per cent. on the annual profits of Kuwaiti incorporated entities (the **Proposed Corporate Income Tax**), which may be applicable to the Group for future financial years. As at the date of this Prospectus, the Proposed Corporate Income Tax does not have the force of law until such time as it has been ratified by the Kuwaiti Parliament, signed by the Amir and published in the Official Gazette. It is currently uncertain as to whether the Proposed Corporate Income Tax will be promulgated into law in the form in which it has been proposed by the Cabinet of Ministers, or at all. If the Kuwaiti authorities impose new tax regimes on the Group (whether in the form of the Proposed Corporate Income Tax or otherwise), or introduce any other changes in tax laws which make doing business in Kuwait less attractive, this may have a material adverse effect on the Group's business, results of operations, cash flows and financial condition.

Payments made on or with respect to the Certificates may be subject to U.S. withholding tax

Whilst the Certificates are in global form and held within Euroclear or Clearstream (together, the **ICSDs**), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) will affect the amount of any payment received by the ICSDs (see "*Taxation—Foreign Account Tax Compliance Act*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA might affect them. The Trustee's obligations under the Certificates are discharged once it has made payment to, or to the order of, the common depositary for the ICSDs (or its nominee as registered holder of the Certificates) and the Trustee has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an **IGA**) are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

Taxation risks on payments

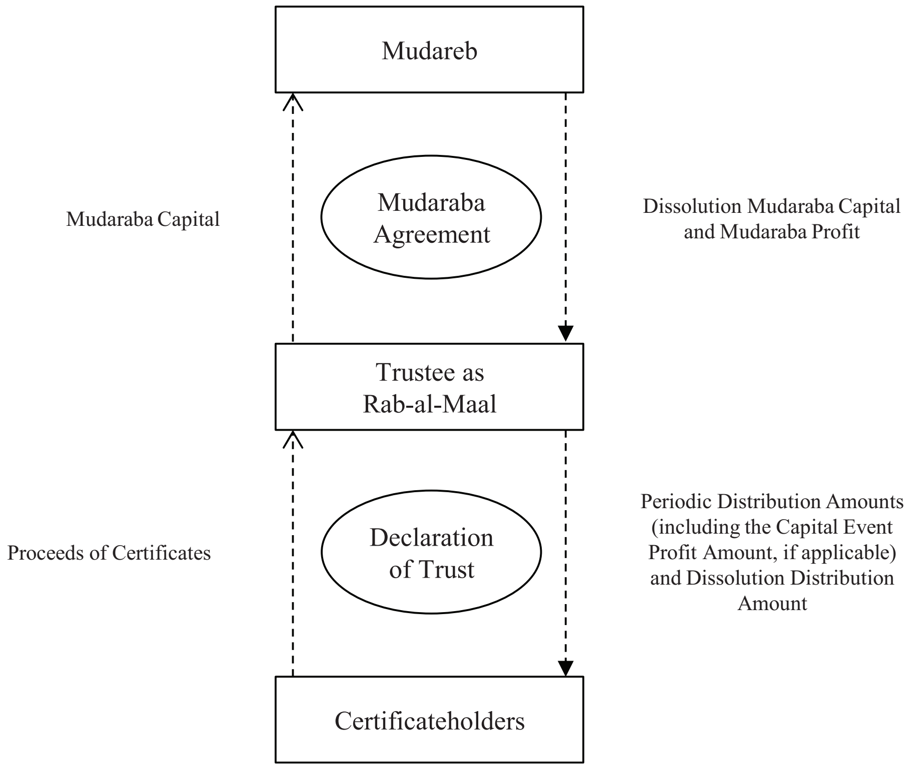
Payments made by the Bank to the Trustee under the Transaction Documents or by the Trustee in respect of the Certificates could become subject to taxation. The Mudaraba Agreement requires the Bank to pay additional amounts in the event that any withholding or deduction is required by Kuwaiti law to be made in respect of payments made by it to the Trustee under that document. Furthermore, Condition 13 (*Taxation*) provides that the Trustee is required to pay additional amounts in respect of any such withholdings or deductions imposed by the Dubai International Financial Centre, the United Arab Emirates or any Emirate therein in certain circumstances. If the Trustee fails to gross-up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, the Bank has, pursuant to the Declaration of Trust, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Delegate (for the benefit of the Certificateholders) such additional amounts as shall be necessary in order that the aggregate net amounts received by the Certificateholders and the Delegate for the benefit of the Certificateholders after all withholdings or deductions shall equal the amounts that would have been receivable in the absence of any such deduction or withholding.

The circumstances described above may entitle the Bank to be able to instruct the Trustee to redeem or vary the Certificates pursuant to Condition 10.1(c) (*Redemption or Variation due to Taxation*). See "*—The Certificates may be subject to early redemption; redemptions conditional*" and "*—Variation upon the occurrence of a Capital Event or a Tax Event*" for a description of the consequences thereof.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Structure Diagram



Principal Cash Flows

Payments by the Certificateholders and the Trustee

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee. Pursuant to the Declaration of Trust, the Trustee will declare a trust, in favour of the Certificateholders, over:

(a) the cash proceeds of the issuance of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined below);

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee by the Bank pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**).

The proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb and shall form the initial capital of the Mudaraba (the **Mudaraba Capital**) pursuant to the Mudaraba Agreement. The Mudaraba Capital will be invested, on an unrestricted co-mingling

Mudaraba basis, by the Bank in its general business activities carried out through the General Mudaraba Pool and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the **Mudaraba Assets**).

Periodic payments by the Trustee

Unless a Non-Payment Event or a Non-Payment Election has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (99 per cent. to the Trustee (as Rab-al-Maal) and 1 per cent. to the Mudareb). The Trustee shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Mudaraba Profit (as defined in the Mudaraba Agreement) by the Bank (as Mudareb) are at the sole discretion of the Bank (as Mudareb) and may only be made in circumstances where a Non- Payment Event has not occurred. The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to co-mingle its assets with the General Mudaraba Pool assets.

Dissolution payments, redemption and variation by the Trustee and the Mudareb

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in clause 7 of the Mudaraba Agreement, the Bank (as Mudareb) may at its option liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(i) on the First Call Date or any Periodic Distribution Date after the First Call Date, by giving not less than 35 nor more than 65 days' prior notice to the Trustee; or

(ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 35 nor more than 65 days' prior notice to the Trustee:

   (a) upon the occurrence of a Tax Event; or

   (b) upon the occurrence of a Capital Event.

The Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, upon receipt of notice in accordance with paragraph (i) above redeem all of, but not only some of, the Certificates, and upon receipt of notice in accordance with paragraph (ii) above redeem all of, but not only some of, the Certificates or vary the terms thereof, in each case by giving not less than 35 nor more than 65 days' prior notice to the Certificateholders, all as more particularly described in the Conditions, and in each case following final constructive liquidation of the Mudaraba, as described above.

The Bank (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or a Capital Event, to make such variations as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview does not contain all of the information that an investor should consider before investing in the Certificates. Each investor should read the entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Certificates	U.S.$250,000,000 Tier 1 Capital Certificates.
Trustee	Boubyan Tier 1 Capital SPC Limited, a special purpose company incorporated with limited liability on 10 January 2016 under the laws of the Dubai International Financial Centre and formed and registered in the Dubai International Financial Centre with incorporation number 2066 with its registered office at c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates.
Ownership of the Trustee	The authorised share capital of the Trustee is U.S.$100 consisting of 100 ordinary shares of U.S.$1.00 each, 100 of which are fully-paid and issued. The Trustee's entire issued share capital is held on trust for charitable purposes by Maples Fund Services (Middle East) Limited as share trustee under the terms of a declaration of trust.
Administration of the Trustee	The affairs of the Trustee are managed by Maples Fund Services (Middle East) Limited (the **Trustee Administrator**), who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to a corporate services agreement dated 21 March 2016 between the Trustee Administrator and the Trustee (the **Corporate Services Agreement**). The Trustee Administrator's registered office is c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates.
Mudareb / Obligor	Boubyan Bank K.S.C.P.
Rab-al-Maal	Boubyan Tier 1 Capital SPC Limited.
Risk Factors	Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and the Bank's ability to fulfil its obligations under the Transaction Documents. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. These are set out under "*Risk Factors*".
Joint Global Co-ordinators	Boubyan Capital Investment Company K.S.C., HSBC Bank plc and Standard Chartered Bank.
Joint Lead Managers	Boubyan Capital Investment Company K.S.C., Dubai Islamic Bank P.J.S.C., Emirates NBD P.J.S.C., HSBC Bank plc, KFH Capital Investment Company K.S.C.C., National Bank of Kuwait S.A.K.P. and Standard Chartered Bank.
Co-managers	Abu Dhabi Islamic Bank P.J.S.C., Ajman Bank P.J.S.C. and Noor Bank P.J.S.C.
Delegate	BNY Mellon Corporate Trustee Services Limited. Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to

	being requested and indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Mudareb and/or the Bank following a Bank Event.
Principal Paying Agent and Calculation Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
Summary of the transaction structure and Transaction Documents	An overview of the structure of the transaction and the principal cash flows is set out under "*Structure Diagram and Cash Flows*" and a description of the principal terms of certain of the Transaction Documents is set out under "*Summary of the Principal Transaction Documents*".
Issue Date	16 May 2016.
Issue Price	100 per cent.
Periodic Distribution Dates	16 May and 16 November every year, commencing on 16 November 2016.
Periodic Distributions	Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Call Date at a rate of 6.750 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date after the First Call Date (subject as aforesaid) at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five Year Reset Rate plus a margin of 5.588 per cent. per annum. If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and neither the Bank nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (*Periodic Distribution Restrictions*).
Form of Certificates	The Certificates will be issued in registered form as described in "*Global Certificate*". The Certificates will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing a holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.
Clearance and Settlement	Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.
Denomination of the Certificates	The Certificates will be issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Status of the Certificates	Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee

and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*).

The Relevant Obligations will (a) constitute Tier 1 Capital of the Bank, (b) constitute direct, unsecured, conditional and subordinated obligations of the Bank, (c) rank subordinate to all Senior Obligations (as defined in the Conditions), (d) rank *pari passu* with all other Pari Passu Obligations (as defined in the Conditions) and (e) rank in priority to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (*Subordination*).

Trust Assets

The Trust Assets consist of:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenants given to the Trustee pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing, which will be held by the Trustee upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and the Conditions.

Redemption of Certificates and variation of their terms

The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part, or the terms thereof may be varied by the Trustee (but only upon the instructions of the Bank (acting in its sole discretion)) only in accordance with the provisions of Condition 10 (*Redemption and Variation*).

Pursuant to Condition 10.1(b) (*Trustee's Call Option*), the Trustee may (but only upon the instructions of the Bank (acting in its sole discretion)), on the First Call Date or on any Periodic Distribution Date thereafter, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date, whether or not a Periodic Distribution Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Certificates may be redeemed or the terms of the Certificates may be varied, in each case in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*).

Any redemption of the Certificates is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

Write-down at the Point of Non-Viability

If a Non-Viability Event (as defined in the Conditions) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates and the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations. See Condition 11 (*Write-down at the Point of Non-Viability*).

Dissolution Events

Subject to Condition 12 (*Dissolution Events and Winding-up*), if a Bank Event occurs and, if so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 12.1 (*Bank Events*), the Trustee and/or the Delegate shall, subject to Condition 12.3 (*Winding-up, dissolution or liquidation*), take the actions referred to therein.

Withholding Tax

Subject to Condition 9.2 (*Payments subject to Applicable Laws*) and Condition 13 (*Taxation*), all payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any Taxes (as defined in Condition 13 (*Taxation*)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay (subject to certain specified exclusions) Additional Amounts (as defined in the Conditions) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of such deduction or withholding is received by the parties entitled thereto.

In addition, the Transaction Documents provide that payments thereunder by the Bank (in its capacity as the Mudareb) shall be made free and clear of and without withholding or deduction, for and on account of, any Taxes, unless such withholding or deduction is required by law and, in such case, provide for the payment by the Bank of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

Notwithstanding any other provision of the Conditions, the Trustee and the Paying Agents shall be permitted to withhold or deduct any amounts imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (or any regulations thereunder or official interpretations thereof), any intergovernmental agreement facilitating the implementation thereof, implementing legislation adopted by another jurisdiction in connection with these provisions, or any agreement with the United States Internal Revenue Service (**FATCA withholding**). None of the Trustee, the Delegate or any Agent will have any obligation to pay Additional Amounts or otherwise indemnify a Certificateholder for any FATCA withholding deducted or withheld by the Trustee, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

Trustee Covenants

The Trustee has agreed to certain restrictive covenants as set out in Condition 6 (*Covenants*).

Ratings

The Bank has been assigned long term ratings of "A+" by Fitch and "Baa1" by Moody's, each with a stable outlook.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency

	established in the European Union and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation). The Certificates will not be rated by any rating organisation upon their issue.
Certificateholder Meetings	A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*).
Tax Considerations	See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Listing and Admission to Trading	Application has been made to the Irish Stock Exchange for the Certificates to be admitted to listing on the Official List and for the Certificates to be admitted to trading on the Main Securities Market. Application has also been made to the DFSA for the Certificates to be admitted to listing on the DFSA Official List and to NASDAQ Dubai for the Certificates to be admitted to trading on NASDAQ Dubai.
Transaction Documents	The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement (and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto) are referred to herein as the **Transaction Documents**.
Governing Law	The Declaration of Trust, the Certificates, the Conditions, the Agency Agreement, the Mudaraba Agreement and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law.
Waiver of Immunity	To the extent that the Bank may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, the Bank will agree in the Transaction Documents not to claim and will irrevocably and unconditionally waive such immunity in relation to any legal proceedings. Further, the Bank will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings See Condition 21.7 (*Waiver of Immunity*).
Limited Recourse	Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates. If the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets are not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its respective obligations under the Transaction Documents to which it is a party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets.

	The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim. See Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*) for further details.
Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Kuwait, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Qatar, Japan, Hong Kong, Malaysia, Singapore and Switzerland. See "*Subscription and Sale*".
Use of Proceeds	The proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement as described in "*Use of Proceeds*".

TERMS AND CONDITIONS OF THE TIER 1 CAPITAL CERTIFICATES

The following (except for the text in italics) is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in "Global Certificate", apply to the Global Certificate:

Boubyan Tier 1 Capital SPC Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the **Trustee**, which expression shall where the context allows include the Delegate (as defined below) acting pursuant to the powers delegated to it by the Trustee pursuant to the Declaration of Trust (as defined below)) has issued Tier 1 Capital Certificates (the **Certificates**) in an aggregate face amount of U.S.$250,000,000. The Certificates are constituted by a declaration of trust (the **Declaration of Trust**) dated 16 May 2016 (the **Issue Date**) made between the Trustee, Boubyan Bank K.S.C.P. (the **Bank**) and BNY Mellon Corporate Trustee Services Limited as the delegate of the Trustee (the **Delegate**, which expression shall include all persons for the time being appointed as the delegate or delegates under the Declaration of Trust).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the **Agency Agreement**) made between the Trustee, the Bank, the Delegate, The Bank of New York Mellon, London Branch as principal paying agent (in such capacity, the **Principal Paying Agent** and together with any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), The Bank of New York Mellon (Luxembourg) S.A. as registrar (in such capacity, the **Registrar**) and as transfer agent (in such capacity, the **Transfer Agent** and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**) and The Bank of New York Mellon, London Branch as calculation agent (the **Calculation Agent**, which expression includes the Calculation Agent for the time being). The Paying Agents, the Transfer Agents and the Calculation Agent are together referred to in these terms and conditions (the **Conditions**) as the **Agents**. References to the "Agents" or any of them shall include their successors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Interpretation*)). Copies of the Transaction Documents are available for inspection and/or collection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (i) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5 (*The Trust*)) in accordance with the Mudaraba Agreement (as defined in Condition 5 (*The Trust*)); (ii) to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and (iii) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

1 Interpretation

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

Additional Amounts has the meaning given to it in Condition 13 (*Taxation*);

Applicable Regulatory Capital Requirements means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Bank, including transitional rules and waivers granted in respect of the foregoing;

Authorised Denomination has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

Authorised Signatory means any person who: (a) holds the office of Chairman or Vice-Chairman of the Bank from time to time, or (b) is duly authorised by the Bank to sign documents on its behalf;

Bank Event means:

(i) **Non-payment**: the Bank (acting in its capacity as Mudareb) fails to pay an amount which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continues for a period of (in the case of principal) five days or (in the case of profit) 14 days (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Election or a Non-Payment Event); or

(ii) **Winding-up**: an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders; or

(iii) **Analogous Event**: any event occurs which under the laws of the State of Kuwait has an analogous effect to any of the events referred to in paragraph (ii) above;

Basel III means the reforms to the international regulatory capital framework issued by the Basel Committee as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital instruments and tier 2 capital instruments);

Basel III Documents means the Basel Committee on Banking Supervision document "*A global regulatory framework for more resilient banks and banking systems*" released by the Basel Committee on 16 December 2010 and revised in June 2011 and the Annex contained in its document "*Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*" on 13 January 2011;

Basel Committee means the Basel Committee on Banking Supervision;

Business Day means a day, other than a Friday, Saturday, Sunday or public holiday, on which registered banks settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Kuwait, New York City and London;

Capital Event is deemed to have occurred if the Bank is notified in writing by the Financial Regulator to the effect that the outstanding face amount of the Certificates is excluded (in full or in part) from the consolidated Tier 1 Capital of the Bank (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

Capital Event Amount in relation to a Certificate means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Capital Event Profit Amount means, on the date of final constructive liquidation of the Mudaraba pursuant to subclause 7.3(c) of the Mudaraba Agreement, an amount equal to 1 per cent. of the Mudaraba Capital on such date;

Capital Regulations means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the State of Kuwait, including those of the Financial Regulator, including, without limitation, the Instructions;

Certificateholder means a person in whose name a Certificate is registered in the Register (or in the case of joint Certificateholders, the first named thereof) and the expressions **holder** and **holder of Certificates** and related expressions shall (where appropriate) be construed accordingly;

Code means the U.S. Internal Revenue Code of 1986, as amended;

Common Equity Tier 1 Capital means capital of the Bank qualifying as, and approved by the Financial Regulator as, or capital which would, but for any applicable limitation on the amount of such capital, qualify as common equity tier 1 capital in accordance with the Capital Regulations;

Day-count Fraction means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls (including the first such day but excluding the last));

Determination Date means, in respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period;

Dispute has the meaning given to it in Condition 21.2 (*Arbitration*);

Dissolution Distribution Amount means the Trustee Call Amount, the Capital Event Amount or the Tax Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

Dissolution Event means a Bank Event and/or a Trustee Event;

Dissolution Notice has the meaning given to it in Condition 12.1 (*Bank Events*);

Dissolution Request has the meaning given to it in Condition 12.1 (*Bank Events*);

Distributable Funds means the amount of the Bank's consolidated retained earnings, reserves and profits (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in the most recent audited or (as the case may be) auditor reviewed consolidated financial statements of the Bank;

Extraordinary Resolution has the meaning given to it in the Declaration of Trust;

Final Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Financial Regulator means the Central Bank of the State of Kuwait and/or any successor entity having primary bank supervisory authority with respect to the Bank in the State of Kuwait;

First Call Date means 16 May 2021;

First Mudaraba Profit Distribution Date means 16 November 2016;

General Mudaraba Pool has the meaning given to it in the Mudaraba Agreement;

Initial Period means the period from (and including) the Issue Date to (but excluding) the First Call Date;

Initial Periodic Distribution Rate has the meaning given to it in Condition 7.4(a) (*Periodic Distribution Rate*);

Instructions means the final instructions entitled "*Implementing Capital Adequacy Standards – Basel III – for Islamic banks*" issued by the Financial Regulator on 24 June 2014, as may be amended or superseded from time to time;

Junior Obligations means all claims of the holders of Ordinary Shares and all payment obligations of the Bank in respect of its Common Equity Tier 1 Capital;

LCIA means the London Court of International Arbitration;

Margin means 5.588 per cent. per annum;

Mudaraba has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Agreement has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Assets has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba Capital has the meaning given to it in Condition 5 (*The Trust*);

Mudaraba End Date means the date on which the Mudaraba ends, being the date on which the Certificates are redeemed in whole but not in part in accordance with these Conditions;

Mudaraba Profit has the meaning given to that term in the Mudaraba Agreement;

Mudaraba Profit Distribution Date means 16 May and 16 November in each year, starting on (and including) the First Mudaraba Profit Distribution Date;

Mudaraba Reserve has the meaning given to it in the Mudaraba Agreement;

Mudareb has the meaning given to it in Condition 5 (*The Trust*);

Non-Payment Election has the meaning given to it in Condition 8.2 (*Non-Payment Election*);

Non-Payment Event has the meaning given to it in Condition 8.1 (*Non-Payment Event*);

Non-Viability Event means that the Financial Regulator has informed the Bank in writing that it has determined that a Trigger Event has occurred;

Non-Viability Event Write-down Date shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than 10 Business Days after the date of the Non-Viability Notice;

Non-Viability Notice has the meaning given to it in Condition 11.2 (*Non-Viability Notice*);

Ordinary Shares means the common shares of the Bank;

Outstanding Payments means, in relation to any amounts payable on redemption of the Certificates, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption occurs to the date of redemption plus Additional Amounts thereon, if any, and if the Certificates are redeemed following a Capital Event, shall include a further profit amount in an amount equal to the Capital Event Profit Amount;

Pari Passu Obligations means all subordinated payment obligations of the Bank which rank, or are expressed to rank, *pari passu* with the Relevant Obligations;

Payment Business Day has the meaning given to it in Condition 9.4 (*Payment only on a Payment Business Day*);

Periodic Distribution Amount has the meaning given to it in Condition 7.2 (*Periodic Distribution Amounts*);

Periodic Distribution Date means 16 May and 16 November in each year, starting on (and including) 16 November 2016;

Periodic Distribution Period means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

Potential Dissolution Event means an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

Proceedings has the meaning given to it in Condition 21.5 (*Submission to jurisdiction*);

Profit Rate means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4(a) (*Periodic Distribution Rate*);

Qualifying Tier 1 Instruments means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) issued directly or indirectly by the Bank that:

(i) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) Tier 1 Capital;

(ii) have terms and conditions not materially less favourable to a Certificateholder than the Certificates (as reasonably determined by the Bank (**provided that** in making this determination the Bank is not required to take into account the tax treatment of the new instrument in the hands of all or any Certificateholder, or any transfer or similar taxes that may apply on the acquisition of the new instrument) **provided that** a certification to such effect of two Authorised Signatories of the Bank shall have been delivered to the Trustee and the Delegate prior to the variation of the terms of the instruments, in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*);

(iii) will constitute direct or indirect (whether by a guarantee or equivalent support undertaking) obligations of the Bank;

(iv) rank on a winding-up of the Bank, at least *pari passu* with the Relevant Obligations;

(v) have at least the same face value amount and profit distribution dates as the Certificates and at least equal profit or distribution rate or rate of return as the Certificates;

(vi) are listed on the same stock exchange as the Certificates;

(vii) have, to the extent such payment is not cancelled, the same claim to accrued but unpaid distributions;

(viii) (where the instruments are varied prior to the First Call Date) have the same first call date as the Certificates;

(ix) have the same optional redemption dates as the Certificates, save that any right to redeem the Certificates prior to the fifth anniversary of the Issue Date may be disapplied if such right to redeem would cause a Capital Event; and

(x) preserve the Relevant Obligations upon any redemption of the Certificates and the ranking of any claims in a winding-up or dissolution of the Bank, and which may include such technical changes as necessary to reflect the requirements of Tier 1 Capital under the Capital Regulations then applicable to the Bank (including, without limitation, such technical changes as may be required in the adoption and implementation of Basel III);

Rab-al-Maal has the meaning given to it in Condition 5 (*The Trust*);

Rab-al-Maal Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Rab-al-Maal Final Mudaraba Profit has the meaning given to it in the Mudaraba Agreement;

Record Date means in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant Periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

Register has the meaning given to it in Condition 2.1 (*Form and Denomination*);

Registered Account has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

Relevant Date in respect of a Certificate means (a) the date on which payment in respect of such Certificate first becomes due or (b) if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, the date on which, the full amount of the money having been so received, notice to that effect has been duly given to Certificateholders in accordance with Condition 17 (*Notices*);

Relevant Jurisdiction means the Dubai International Financial Centre, the United Arab Emirates or any Emirate therein as applicable (in the case of any payment made by the Trustee) and the State of Kuwait (in the case of any payment made by the Bank) or, in each case, any political sub-division or authority thereof or therein having the power to tax;

Relevant Obligations has the meaning given to it in Condition 4.2 (*Subordination*);

Relevant Five Year Reset Rate means the mid-swap rate for U.S. dollar swap transactions with a maturity of five years displayed on Reuters page "ISDAFIX1" (or such other page as may replace that page on Bloomberg, or such other service as may be nominated by the Person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Determination Date. If the correct mid swap rate does not appear on that page, the five year U.S. dollar mid swap rate shall instead be determined by the Calculation Agent on the basis of the arithmetic mean of quotations provided by the principal office of each of four major banks in the U.S. dollar swap market of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the Determination Date to participants in the U.S. dollar swap market for a five-year period, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards). If on any Determination Date fewer than four, or none, of the four major banks in the U.S. dollar swap market provides the Calculation Agent with the quotations referred to in the foregoing sentence, the Relevant Five Year Reset Rate shall be determined to be the Relevant Five Year Reset Rate as at the last preceding Reset Date or, in the case of the first Determination Date, shall be determined to be the mid-swap rate, as mentioned in the first sentence of this definition, as at the Issue Date;

Reserved Matter has the meaning given to it in the Declaration of Trust;

Reset Date means the First Call Date and every fifth anniversary thereafter;

Reset Period means the period from (and including) the first Reset Date to (but excluding) the earlier of (a) the Mudaraba End Date and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of (x) the Mudaraba End Date and (y) the next succeeding Reset Date;

Rules has the meaning given to it in Condition 21.2 (*Arbitration*);

Senior Creditors means creditors of the Bank (including depositors (in respect of their due claims) and, for this purpose, holders of any instrument issued by, or other obligation of, the Bank which ranks senior to the claims of the Trustee in respect of the Relevant Obligations) other than creditors in respect of obligations the claims in relation to which rank or are expressed to rank *pari passu* with, or junior to, the claims of the Trustee in respect of the Relevant Obligations;

Senior Obligations means all unsubordinated payment obligations of the Bank (including payment obligations to the Bank's depositors, which include as at the date hereof holders of current accounts, saving investment accounts, fixed-term deposit investment accounts and open-term deposit investment accounts) and all subordinated payment obligations (if any) of the Bank except Pari Passu Obligations and Junior Obligations;

Subsidiary means, in relation to any Person (the **first person**) at any particular time, any other Person (the **second person**) whose affairs and policies the first Person controls or has the power to control, whether by ownership or share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise;

Substituted Territory has the meaning given to it in Condition 12.2 (*Trustee Events*);

Substituted Trustee has the meaning given to it in Condition 12.2 (*Trustee Events*);

Taxes has the meaning given to it in Condition 13 (*Taxation*);

Tax Event means the Bank or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of the Bank (in its capacity as Mudareb)) on the next due date for a payment of Mudaraba Profit or the Certificates (in the case of the Trustee) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement (and such requirement cannot be avoided by the Bank or the Trustee (as the case may be) taking reasonable measures available to it);

Tax Law Change means any change in, or amendment to, the laws, published practice or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 12 May 2016);

Tax Redemption Amount in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Tier 1 Capital means capital other than Common Equity Tier 1 Capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

Tier 2 Capital means capital qualifying as (or which would qualify as, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 2 capital in accordance with the Capital Regulations;

Transaction Account has the meaning given to it in Condition 5 (*The Trust*);

Transaction Documents means each of the Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

Trigger Event has the meaning given to it in the Instructions;

For the definition of "Trigger Event" as set out in the Instructions, see "Overview of Banking and Finance Regulations in Kuwait – Certain Banking Regulations – Capital Adequacy Regulations";

Trust Assets has the meaning given to it in Condition 5 (*The Trust*);

Trustee Call Amount in relation to a Certificate, means 100 per cent. of its outstanding face amount together with any Outstanding Payments;

Trustee Event means any of the following events:

(i) **Non-Payment**: default is made in the payment of the Dissolution Distribution Amount, or default is made in the payment of any Periodic Distribution Amount, in each case, on the due date for payment thereof and, in the case of any Periodic Distribution Amount only, such default continues for a period of five days; or

(ii) **Winding-up**: an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Trustee or the Trustee applies or petitions for a winding-up or administration order in respect of itself except, in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and these Conditions) or by an Extraordinary Resolution of the Certificateholders; or

(iii) **Analogous Event**: any event occurs that under the laws of the Dubai International Financial Centre has an analogous effect to any of the events referred to in paragraph (ii) above.

For the purpose of subparagraph (i) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.4 (*Periodic Distributions*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of any failure by the Mudareb to comply with the matters described in Condition 4.4(c) (*Limited Recourse and Agreement of Certificateholders*) (save in each case where such insufficient funds arise solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election);

Trustee's Territory has the meaning given to it in Condition 12.2 (*Trustee Events*); and

Write-down means:

(i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally cancelled (in the case of a Write-down in whole) or written-down in part (in the case of a Write-down in part) in the same manner as the Certificates;

(ii) the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations; and

(iii) all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall, as the case may be, be cancelled or written-down *pro rata* among the Certificateholders and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased.

All references in these Conditions to **U.S. dollars**, **U.S.$** and **$** are to the lawful currency of the United States of America.

2 Form, Denomination and Title

2.1 Form and Denomination

The Certificates are issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an **Authorised Denomination**). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the **Register**).

*Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. These Conditions are modified by certain provisions contained in* *the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Global Certificate".*

2.2 Title

The Trustee will cause the Registrar to maintain the Register outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered Certificateholder will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered Certificateholder will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

3 Transfers of Certificates

3.1 Transfers

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such Certificateholder appearing on the Register or as specified in the form of transfer.

3.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent except that the Trustee may require payment of a sum to it (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) to cover any stamp duty, tax or other governmental charges which may be imposed in relation to the registration.

3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

3.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate (acting in accordance with the Declaration of Trust and these Conditions) and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests a copy of such regulations.

The Certificateholders shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates*).

4 Status, Subordination and Limited Recourse

4.1 Status

The Certificates represent an undivided ownership interest in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* without any preference or priority, with all other Certificates. The rights and claims of the Trustee and the Certificateholders against the Bank in respect of the Relevant Obligations are subordinated as described in Condition 4.2 (*Subordination*).

4.2 Subordination

4.2.1 The payment obligations of the Bank under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit) (the **Relevant Obligations**) will (a) constitute Tier 1 Capital of the Bank, (b) constitute direct, unsecured, conditional and subordinated obligations of the Bank, (c) rank subordinate to all Senior Obligations, (d) rank *pari passu* with all other Pari Passu Obligations and (e) rank in priority to all Junior Obligations.

4.2.2 The Trustee may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 12.3 (*Winding-up, dissolution or liquidation*).

4.2.3 The Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Relevant Obligations. No collateral is or will be given by the Bank for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of the Bank shall not secure the Relevant Obligations.

4.2.4 Nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

4.3 Other Issues

So long as any of the Certificates remain outstanding, the Bank (in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or on a consolidated basis) issued Tier 1 Capital of the Bank if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains and/or (b) the Relevant Obligations have, in each case, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the

Relevant Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

4.4 Limited Recourse and Agreement of Certificateholders

Save as provided in this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, the Bank, any of the Agents or any of their respective affiliates. Each Certificateholder, by subscribing for or acquiring the Certificates, acknowledges and agrees that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by the Trustee or any of its directors, officers, employees or agents on its behalf except to the extent funds are available therefor from the Trust Assets;

(b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, title, benefit and entitlements, present and future, in, to and under the Transaction Documents and the Trust Assets except in the manner expressly permitted by the Transaction Documents;

(c) the proceeds of the Trust Assets are the sole source of payments on the Certificates. Payment by the Trustee of any Periodic Distribution Amount or any amount required to redeem the Certificates is subject to receipt by the Trustee of the amounts expected to be received by it from the Mudareb in accordance with the provisions of the Mudaraba Agreement;

(d) if the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents, or any of their respective affiliates in respect of any such shortfall, and no recourse shall be had, and no Certificateholder will have any claim, for the payment of any amount due and owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted (following which all obligations of the Trustee shall be extinguished) or the Delegate or the Agents;

(e) it will not petition for, institute, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee or any of its directors, officers, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;

(f) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with these Conditions or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Trustee in their capacity as such. The obligations of the Trustee under these Conditions and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee (in each of their respective capacities as such), save in the case of their wilful default or actual fraud. References in these Conditions to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction (in relation to the conduct of the relevant party);

(g) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of any sums due under such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and

(h) the Trustee and Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

The Bank is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against the Bank to recover payments due to the Trustee from the Bank pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against the Bank. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Bank in connection with the enforcement of any such claim.

5 The Trust

5.1 Boubyan Tier 1 Capital SPC Limited (in its capacity as Trustee and as the **Rab-al-Maal**) will enter into a mudaraba agreement (the **Mudaraba Agreement**) to be dated the Issue Date with the Bank (in such capacity, the **Mudareb**). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) and which may be subject to change after the Issue Date in accordance with Condition 10.2 (*Purchase*) (the **Mudaraba Capital**). The Mudareb will invest the Mudaraba Capital in its general business activities carried out through the General Mudaraba Pool and following investment of the Mudaraba Capital in the General Mudaraba Pool, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the **Mudaraba Assets**) in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the **Mudaraba**).

The Trustee has opened a transaction account (the **Transaction Account**) in its own name with the Principal Paying Agent (details of which are set out in the Declaration of Trust) into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement. If the Trustee is substituted in accordance with Condition 12.2 (*Trustee Events*), the Substituted Trustee will be required to open a new transaction account in its name with the Principal Paying Agent into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement from the date of substitution onwards, and references in these Conditions to the "Transaction Account" will be construed accordingly.

5.2 Pursuant to the Declaration of Trust, the Trustee holds:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(c) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant given to the Trustee pursuant to clauses 11.1 and 11.10 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**) upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each such Certificateholder in accordance with the Declaration of Trust and these Conditions.

5.3 On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

(a) first (to the extent not previously paid), to the Delegate and/or any Appointee (as defined in the Declaration of Trust) in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate in accordance with the Declaration of Trust;

(b) second, in or towards reimbursement *pari passu* and rateably of any amounts paid by any Indemnifying Parties as contemplated by clause 11.8 of the Declaration of Trust together with any profit payable thereon;

(c) third, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay, *pro rata* and *pari passu*, (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; and (ii) the Trustee Administrator in respect of all amounts owing to it under the Transaction Documents, the Corporate Services Agreement and the Registered Office Agreement in its capacity as trustee administrator;

(d) fourth, only if such payment is due on a Periodic Distribution Date, and subject to Condition 8 (*Periodic Distribution Restrictions*), in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;

(e) fifth, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and

(f) sixth, only after all amounts required to be paid in respect of the Certificates have been discharged in full, in payment of any residual amount to the Bank.

6 Covenants

The Trustee has covenanted in the Declaration of Trust that, *inter alia*, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate (given in accordance with the Declaration of Trust and these Conditions)):

(a) incur any indebtedness in respect of financed, obtained or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of *Shari'a* or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness or present or future obligations (whether structured in accordance with the principles of *Shari'a* or otherwise) by granting or permitting to be outstanding any lien, pledge, charge, mortgage or other security interest upon any of its present or future undertakings, assets, properties or revenues (other than those arising by operation of law (if any) or under or pursuant to any of the Transaction Documents);

(c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise, or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to any of the Transaction Documents (other than those arising by operation of law);

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) amend or agree to any amendment to any Certificate or Transaction Document (other than in accordance with the terms thereof) in each case in a manner which is materially prejudicial to the rights of Certificateholders, without the prior approval of the Certificateholders by way of Extraordinary Resolution, save that it shall be permitted to make such variations to the Transaction Documents and these Conditions as are required pursuant to Condition 10.1 (*Redemption and variation*);

(f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders) or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

   (i) as provided for or permitted in the Transaction Documents;

   (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

   (iii) such other matters which are incidental thereto.

7 Periodic Distributions

7.1 Distribution of Mudaraba Profit

The Trustee has agreed in the Mudaraba Agreement that the Bank shall be entitled (in its capacity as Mudareb or otherwise) to utilise the Mudaraba Assets (and the proceeds thereof) to make payments in respect of the claims of Senior Creditors or to cover losses of the Mudaraba and that such entitlement shall apply at any time before an order has been made, or an effective resolution has been passed, for the winding-up, dissolution or liquidation (or other analogous event) of the Bank (in its capacity as Mudareb or otherwise).

7.2 Periodic Distribution Amounts

Subject to Conditions 4.2 (*Subordination*), 4.4 (*Limited Recourse and Agreement of Certificateholders*), 7.3 (*Cessation of Accrual*), 8 (*Periodic Distribution Restrictions*), 9 (*Payments*) and 11 (*Write-down at the Point of Non-Viability*), the Trustee shall distribute to Certificateholders, *pro rata* to their respective holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. The "Periodic Distribution Amount" payable on each Periodic Distribution Date (i) falling prior to and including the first Reset Date shall be U.S.$33.750 per U.S.$1,000 in face amount of the Certificates and (ii) falling after the first Reset Date shall be the relevant amount calculated pursuant to Condition 7.4 (*Periodic Distributions*).

7.3 Cessation of Accrual

Subject to Conditions 4.2 (*Subordination*), 8 (*Periodic Distribution Restrictions*) and 11 (*Write-down at the Point of Non-Viability*), each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption, following liquidation of the Mudaraba in accordance with these Conditions and the Mudaraba Agreement.

7.4 Periodic Distributions

Subject to Condition 8 (*Periodic Distribution Restrictions*), the Certificates bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Periodic Distributions*). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.

Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date, in each case as provided in this Condition 7 (*Periodic Distributions*).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the **Relevant Period**), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the face amount of the relevant Certificates; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(a) Periodic Distribution Rate

For the Initial Period, the Certificates bear profit at the Profit Rate of 6.750 per cent. per annum (the **Initial Periodic Distribution Rate**).

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Five Year Reset Rate on the relevant Determination Date, as determined by the Calculation Agent.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date, but in no event later than the second Business Day thereafter, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Paying Agents, the Irish Stock Exchange, NASDAQ Dubai or any other stock exchange on which the Certificates are for the time being listed and to be notified to Certificateholders in accordance with Condition 17 (*Notices*). To the extent that the Calculation Agent is unable to notify the Irish Stock Exchange, or any other stock exchange on which the Certificates are for the time being listed, the Calculation Agent shall promptly notify the Bank, who shall procure the performance of such obligation.

For the avoidance of doubt, the Calculation Agent shall not be responsible to the Trustee, the Bank, the Certificateholders or any third party as a result of the Calculation Agent having relied upon any quotation, ratio or other information provided to it by any person for the purposes of making any determination hereunder, which subsequently may be found to be incorrect or inaccurate in any way.

(b) Calculation Agent

With effect from the First Call Date, and so long as any Certificates remain outstanding thereafter, the Trustee will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

The Trustee may, with the prior written approval of the Delegate (given in accordance with the Declaration of Trust and these Conditions), from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to Condition 7.4(c) (*Determinations of Calculation Agent or Trustee Binding*)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4(a) (*Periodic Distribution Rate*), the Trustee shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Delegate (in accordance with the Declaration of Trust and these Conditions) to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(c) Determinations of Calculation Agent or Trustee Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*), whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, the Bank, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence of manifest error) no liability to the Trustee, the Bank, any Agent, the Delegate and the Certificateholders shall attach to the Calculation Agent, or the Trustee (or its agent) in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

7.5 Capital Event Profit Amount

If the Certificates are redeemed following a Capital Event, the Periodic Distribution Amount to be paid as part of the Outstanding Payments shall include a further profit amount in an amount equal to the Capital Event Profit Amount.

8 Periodic Distribution Restrictions

8.1 Non-Payment Event

Notwithstanding Condition 7.4 (*Periodic Distributions*), if any of the following events occur (each, a **Non-Payment Event**), the Bank (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(i) the amount equal to the then applicable Periodic Distribution Amount to be paid by the Bank out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the **Relevant Rab-al-Maal Mudaraba Profit Amount**), when aggregated with any distributions or amounts payable by the Bank (in its capacity as Mudareb or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations, exceeds, on the relevant date for payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, Distributable Funds; or

(ii) the Bank (in its capacity as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of (or such payment would cause a breach of) the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Bank by the Financial Regulator); or

(iii) the Financial Regulator requires (a) the Bank not to pay the Relevant Rab-al-Maal Mudaraba Profit Amount to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date.

8.2 Non-Payment Election

Notwithstanding Condition 7.4 (*Periodic Distributions*), the Bank may in its sole discretion elect that Rab-al-Maal Mudaraba Profit (in whole or in part) will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date, and the Bank shall, in each case, instruct the Trustee not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on such Periodic Distribution Date, provided that the foregoing in this Condition 8.2 (*Non-Payment Election*) shall not apply in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date (any such election being a **Non-Payment Election**). The Bank may not, however, make a Non-Payment Election once the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 10 (*Redemption and Variation*).

8.3 Effect of Non-Payment Event or Non-Payment Election

If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, then the Bank shall (i) in the case of a Non-Payment Election, no later than 14 calendar days prior to such event, and (ii) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than one Business Day prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee and the Principal Paying Agent in accordance with the Mudaraba Agreement, the Delegate in accordance with the Declaration of Trust and Certificateholders in accordance with Condition 17 (*Notices*) in each case providing details of the Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event, as the case may be. Certificateholders shall have no claim in respect of any Periodic Distribution Amount (or any part thereof, as applicable) not paid as a result of either a Non-Payment Election or a Non-Payment Event and any such non-payment in whole or in part, as applicable, of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution

Amount in such circumstance shall not constitute a Dissolution Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (or any part thereof, as applicable) (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee shall not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts (or any part thereof, as applicable).

8.4 Dividend and Redemption Restrictions

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 8.1 (*Non-Payment Event*) or 8.2 (*Non-Payment Election*) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the **Dividend Stopper Date**), the Bank will not, so long as any of the Certificates are outstanding:

(i) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares issued by the Bank (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(ii) declare or pay profit or any other distribution on any of its securities ranking, as to the right of payment of dividend, distributions or similar payments, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable the Bank to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time; or

(iii) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares issued by the Bank; or

(iv) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any securities issued by the Bank ranking, as to the right of repayment of capital, junior to or *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate (i) any mandatory redemption in accordance with its terms or (ii) any conversion into, or exchange for, Ordinary Shares of the Bank), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time,

in each case unless or until (a) the next two consecutive payments of Rab-al-Maal Mudaraba Profit or (b) (as the case may be) payment of the Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date, have been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

9 Payments

9.1 Payments in respect of the Certificates

Subject to Condition 9.2 (*Payments subject to Applicable Laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Trustee in U.S. dollars by wire transfer in same day funds to the Registered Account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the Certificateholder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (*Payments*), a Certificateholder's **Registered Account** means the U.S. dollar account maintained by or on behalf of such Certificateholder with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date.

9.2 Payments subject to Applicable Laws

Payments in respect of the Certificates are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*).

9.3 No Commissions

No commissions or expenses shall be charged to the Certificateholders in respect of any payments made in accordance with this Condition 9 (*Payments*).

9.4 Payment only on a Payment Business Day

Where payment is to be made by transfer to a Registered Account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (*Non-Payment Event*) and 8.2 (*Non-Payment Election*), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In these Conditions, **Payment Business Day** means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in New York City and London settle payments and are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

9.5 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, it will at all times maintain a Paying Agent, Registrar and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system and (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 17 (*Notices*).

10 Redemption and Variation

10.1 Redemption and variation

(a) No Fixed Redemption Date and Conditions for Redemption and Variation

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) only have the right to redeem the Certificates or vary the terms thereof in accordance with the following provisions of this Condition 10 (*Redemption and Variation*).

The redemption of the Certificates or variation of these Conditions, in each case pursuant to this Condition 10 (*Redemption and Variation*), is subject to the following conditions (in addition to those set out elsewhere in this Condition 10.1 (*Redemption and variation*)):

(i) (except to the extent that the Financial Regulator no longer so requires) the Bank having obtained the prior approval of the Financial Regulator;

(ii) (except to the extent that the Financial Regulator no longer so requires) the requirement that at the time when the relevant notice of redemption or variation is given and immediately following any redemption or variation (as applicable), the Bank is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements; and

(iii) (in the case of a redemption or variation pursuant to Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*) only) the requirement that the circumstance that entitles the Bank to instruct the Trustee to exercise its right of redemption or variation is a change of law, published practice or regulation (including in the case of Condition 10.1(d) (*Redemption or Variation for Capital Event*), Applicable Regulatory Capital Requirements) in the State of Kuwait or, in the case of Condition 10.1(c) (*Redemption or Variation due to Taxation*), of a Relevant Jurisdiction or a change in the interpretation or application of such law, published practice or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after 12 May 2016.

(b) Trustee's Call Option

Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) may only occur on the First Call Date or any Periodic Distribution Date thereafter.

Prior to the publication of any notice of redemption pursuant to this Condition 10.1(b) (*Trustee's Call Option*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories stating that all conditions precedent to the redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) (other than the notice to Certificateholders described in this Condition 10.1(b) (*Trustee's Call Option*)) have been satisfied (upon which the Delegate may rely without liability to any person), and the Delegate shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Certificateholders.

(c) Redemption or Variation due to Taxation

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 10.1(c) (*Redemption or Variation due to Taxation*), if a Tax Event occurs, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable) and applicable Record Date, (a) redeem all, but not some only, of the Certificates at the Tax Redemption Amount; or (b) vary the terms of the Mudaraba Agreement, subject to the approval of the Mudareb's *Shari'a* board, and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate. No such notice shall be given earlier than 90 days prior to the earliest date on which the Trustee or the Bank would be obliged to pay Additional Amounts or additional amounts under clause 5.11 of the Mudaraba Agreement. If the Bank does not instruct the Trustee to so redeem or vary in accordance with this Condition 10.1(c)(i) (*Redemption or Variation due to Taxation*) in respect of such Tax Event then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 10 (*Redemption and Variation*).

(ii) Redemption of the Certificates, or variation of these Conditions, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*), the Bank shall give to the Trustee and the Delegate (i) a copy of the opinion of a recognised independent tax adviser to the effect that a Tax Event has occurred and a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments, and (ii) an opinion of independent legal advisers of recognised standing (upon which the Delegate may rely without liability to any person) to the effect that a Tax Event has occurred. Such certificate and opinions shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(c)(iii) (*Redemption or Variation due to Taxation*) and the Delegate shall be entitled to accept and rely on such certificate and opinions as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

The Capital Regulations, as in force from time to time, may oblige the Bank to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Tax Law Change was not reasonably foreseeable as at the Issue Date.

(d) Redemption or Variation for Capital Event

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 10.1(d) (*Redemption or Variation for Capital Event*), if a Capital Event occurs and is continuing, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable) and the applicable Record Date, (a) redeem all, but not some only, of the Certificates at the Capital Event Amount; or (b) solely for the purpose of ensuring compliance with the Applicable Regulatory Capital Requirements, vary the terms of the Mudaraba Agreement, subject to the approval of the Mudareb's *Shari'a* board, and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments without any requirement for consent or approval of the Certificateholders, and, in the case of (b) only, provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate. If the Bank does not instruct the Trustee to so redeem or vary in accordance with this Condition 10.1(d)(i) (*Redemption or Variation for Capital Event*) in respect of such Capital Event then the Certificates shall continue to be perpetual securities in respect of which there is no fixed redemption date unless the Trustee shall otherwise (subject to the provisions of Condition 4.2 (*Subordination*), Condition 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*Prescription*)) redeem the Certificates or vary the terms thereof in accordance with the provisions of this Condition 10 (*Redemption and Variation*).

(ii) Redemption of the Certificates, or variation of these Conditions, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) Prior to the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*), the Bank shall give to the Trustee and the Delegate a certificate signed by two Authorised Signatories (upon which the Delegate shall rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Capital Event has occurred and is continuing as at the date of the certificate; and (C), in the case of a variation only, the Certificates, as so varied, are Qualifying Tier 1 Instruments and the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments and Such certificate and legal opinion shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above in this Condition 10.1(d)(iii) (*Redemption or Variation for Capital Event*) and the Delegate shall be entitled to accept and rely on such certificate as sufficient evidence of the satisfaction of such conditions precedent without liability to any person. Upon expiry of such notice the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

The Capital Regulations, as in force from time to time, may oblige the Bank to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Capital Event was not reasonably foreseeable as at the Issue Date.

(e) Taxes upon Variation

In the event of a variation in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*), none of the Trustee, the Delegate and the Bank will be obliged to pay and will not pay any liability of any Certificateholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Certificates, provided that (in the case of a Tax Event) or so that (in the case of a Capital Event) the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, and further will not be liable for any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Certificateholder.

10.2 Purchase

Subject to the Bank (A) obtaining the prior approval of the Financial Regulator (except to the extent that the Financial Regulator no longer so requires), and (B) being in compliance with the Applicable Regulatory Capital Requirements, the Bank or any of its Subsidiaries, may at any time purchase the Certificates in the open market or otherwise at such price(s) and upon such other conditions as may be agreed upon between the Bank or the relevant Subsidiary (as the case may be) and the relevant Certificateholder(s). Upon any such purchase, the Bank shall deliver such Certificates to any Paying Agent for cancellation and upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

10.3 Cancellation

All Certificates that are redeemed, and all Certificates that are purchased pursuant to Condition 10.2 (*Purchase*) and which the Bank delivers for cancellation in accordance with Condition 10.2 (*Purchase*), will forthwith be cancelled and accordingly may not be held, reissued or resold.

11 Write-down at the Point of Non-Viability

11.1 Non-Viability Event

If a Non-Viability Event occurs, a Write-down (in whole or in part, as applicable) will take place in accordance with Condition 11.2 (*Non-Viability Notice*).

Any such Write-down shall not constitute a Dissolution Event. Certificateholders acknowledge that there shall be no recourse to the Financial Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event.

It is the Mudareb's current intention to procure that a Write-down will take place: (1) after the ordinary shares in the Mudareb absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Mudareb at such time) and the Financial Regulator has not notified the Mudareb in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) simultaneously and pro rata with the write-down of any of the Mudareb's other obligations in respect of Tier 1 Capital and any other trust certificates and other instruments related to the Mudareb's other obligations constituting Tier 1 Capital; and (3) prior to the write-down or write-off of any of the Mudareb's obligations in respect of Tier 2 capital and any other trust certificates and other instruments related to the Mudareb's other obligations constituting Tier 2 capital. However, the Mudareb may at any time depart from this policy at its sole discretion.

11.2 Non-Viability Notice

On the third Business Day following the date on which such Non-Viability Event occurs, (a) the Mudareb will notify the Trustee thereof in accordance with the Mudaraba Agreement and (b) the Trustee will then notify the Delegate and the Certificateholders thereof and the Principal Paying Agent in accordance with Condition 17 (*Notices*) (a **Non-Viability Notice**). A Write-down will occur on the Non-Viability Event Write-down Date and, with effect from such date (i) in the case of a Write-down in whole only, the Mudaraba Agreement will be automatically terminated; and (ii) in the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be written-down and Periodic Distribution Amounts shall only be in respect of on the face amount of the Certificates that have not been written-down. In the case of (i) above, the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets. In the case of (ii) above, the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets that relate to the proportion of the Mudaraba Capital that has been reduced.

11.3 Liability of Delegate and Agents

Neither the Delegate nor the Agents shall have any responsibility for, or liability or obligation in respect of, any loss, claim or demand incurred as a result of or in connection with a Non-Viability Event (or its disapplication, if applicable) or any consequent Write-down and/or cancellation of any Certificates or termination of the Mudaraba Agreement or any claims in respect thereof, and the Delegate and the Agents shall not be responsible for any calculation, determination or the verification of any calculation or determination in connection with the foregoing.

12 Dissolution Events and Winding-up

The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and the Bank, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.

12.1 Bank Events

If a Bank Event occurs, the Delegate (provided it shall have been given notice in writing thereof by the Trustee or the Bank or otherwise upon having actual knowledge of the Bank Event) shall promptly give notice of the occurrence of such Bank Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed in whole and the Trust to be dissolved (a **Dissolution Request**). The Delegate may and, if so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of Certificateholders, shall (but in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*)), give notice (a **Dissolution Notice**) to the Trustee that the Certificates are immediately due and payable at the aggregate face amount of the outstanding Certificates together with any Outstanding Payments, whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable without presentation, demand, protest or other notice of any kind. A Dissolution Notice may be given whether or not a Dissolution Request has been given to Certificateholders.

12.2 Trustee Events

(i) The Bank has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure, subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Financial Regulator, the substitution of any newly formed special purpose company in form substantially the same as that of the Trustee, in place of the Trustee (the **Substituted Trustee**), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:

(A) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate (acting in accordance with the Declaration of Trust and these Conditions), agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;

(B) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any political sub-division or authority of or in that territory with power to tax (the **Substituted Territory**) other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the **Trustee's Territory**), the Substituted Trustee shall give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 13 (*Taxation*) with the substitution for or the addition to the references in that Condition to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and the Bank shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 13 (*Taxation*), extending its obligations thereunder to the Substituted Territory);

(C) if any two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution, the Delegate need not have regard to the Substituted Trustee's financial condition, profits or prospects or compare them with those of the Trustee;

(D) the Trustee, the Substituted Trustee and the Bank comply with such other requirements as the Delegate may direct in the interests of the Certificateholders; and

(E) such substitution would not, in the sole opinion of the Delegate, be materially prejudicial to the interests of the Certificateholders.

(ii) Subject to this Condition 12.2 (*Trustee Events*), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent or approval of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).

(iii) If the Bank fails to comply with the foregoing provisions of this Condition 12.2 (*Trustee Events*) within 60 days of the occurrence of the relevant Trustee Event, Conditions 12.1 (*Bank Events*) and 12.3 (*Winding-up, dissolution or liquidation*) shall apply to the relevant Trustee Event as if it was a Bank Event.

12.3 Winding-up, dissolution or liquidation

(a) Proceedings for Winding-up

If a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*), the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement, and either the Trustee or the Delegate may at its discretion, and the Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), if so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute any steps, actions or proceedings for the bankruptcy of the Bank and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or proceedings which, under the laws of the State of Kuwait, have an analogous effect to the actions referred to (i) to (iv) above, in each case, for (subject as set out below) all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 12.3(a) (*Proceedings for Winding-up*), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against the Bank with respect to any sum that the Bank has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions. No payment in respect of the Transaction Documents may be made by the Bank as a result of any steps, actions or proceedings taken pursuant to Condition 12.1 (*Bank Events*), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of the Bank, unless the Bank has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Financial Regulator (which the Bank shall confirm in writing to the Trustee and the Delegate).

(b) Enforcement

Without prejudice to Condition 12.1 (*Bank Events*) and the remaining provisions of this Condition 12.3 (*Winding-up, dissolution or liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*), if so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice institute such steps, actions or proceedings against the Bank or against the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations), including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*). However, in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents. Nothing in this Condition 12.3 (*Winding-up, dissolution or liquidation*) shall, however, prevent the Trustee (or the Delegate) from taking such steps, actions or proceedings as described in Condition 12.3(a) (*Proceedings for Winding-up*) in respect of any payment obligations of the Bank arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) Non-Viability

All claims by the Delegate and/or the Certificateholders against the Trustee under the Certificates and all claims by the Trustee (or the Delegate) against the Bank under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or the Bank under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by: (i) the provisions of Condition 11 (*Write-down at the Point of Non-Viability*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim provided that nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

(d) Extent of Certificateholder remedy

No remedy against the Bank, other than as referred to in this Condition 12 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by the Bank of any of its other obligations under or in respect of the Transaction Documents.

(e) Realisation of Trust Assets

(i) Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the Trust Assets or any of the actions, steps or proceedings referred to in these Conditions in respect of the Bank or, in the case of the Delegate only, the Trustee to enforce the terms of the Transaction Documents or give a Dissolution Notice (including, without limitation, pursuant to this Condition 12 (*Dissolution Events and Winding-up*)), unless (1) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and (2) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

(ii) No Certificateholder shall be entitled to proceed directly against the Trustee or the Bank or to take the actions, steps or proceedings referred to in Conditions 12.3(a) (*Proceedings for Winding-up*) and 12.3(b) (*Enforcement*) above, unless (i) the Trustee or the Delegate, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or the Bank, as the case may be) holds at least one-fifth of the then outstanding aggregate face amount of the Certificates, in which case the Certificateholders shall have only such rights against the Bank as those which the Trustee or the Delegate is entitled to exercise as set out in Condition 12.1 (*Bank Events*) and this Condition 12.3 (*Winding-up, dissolution or liquidation*).

(iii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Bank shall be to enforce their respective obligations under the Transaction Documents.

(iv) The foregoing paragraphs in this Condition 12.3(e) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

13 Taxation

All payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction (**Taxes**), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts (**Additional Amounts**) so that the full amount which otherwise would have been due and payable under the Certificates in the absence of any such deduction or withholding is received by the parties entitled thereto, except that no such Additional Amount shall be payable in relation to any payment in respect of any Certificate:

(a) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or

(b) presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts (and related expressions including, without limitation, the **face amount** of the Certificates and **Outstanding Payments**) shall be deemed to include any Additional Amounts payable under this Condition 13 or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

Notwithstanding any other provision in these Conditions, the Trustee and the Paying Agents shall be permitted to withhold or deduct any amounts imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (or any regulations thereunder or official interpretations thereof), any intergovernmental agreement facilitating the implementation thereof, implementing legislation adopted by another jurisdiction in connection with these provisions, or any agreement with the U.S. Internal Revenue Service (**FATCA withholding**). None of the Trustee, the Delegate or any Agent will have any obligation to pay Additional Amounts or otherwise indemnify a Certificateholder for any FATCA withholding deducted or withheld by the Trustee, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

Neither the Delegate nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 13 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Trustee, the Bank, any Certificateholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Delegate or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), any additional amount or other amount under or in respect of the Certificates without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

The Mudaraba Agreement provides that payments made thereunder by the Bank (in its capacity as the Mudareb) to the Trustee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future Taxes, unless such withholding or deduction is required by law. In such event, and/or if Additional Amounts are payable by the Trustee in respect of the Certificates in accordance with this Condition 13, the Mudaraba Agreement provides for the payment by the Bank of such additional amounts by payment to the Transaction Account in U.S. dollars by wire transfer for same day value so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction and in the absence of the withholding or deduction to which this Condition 13 applies.

14 Prescription

The right to receive any amount in respect of the Certificates will be forfeited unless claimed within a period of 10 years from the Relevant Date in respect thereof.

15 Delegate

15.1 Delegation of Powers

The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future duties, powers (including the power to sub-delegate), trusts, rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the **Delegation** of the **Relevant Powers**), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

15.2 Indemnification

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Condition 12 (*Dissolution Events and Winding-up*), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction. The Declaration of Trust provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Delegate shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Certificateholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

15.3 No Liability

(a) The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Bank or the Trustee under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by the Bank or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

(b) Each of the Trustee and the Delegate is exempted from: (i) any liability in respect of any loss or theft of the Trust Assets or any cash; (ii) any obligation to monitor or insure the Trust Assets or any cash; and (iii) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be.

15.4 Reliance on Opinions, Certificates, Reports and/or Information

The Delegate may rely on any opinion, certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Bank or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such opinion, certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such opinion, certificate, report, information and/or any engagement letter or other document contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Bank or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such opinion, certificate, report or information may be limited by an engagement or similar letter or by the terms of the opinion, certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability, delay or inconvenience that may be occasioned by its failure to do so.

15.5 Proper performance of duties

Nothing shall, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

15.6 Illegality

The Delegate may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Delegate may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

15.7 Delegate not Precluded from Conducting Business with the Trustee and the Bank

The Delegate is entitled, *inter alia*, (i) to enter into business transactions with the Trustee, the Bank and/or any entity related to the Trustee and/or the Bank and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Trustee and/or any entity related to the Trustee and/or the Bank, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

15.8 Notice of Events

The Delegate shall not be responsible for monitoring or ascertaining whether or not a Non-Payment Event, Capital Event, Tax Event, Non-Viability Event, Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing or will occur or exist and, unless and until it shall have received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to the Certificateholders or any other person for so doing).

16 Replacement of Certificates

If a definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, the Bank, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17 Notices

Notices to Certificateholders will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register. The Trustee shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation. Any notices shall be deemed to have been given on the day (being a day other than a Saturday or a Sunday) after being so mailed (or on the date of publication, or if so published more than once or on different dates, on the date of the first publication).

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with the Principal Paying Agent.

So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the Certificateholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other clearing system.

18 Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination

18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing in aggregate more than 50 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Eligible Persons whatever the face amount of the Certificates held or represented, except that any meeting the business of which includes consideration of proposals, *inter alia*, (i) to modify any date for payment in respect of the Certificates, (ii) to reduce or cancel or vary the method for calculating the amount of any payment due in respect of the Certificates, (iii) to change any of the Trustee's and the Bank's covenants set out in the Transaction Documents, (iv) to alter the currency of payment or denomination of the Certificates, (v) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass an Extraordinary Resolution, (vi) to sanction any such scheme or proposal or substitution as is described in paragraphs 5.9(i) and 5.9(j) of Schedule 4 to the Declaration of Trust, or (vii) to amend the above list or the proviso to paragraph 4.6 of Schedule 4 to the Declaration of Trust, in which case the quorum shall be one or more Eligible Persons holding or representing in aggregate not less than 75 per cent., or at any adjourned such meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires (i) a majority in favour consisting of not less than 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (a **Written Resolution**) or (iii) where the Certificates are held by or on behalf of a clearing system or clearing systems, approval given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (in a form satisfactory to the Delegate) by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an **Electronic Consent**). Any Extraordinary Resolution, if duly passed, will be binding on all Certificateholders, whether or not they were present at the meeting at which such resolution was passed and whether or not they voted.

18.2 The Declaration of Trust provides that a Written Resolution or an Electronic Consent shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution and/or Electronic Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.

18.3 The Delegate may (but shall not be obliged to), without the consent or approval of the Certificateholders (i) agree to any modification to these Conditions, any provisions of the Transaction Documents or to the Trustee's memorandum and articles of association which, in the sole opinion of the Delegate, is of a formal, minor or technical nature or is made to correct a manifest error; (ii) agree to any modification (other than in respect of a Reserved Matter) of these Conditions, any provisions of the Transaction Documents or the Trustee's memorandum and articles of association, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the other Transaction Documents; or (iii) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided in the case of paragraphs (ii) and (iii) that such modification, waiver, authorisation or determination is not, in the sole opinion of the Delegate, materially prejudicial to the interests of Certificateholders and that such waiver, authorisation or determination is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least one-fifth of the outstanding aggregate face amount of the Certificates.

18.4 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, those referred to in this Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*), the Delegate shall have regard to the interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 13 (*Taxation*).

18.5 Any modification, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified by the Trustee to the Certificateholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).

This Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination)* is without prejudice to Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(d) (*Redemption or Variation for Capital Event*).

19 Currency Indemnity

If any sum due from the Trustee in respect of the Certificates or any order or judgment given or made in relation thereto has to be converted from the currency (the **first currency**) in which the same is payable under these Conditions or such order or judgment into another currency (the **second currency**) for the purpose of: (a) making or filing a claim or proof against the Trustee; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the Certificates, the Trustee shall indemnify each Certificateholder, on the written demand of such Certificateholder addressed to the Trustee and delivered to the Trustee or to the specified office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such Certificateholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Trustee and shall give rise to a separate and independent cause of action. In no circumstances will the Delegate incur any liability by virtue of this Condition 19.

20 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21 Governing Law and Dispute Resolution

21.1 Governing Law

The Declaration of Trust (including these Conditions), the Agency Agreement, the Mudaraba Agreement and the Certificates, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 Arbitration

Subject to Condition 21.3 (*Option to Litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust (including these Conditions) and the Certificates (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the LCIA (the **Rules**), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 21.2 (*Arbitration*). For these purposes:

(a) the seat of arbitration shall be London, England;

(b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly, shall each nominate one arbitrator. If one party or both parties fail to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

(c) the language of the arbitration shall be English.

21.3 Option to Litigate

Notwithstanding Condition 21.2 (*Arbitration*) above, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may in the alternative, and at its sole discretion, by notice in writing to the Trustee and the Bank (as applicable):

(a) within 60 days of service of a Request for Arbitration (as defined in the Rules); or

(b) if no arbitration has commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 21.5 (*Submission to jurisdiction*) and any arbitration commenced under Condition 21.2 (*Arbitration*) in respect of that Dispute will be terminated. With the exception of the Delegate and any Agent (whose costs will be borne by the Trustee, failing which the Bank), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

21.4 Notice to Terminate

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Delegate or (but only where it is permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder must promptly give notice to the LCIA and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(a) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(b) his entitlement to be paid his proper fees and disbursements; and

(c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

21.5 Submission to jurisdiction

If a notice is issued pursuant to Condition 21.3 (*Option to Litigate*), the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and the Bank submits to the exclusive jurisdiction of such courts;

(b) each of the Trustee and the Bank agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 21.5 (*Submission to jurisdiction*) is for the benefit of the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Delegate and the Certificateholders may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

21.6 Appointment of Process Agent

Each of the Trustee and the Bank has, in the Declaration of Trust, appointed Maples and Calder at its registered office at 11th Floor, 200 Aldersgate Street, London, EC1A 4HD, United Kingdom as its agent for service of process and has undertaken that, in the event of Maples and Calder ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes and notify the Delegate and the Certificateholders of such appointment in accordance with this Condition 21.6 (*Appointment of Process Agent*). Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

21.7 Waiver of Immunity

Under the Transaction Documents to which it is a party, the Bank has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, the Bank has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

21.8 Waiver of Interest

(a) Each of the Trustee, the Delegate and the Bank has irrevocably agreed in the Declaration of Trust that if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Declaration of Trust, it will (i) not claim interest under, or in connection with, such arbitration and/or Proceedings;

and (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

(b) For the avoidance of doubt, nothing in this Condition 21.8 (*Waiver of Interest*) shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by the Bank or the Trustee pursuant to the Transaction Documents and/or these Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by ownership interests in a global certificate in registered form (the **Global Certificate**). The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Certificates in fully registered form.

Holders

For so long as the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the **Registered Holder**). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the **Accountholders**) (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder, as against the Trustee and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder, and the expressions **Certificateholder** and **holder of Certificates** and related expressions shall be construed accordingly. In addition, holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

Payments

Payments of any amount in respect of the Global Certificate will, in the absence of any provision to the contrary, be made to or to the order of, the person shown on the Register as the registered holder of the Global Certificate at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the due date for payment (where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January). Upon payment of any amount in respect of the Certificates represented by the Global Certificate, the details of such payment shall be entered by the Registrar in the Register.

None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Declaration of Trust. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

Notices

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders rather than by publication and delivery as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Exchange for Definitive Certificates

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 17 (*Notices*) if an Exchange Event occurs. For these purposes, **Exchange Event** means that: (i) a Dissolution Event (as defined in the Conditions) has occurred; or (ii) the Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, and any such clearing system has been closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so. In the event of the occurrence of an Exchange Event, any of the Trustee or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within 10 days following the request for exchange for completion and dispatch to the Certificateholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In this Prospectus, **Definitive Certificate** means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, such trust certificate substantially in the form set out in the Schedules to the Declaration of Trust.

USE OF PROCEEDS

The net proceeds of the Certificates will be paid by the Trustee (as Rab-al-Maal) to the Bank (as Mudareb) as contribution of the Mudaraba Capital pursuant to the terms of the Mudaraba Agreement.

DESCRIPTION OF THE TRUSTEE

General

The Issuer was incorporated in the Dubai International Financial Centre on 10 January 2016 as a special purpose company under the Companies Law, DIFC Law No. 3 of 2006 and the Special Purpose Company Regulations and with registered number 2066.

Registered office

The Issuer's registered office is c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates, and its telephone number is +971 4511 4200.

Business of the Issuer

The primary purpose of the Issuer is to issue the Certificates and to undertake any ancillary activities. The Issuer is a newly formed DIFC entity and, as at the date of the Prospectus, has not commenced business and does not have any substantial assets or liabilities save for rights under the Transaction Documents.

Administration

Maples Fund Services (Middle East) Limited acts as the corporate service provider of the Issuer (in such capacity, the **Corporate Service Provider**). The office of the Corporate Service Provider serves as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement dated 21 March 2016 entered into between the Issuer and the Corporate Service Provider (the **Corporate Services Agreement**), the Corporate Service Provider has agreed to perform in the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Issuer and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Issuer and the Corporate Service Provider have also entered into a registered office agreement (the **Registered Office Agreement**) for the provision of registered office facilities to the Issuer. In consideration of the foregoing, the Corporate Service Provider will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and Registered Office Agreement provide that either the Issuer or the Corporate Service Provider may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least one month's notice in writing to the other party with a copy to the DIFC Registrar of Companies. Furthermore, the Corporate Service Provider has the right to terminate such agreements in the event that there is a change in the shareholding of the Issuer or the Issuer has breached, or is unable to satisfy, any of its obligations under the Certificates or the Agency Agreement. The Corporate Service Provider will be subject to the overview of the Issuer's Board of Directors. The Corporate Service Provider's principal office is Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates. The directors of the Issuer are employees and/or officers of the Corporate Service Provider. The Issuer has no employees and is not expected to have any employees in the future.

Directors

The directors of the Issuer are:

Name	Principal Occupation
Aaron Bennett	Vice President of Maples Fund Services (Middle East) Limited
Andrew Millar	Regional Head of Fiduciary, Middle East of Maples Fund Services (Middle East) Limited

No director of the Issuer has any actual or potential conflicts of interest between the director's private interests and the director's duties to the Issuer.

The directors of the Issuer do not hold any direct, indirect, beneficial or economic interest in any of the shares of the Issuer.

As a matter of Dubai International Financial Centre law, each director of the Issuer is under a duty to act honestly and in good faith with a view to the best interests of the Issuer, regardless of any other interests the director may have.

The business address of the directors of the Issuer is c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates.

Secretary

Maples Fund Services (Middle East) Limited – see address above.

Share capital

The Issuer has an authorised share capital of U.S.$100 consisting of 100 shares of U.S.$1 nominal value each, of which all 100 shares have been issued and fully paid up as at the date of this Prospectus. All of the issued shares (the **Shares**) are fully-paid and are held by Maples Fund Services (Middle East) Limited as share trustee (in such capacity, the **Share Trustee**) under the terms of a declaration of trust (the **Share Declaration of Trust**) under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Declaration of Trust) and may only dispose or otherwise deal with the Shares in accordance with the Share Declaration of Trust. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has power to benefit one or more Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificates are outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements. See also "Presentation of certain financial and other information" for a discussion of the sources of the numbers contained in this section.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

The table below shows the Group's consolidated statement of financial position data as at 31 March 2016 and 2015 and 31 December in each of 2015, 2014 and 2013.

	Three months ended 31 March		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
	(KD '000) *(Unaudited)*			*(KD '000)*	
Assets					
Cash and cash equivalents	380,737	283,015	465,259	314,821	205,622
Due from banks	327,390	310,805	218,076	263,593	298,871
Islamic financing to customers	2,267,653	1,904,579	2,171,794	1,805,115	1,478,701
Financial assets at fair value through profit or loss	14,796	12,852	15,388	12,738	5,866
Available for sale investments	136,368	121,264	126,307	113,852	63,044
Investments in associates	73,734	84,956	79,713	85,728	85,691
Investment properties	23,493	26,317	23,397	25,637	30,245
Other assets	16,085	12,416	14,169	10,944	11,516
Property and equipment	19,871	16,455	18,782	15,502	12,430
Total assets	**3,260,127**	**2,772,659**	**3,132,885**	**2,647,930**	**2,191,986**
Liabilities and Equity					
Liabilities					
Due to banks	290,944	176,660	382,749	226,739	236,018
Depositors' accounts	2,620,852	2,265,668	2,398,935	2,092,028	1,657,398
Other liabilities	27,953	31,332	30,402	28,061	29,083
Total liabilities	**2,939,749**	**2,473,660**	**2,812,086**	**2,346,828**	**1,922,499**
Equity					
Share capital	216,641	206,325	206,325	196,500	183,645
Share premium	62,896	62,896	62,896	62,896	62,896
Proposed bonus shares	—	—	10,316	9,825	12,855
Treasury shares	(406)	(568)	(568)	(763)	(1,100)
Statutory reserve	9,998	6,283	9,998	6,283	3,306
Voluntary reserve	9,570	6,015	9,570	6,015	3,167
Share based payment reserve	1,209	849	1,171	864	860
Fair value reserve	4,145	5,267	4,159	5,082	2,857
Foreign currency translation reserve	(8,668)	(6,478)	(9,262)	(6,468)	(7,746)
Retained earnings	22,413	13,350	13,320	5,978	3,204
Proposed cash dividends	—	—	10,307	9,815	—
Equity attributable to equity holders of the Bank	**317,798**	**293,939**	**318,232**	**296,027**	**263,944**
Non-controlling interests	2,580	5,060	2,567	5,075	5,543
Total equity	**320,378**	**298,999**	**320,799**	**301,102**	**269,487**
Total liabilities and equity	**3,260,127**	**2,772,659**	**3,132,885**	**2,647,930**	**2,191,986**

CONSOLIDATED STATEMENT OF INCOME DATA

The table below shows the Group's consolidated statement of income data for each of the three months ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

Consolidated statement of income data

	Three months ended 31 March		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
	(KD '000) *(Unaudited)*		*(KD '000)*		
Income					
Murabaha and other Islamic financing income	28,537	23,169	101,462	83,692	70,969
Distribution to depositors and Murabaha costs	(7,058)	(5,523)	(22,120)	(17,484)	(10,227)
Net financing income	**21,479**	**17,646**	**79,342**	**66,208**	**60,742**
Net investment income	612	467	2,200	4,986	962
Net fees and commission income	3,076	2,458	7,839	5,935	3,632
Share of results of associates	(527)	238	313	(247)	726
Net foreign exchange gain	449	431	1,652	1,352	1,010
Other income	8	3	7	171	—
Operating income	**25,097**	**21,243**	**91,353**	**78,405**	**67,072**
Staff costs	(6,487)	(5,701)	(22,933)	(20,833)	(18,767)
General and administrative expenses	(3,459)	(3,229)	(13,624)	(12,411)	(10,062)
Depreciation	(753)	(581)	(2,636)	(2,178)	(1,699)
Operating expenses	**(10,699)**	**(9,511)**	**(39,193)**	**(35,422)**	**(30,528)**
Operating profit before provision for impairment	**14,398**	**11,732**	**52,160**	**42,983**	**36,544**
Provision for impairment	(4,861)	(4,031)	(15,058)	(12,952)	(23,081)
Operating profit before deductions	**9,537**	**7,701**	**37,102**	**30,031**	**13,463**
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	(85)	(70)	(327)	(261)	(127)
National Labour Support Tax (NLST)	(244)	(195)	(926)	(736)	(348)
Zakat	(98)	(77)	(354)	(289)	(133)
Board of directors' remuneration	—	—	(310)	(240)	(135)
Net profit for the year/period	**9,110**	**7,359**	**35,185**	**28,505**	**12,720**
Attributable to:					
Equity holders of the Bank	9,097	7,374	35,235	28,239	13,408
Non-controlling interests	13	(15)	(50)	266	(688)
Net profit for the year/period	**9,110**	**7,359**	**35,185**	**28,505**	**12,720**
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	4.20	3.41	**17.09**	**13.70**	**6.83**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME DATA

The table below shows the Group's consolidated statement of comprehensive income data for each of the three months ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

	Three months ended 31 March		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
	(KD '000) *(Unaudited)*			*(KD '000)*	
Net profit for the year/period	**9,110**	**7,359**	**35,185**	**28,505**	**12,720**
Other comprehensive income					
Other comprehensive income to be reclassified to consolidated statement of profit or loss in subsequent periods:					
Change in fair value of available for sale investments	(14)	185	(2,973)	947	(2,230)
Net gains on available for sale investments transferred to consolidated statement of profit and loss	—	—	(198)	(86)	(449)
Impairment losses on available for sale investments transferred to consolidated statement of profit and loss	—	—	2,248	1,364	2,115
Foreign currency translation adjustments	594	(10)	(2,794)	1,278	(2,873)
Other comprehensive income/(loss) for the year/period	**580**	**175**	**(3,717)**	**3,503**	**(3,437)**
Total comprehensive income for the year/period	**9,690**	**7,534**	**31,468**	**32,008**	**9,283**
Attributable to:					
Equity holders of the Bank	9,677	7,549	31,518	31,742	9,971
Non-controlling interests	13	(15)	(50)	266	(688)
Total comprehensive income for the year/period	**9,690**	**7,534**	**31,468**	**32,008**	**9,283**

CONSOLIDATED STATEMENT OF CASH FLOW DATA

The table below summarises the Group's consolidated statement of cash flow data for each of the three months ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

	Three months ended 31 March		Year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
	(KD '000) *(Unaudited)*		*(KD '000)*		
Net cash (used)/generated from operating activities	(62,700)	(15,596)	181,000	161,852	36,610
Net cash used in investing activities	(11,562)	(6,443)	(18,339)	(51,999)	(518)
Net cash used in financing activities	(10,260)	(9,767)	(12,223)	(654)	—
Net (decrease)/increase in cash and cash equivalents	(84,522)	(31,806)	150,438	109,199	36,092
Cash and cash equivalents at the beginning of the year	465,259	314,821	314,821	205,622	169,530
Cash and cash equivalents at the end of the year/period	380,737	283,015	465,259	314,821	205,622

MATURITY PROFILE DATA

The table below summarises the maturity profile of the Group's assets, liabilities and equity based on contractual cash flows, maturity dates or on management's estimates of liquidation. This does not necessarily take account of the effective maturities.

	As at 31 March				
	Up to 3 months	**3 to 6 months**	**6 to 12 Months**	**Over 1 year**	**Total**
	KD'000	*KD'000*	*KD'000*	*KD'000*	*KD'000*
2016					
Cash and cash equivalents	380,737	—	—	—	380,737
Due from banks	227,043	45,702	54,645	—	327,390
Islamic financing to customers	582,583	423,919	129,125	1,132,026	2,267,653
Financial assets at fair value through profit or loss	—	—	—	14,796	14,796
Available for sale investments	97,427	—	—	38,941	136,368
Investments in associates	—	—	—	73,734	73,734
Investment properties	—	—	—	23,493	23,493
Other assets	9,231	—	6,854	—	16,085
Property and equipment	—	—	—	19,871	19,871
Total assets	**1,297,021**	**469,621**	**190,624**	**1,302,861**	**3,260,127**
Liabilities and Equity					
Due to banks	275,918	15,026	—	—	290,944
Depositors' accounts	1,680,282	396,384	437,819	106,367	2,620,852
Other liabilities	4,324	—	13,099	10,530	27,953
Equity	—	—	—	320,378	320,378
Total liabilities and equity	**1,960,524**	**411,410**	**450,918**	**437,275**	**3,260,127**

	As at 31 December				
	Up to 3 months	3 to 6 months	6 to 12 Months	Over 1 year	Total
	KD'000	*KD'000*	*KD'000*	*KD'000*	*KD'000*
2015					
Cash and cash equivalents	465,259	—	—	—	465,259
Due from banks	80,736	69,078	68,262	—	218,076
Islamic financing to customers	703,406	222,738	164,901	1,080,749	2,171,794
Financial assets at fair value through profit or loss	—	—	—	15,388	15,388
Available for sale investments	91,336	—	—	34,971	126,307
Investments in associates	—	—	—	79,713	79,713
Investment properties	—	—	—	23,397	23,397
Other assets	7,746	—	6,423	—	14,169
Property and equipment	—	—	—	18,782	18,782
Total assets	**1,348,483**	**291,816**	**239,586**	**1,253,000**	**3,132,885**
Liabilities and Equity					
Due to banks	382,749	—	—	—	382,749
Depositors' accounts	1,371,830	504,917	506,468	15,720	2,398,935
Other liabilities	6,179	—	13,741	10,482	30,402
Equity	—	—	—	320,799	320,799
Total liabilities and equity	**1,760,758**	**504,917**	**520,209**	**347,001**	**3,132,885**

	Up to 3 months	3 to 6 months	6 to 12 Months	Over 1 year	Total
	KD'000	*KD'000*	*KD'000*	*KD'000*	***KD'000***
2014					
Assets					
Cash and cash equivalents	314,821	—	—	—	314,821
Due from banks	186,718	52,085	24,790	—	263,593
Islamic financing to customers	639,047	257,104	101,445	807,519	1,805,115
Financial assets at fair value through profit or loss	—	—	—	12,738	12,738
Available for sale investments	40,016	—	4,354	69,482	113,852
Investments in associates	—	—	—	85,728	85,728
Investment properties	—	—	—	25,637	25,637
Other assets	5,558	—	5,386	—	10,944
Property and equipment	—	—	—	15,502	15,502
Total assets	**1,186,160**	**309,189**	**135,975**	**1,016,606**	**2,647,930**
Liabilities and Equity					
Due to banks	201,221	5,006	20,512	—	226,739
Depositors' accounts	1,247,238	493,890	341,715	9,185	2,092,028
Other liabilities	16,915	—	11,018	128	28,061
Equity	—	—	—	301,102	301,102
Total liabilities and equity	**1,465,374**	**498,896**	**373,245**	**310,415**	**2,647,930**

SELECTED RATIOS

The table below shows selected consolidated ratios of the Group as at and for the three months ended 31 March 2016 and 2015 and for the years ended 31 December 2015, 31 December 2014 and 31 December 2013.

	As at/for the three months ended 31 March		As at/for the year ended 31 December		
	2016	**2015**	**2015**	**2014**	**2013**
	(per cent.) *(unaudited)*			*(per cent.)*	
Performance measures					
Return on average assets[1]	1.1	1.1	1.2	1.2	0.7
Return on average equity[2]	11.5	10.1	11.6	10.1	5.2
Cost to income ratio[3]	42.6	44.8	42.9	45.2	45.5
Financial ratios					
Net profit rate margin[4]	3.9	3.9	3.9	3.9	4.0
Net profit margin[5]	36.2	34.7	38.6	36.0	20.0
Asset quality					
Impaired Islamic financing ratio[6]	0.8	1.0	0.9	1.1	1.9
Provision for impairment ratio[7]	264.3	235.1	259.9	205.1	127.9
Liquid assets ratio[8]	26.4	26.3	26.3	26.6	26.2
Islamic financing to customers to depositors' accounts and due to banks ratio[9]	77.9	78.3	78.1	77.8	78.1
Islamic financing to customers to depositors' accounts	86.5	84.5	90.5	86.3	89.2
Other ratios					
Core equity tier 1 capital adequacy ratio[10]	15.9	16.6	15.9	16.9	17.4
Tier 1 capital adequacy ratio[11]	16.0	16.7	15.9	16.9	17.4
Total capital adequacy ratio[12]	17.1	17.8	17.0	18.1	17.4
Leverage ratio[13]	7.8	7.9	7.9	8.3	9.1

1 Profit for the year attributable to shareholders of the Bank divided by average assets for the year, with average assets calculated as the sum of assets on a quarterly basis divided by five.

2 Profit for the year attributable to shareholders of the Bank divided by average shareholders' equity for the year, with average shareholders' equity calculated as the sum of shareholders' equity on a quarterly basis divided by five.

3 Operating expenses divided by net operating income.

4 Net income from Islamic financing divided by average profit earning assets for the year, with average profit earning assets calculated as the sum of profit earning assets on a quarterly basis divided by five. Profit earning assets comprise cash and short-term funds, deposits with banks, financings, advances and Islamic financing to customers and investment securities.

5 Profit for the year attributable to shareholders of the Bank divided by net operating income for the year.

6 Impaired Islamic financing to customers as a percentage of total Islamic financing to customers.

7 Provision for impairment as a percentage of impaired Islamic financing to customers.

8 Sum of liquid funds, trading securities, non-trading securities and placements divided by total assets.

9 Total Islamic financing to customers divided by the sum of depositors' accounts and due to banks.

10 For the years ended 31 December 2014 and 2015, calculated in accordance with the requirements of the Central Bank of Kuwait and the capital adequacy regulations issued by the CBK as stipulated in CBK Circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III, as implemented in Kuwait).

11 For the years ended 31 December 2013, calculated in accordance with CBK Circular number 2/BS/184/2005 dated 21 December 2005 (based on Basel II framework) and, for the years ended 31 December 2014 and 2015, calculated in accordance with Basel III, as implemented in Kuwait.

12 For the years ended 31 December 2013, calculated in accordance with CBK Circular number 2/BS/184/2005 dated 21 December 2005 (based on Basel II framework) and, for the years ended 31 December 2014 and 2015, calculated in accordance with Basel III, as implemented in Kuwait.

13 For the year ended 31 December 2015, calculated in accordance with CBK Circular number 2/BS/343/2014 dated 21 October 2015.

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" and the Financial Statements.

*The discussion of the Group's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK. These regulations require the adoption of all IFRS requirements except for the International Accounting Standard (**IAS**) 39, 'Financial Instruments: Recognition and Measurement', requirement for a collective provision. This has been replaced by the CBK's requirement for a minimum general provision to be made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings "Forward-looking statements" and "Risk factors".*

See "Presentation of financial and other information" for a discussion of the source of the numbers presented in this section and certain other relevant information.

OVERVIEW

The Group is one of Kuwait's largest Islamic banks in terms of total assets and total deposits based on annual reports published by Kuwaiti banks (see "*Description of the Group—Competition in Kuwait*"). The Group is primarily a local bank extending financing principally to companies and individuals in Kuwait. The Group's core businesses are Islamic consumer and corporate banking, although it also offers investment management services.

The Group's principal focus is on growing its leadership position in Kuwait whilst also diversifying its products and services offered. See "*Description of the Group—Strategy*".

As at 31 March 2016, the Group's Islamic financing assets aggregated KD 2.3 billion compared to KD 2.2 billion as at 31 December 2015 and its total depositors' accounts were KD 2.6 billion as at 31 March 2016 compared to KD 2.4 billion as at 31 December 2015. For the three months ended 31 March 2016, the Group's operating income was KD 25.1 million and its net profit for the period was KD 9.1 million, of which KD 9.1 million was attributable to shareholders of the Bank. For the year ended 31 December 2015, the Group's operating income was KD 91.4 million and its net profit for the year was KD 35.2 million, of which KD 35.2 million was attributable to the shareholders of the Bank.

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

Economic conditions

The Group is a local bank focused on extending financing to, and accepting deposits from, institutions, companies and residents in Kuwait. As a result, its revenues and results of operations are affected by economic and market conditions in Kuwait and, to a lesser extent, in certain other MENA region countries.

According to the CBK and the CSB, Kuwait's real GDP decreased by 1.6 per cent. in 2014 compared to 2013. This decrease was offset by growth principally related to the non-oil sector, which grew by 2.1 per cent. in 2014 compared to a decline of 1.7 per cent. in the oil sector. The increases in Kuwait's non-oil sector's real GDP in 2014 were driven by increases of 0.9 per cent. in manufacturing, 1.6 per cent. in wholesale and retail trade and a decrease of 1.2 per cent. in transport, storage and communications. Based on the IMF's April 2016 World Economic Outlook Database, Kuwait's real GDP increased by 0.9 per cent. in 2015 and is projected to grow by 2.4 per cent. in 2016 and by 2.6 per cent. in 2017. According to the IMF's December 2015 Article IV Consultation with Kuwait, Kuwait's medium-term economic outlook is favourable. Non-oil GDP growth in Kuwait is expected to remain slightly lower in the years 2015 to 2016 and thereafter to increase to 4 per cent. over the medium term as the impact of large investments in 2015 takes effect. Average oil production declined in 2015 and is projected to increase by 2 per cent. a year in the medium term, consistent with the planned new investment to increase crude capacity. Overall, GDP growth is expected to recover from 0.3 per cent. in 2015 to about 2.8 per cent. over the medium term.

In addition, any sustained failure by the Kuwaiti government and parliament to implement the Kuwait Development Plan (defined below) or any delay in implementing the plan could affect overall business confidence and the investment climate in Kuwait, and result in lower non-oil growth than projected, see "*Overview of Kuwait—Economic Overview*".

The Group also remains exposed to the risk of external changes, such as an increase in global financial market volatility, which could pose funding, market and credit risks for investment companies and banks.

Factors affecting net income from Islamic financing

The Group's net financing income (net financing income) is a major contributor to its total operating income, comprising 86.9 per cent. of operating income in 2015, 84.4 per cent. in 2014 and 90.6 per cent. in 2013.

The Group's net financing income is affected by a number of factors. It is primarily determined by the volume of Islamic financing assets relative to distribution to depositors costs, as well as murabaha costs. The Group's Islamic financing assets principally consist of Murabaha and Ijara products provided to corporate and individual customers. The Group's distribution to depositors and murabaha costs is determined by the Bank's results at the end of the month in relation to all products.

The changes in the Group's net financing income for 2015 compared to 2014 have principally been driven by growth in the volume of Islamic financing assets. The Group's average customer financing portfolio (based on balances as at the start and end of each year) was KD 2.0 billion for 2015 compared to KD 1.6 billion for 2014, an increase of KD 346.0 million, or 21.0 per cent.

The changes in the Group's net financing income for 2014 compared to 2013 were principally driven by growth in the volume of Islamic financing assets. The Group's average customer financing portfolio (based on balances as at the start and end of each year) was KD 1.6 billion for 2014 compared to KD 1.4 billion for 2013, an increase of KD 268.0 million, or 20.0 per cent.

Movements in provision charge for impairments

The Group's provision charge for impairments for 2015 was KD 15.1 million compared to KD 13.0 million for 2014 and KD 23.1 million in 2013. In 2015, the provisioning charge comprised KD 4.1 million in specific provisions, KD 5.8 million in general provisions, in each case principally against corporate and retail cash facilities, and KD 5.1 million towards the impairment of investments. In 2014, the provisioning charge comprised KD 8.3 million in specific provisions, KD 3.1 million in general provisions, again principally against both corporate and retail cash facilities and KD 1.5 million towards impairment of investments. In 2013, the provisioning charge comprised KD 13.4 million in specific provisions and KD 4.4 million in general provisions, principally against corporate facilities and KD 5.2 million towards the impairment of investments.

The decrease in the specific provision charge in each year principally reflected a decline in the level of non-performing financings. In accordance with IFRS as adopted in Kuwait and CBK regulations relating to provisions, banks are permitted to make precautionary general provisions and the increase in the Group's general provisions in 2015 and 2014 reflected its policy of increasing the general provision level to levels perceived as appropriate by management of the Bank.

SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRS as adopted for use by Kuwait. For a discussion of the accounting policies applied by the Group generally, see note 3 to the 2015 Financial Statements.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Group's financial statements, management is required to make certain estimates, judgements and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, as at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgement. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. For a discussion of the most significant accounting estimates, judgements and assumptions made in the preparation of the Group's financial statements, see note 2.4 to the 2015 Financial Statements.

RESULTS OF OPERATIONS

Net income from Murabaha and other Islamic financing

The Group earns income from Murabaha and other Islamic financing on the Islamic financing provided by it to its customers. The Group incurs Islamic financing costs through the distributions it makes to its Islamic depositors and costs related to its murabaha financing. Islamic financing income is recognised in the income statement on a basis which reflects a constant periodic return on the outstanding net investment relating to that financing. Islamic financing costs are recognised in the income statement on the basis of the type of customer deposit. Islamic financing costs on murabaha and wakala products are recognised on an effective yield basis, which is established on initial recognition of the liability, and on other products, are recognised based on rates determined by reference to the Bank's results at the end of every month.

The Group's Murabaha and other Islamic financing income for 2015 amounted to KD 101.5 million compared to KD 83.7 million for 2014 and KD 71.0 million for 2013. The increase of KD 17.8 million, or 21.2 per cent., in 2015 principally reflected growth in the Islamic financing portfolio by 21.0 per cent. The increase of KD 12.7 million, or 17.9 per cent., in 2014 principally reflected growth in the volume of the Group's Islamic financing extended to customers.

The Group's distribution to depositors and murabaha costs for 2015 amounted to KD 22.1 million compared to KD 17.5 million for 2014 and KD 10.2 million for 2013. The increase of KD 4.6 million, or 26.5 per cent., in 2015 principally reflected growth in customer deposits which funded asset growth. The increase of KD 7.3 million, or 71.0 per cent., in 2014 principally reflected growth in customer deposits and a higher cost of funds in 2014 due to market conditions.

Reflecting the above factors, the Group's net financing income in 2015 amounted to KD 79.3 million, an increase of KD 13.1 million, or 19.8 per cent., from the KD 66.2 million net financing income recorded in 2014 which, in turn, was a KD 5.5 million, or 9.0 per cent., increase from the KD 60.7 million net financing income recorded in 2013.

Net fees and commissions

The Group earns fees and commissions on non-cash business (such as letters of credit and guarantees issued by the Bank), and on other bank services provided by it, including asset management, account servicing and syndication fees and card-related fees. The Group pays fees and commissions principally in respect of cards.

The Group's gross fees and commission income for 2015 amounted to KD 10.8 million compared to KD 8.4 million for 2014 and KD 5.3 million for 2013. The increase of KD 2.4 million, or 28.9 per cent., in 2015 and the increase of KD 3.1 million, or 59.0 per cent., in 2014 principally reflected an increase in the number of customers and credit card utilisation and growth in the asset management and non-cash business.

The Group's fees and commission expenses for 2015 amounted to KD 3.0 million compared to KD 2.5 million for 2014 and KD 1.6 million in 2013. The increase of KD 0.5 million, or 21.3 per cent., in 2015 and the increase of KD 0.8 million, or 50.0 per cent., in 2014 principally reflected growth in the retail business, mainly in the credit card segment.

Reflecting the above factors, the Group's net fees and commission income for 2015 amounted to KD 7.8 million, an increase of KD 1.9 million, or 32.1 per cent., from the KD 5.9 million net fees and commission income recorded for 2014 which, in turn, was an increase of KD 2.3 million, or 63.4 per cent., from the KD 3.6 million net fees and commission income recorded for 2013.

Other sources of operating income

The Group's other sources of operating income principally include net investment income, its share of the results of its associates and net gains from dealing in foreign currencies.

The Group's other sources of operating income amounted to KD 4.2 million for 2015 compared to KD 6.3 million for 2014 and KD 2.7 million in 2013.

The decrease in other sources of operating income of KD 2.1 million, or 33.4 per cent., in 2015 principally reflected a decrease in net investment income. The principal driver of the decrease in the Group's net investment income in 2015 was lower unrealised gains on investment properties compared to the year 2014. The decrease in the Group's net investment income was partially offset by an increase in the Group's share of the results of its associates in 2015 and an increase in its net foreign exchange gains of KD 0.3 million, or 22.2 per cent., principally reflecting growth in the foreign currency business resulting from an increase in the number of customers.

The increase of KD 3.6 million, or 132.1 per cent., in the Group's other sources of operating income in 2014 principally reflected an increase in the Group's net investment income which was due to unrealised gains from changes in the fair value of investment properties.

Operating expenses

The Group's operating expenses comprise staff costs, other administrative expenses, depreciation and amortisation.

The table below shows a breakdown of the Group's operating expenses in each of 2015, 2014 and 2013.

	2015		**2014**		**2013**	
	(KD '000)	*(% of total)*	*(KD '000)*	*(% of total)*	*(KD '000)*	*(% of total)*
Staff costs	(22,933)	58.5	(20,833)	58.8	(18,767)	61.5
General and administrative expenses	(13,624)	34.8	(12,411)	35.0	(10,062)	33.0
Depreciation	(2,636)	6.7	(2,178)	6.1	(1,699)	5.6
Operating expenses	(39,193)	100.0	(35,422)	100.0	(30,528)	100.0

The Group's total operating expenses amounted to KD 39.2 million for 2015 compared to KD 35.4 million for 2014 and KD 30.5 million for 2013. The increase of KD 3.8 million, or 10.6 per cent., in 2015 principally reflected an increase of KD 2.1 million, or 10.1 per cent., in staff expenses and an increase of KD 1.2 million, or 9.8 per cent., in general and administrative expenses .The increase of KD 4.9 million, or 16.0 per cent., in 2014 principally reflected a KD 2.1 million, or 11.0 per cent., increase in staff expenses and a KD 2.3 million, or 23.3 per cent., increase in other administrative expenses. The increases in 2015 and 2014 were principally due to the opening of new branches and the expansion of business, which resulted in increased staff costs, IT costs and marketing expenses.

Provision charges and impairment losses

At each reporting date and in accordance with both CBK regulations relating to the method of calculating specific provisions and estimates made in accordance with IAS 39 as adopted for use by Kuwait for financial institutions regulated by the CBK, the Group assesses its financial assets for objective evidence of impairment. In particular:

- all individually significant financings and advances to customers are assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortised cost (including the Group's customer financing portfolio) are measured as the difference between the carrying amount of the relevant asset and the present value of the estimated future cash flows from it discounted at the asset's original effective profit rate;
- a minimum general provision is made on all regular credit facilities net of certain categories of collateral as mandated by the CBK, with additional general provisions being made at management's discretion with the approval of the CBK; and
- impairment losses on available for sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to the income statement as a reclassification adjustment.

For further information, see note 3.9 to the 2015 Financial Statements.

The table below shows details of the Group's provision charges and impairment losses in each of 2015, 2014 and 2013.

	2015	**2014**	**2013**
		(KD '000)	
Provision for impairment of finance facilities	9,951	11,497	17,852
Impairment of investments	2,672	1,455	2,115
Provision for impairment of other assets	2,435	—	3,114
Total	**15,058**	**12,952**	**23,081**

The Group's total provision charge and impairment loss amounted to KD 15.1 million for 2015 compared to KD 13.0 million for 2014 and KD 23.1 million for 2013.

The KD 2.1 million, or 16.3 per cent., increase in 2015 reflected growth in the provision of certain investments including associates.

The KD 10.1 million, or 43.9 per cent., decrease in 2014 reflected a KD 6.4 million, or 35.6 per cent., decrease in the provision for impairment of finance facilities.

Operating profit before deductions

Reflecting the above factors, the Group's operating profit before deductions for 2015 was KD 37.1 million compared to KD 30.0 million for 2014 and KD 13.5 million in 2013, an increase of KD 7.1 million, or 23.5 per cent., in 2015 and an increase of KD 16.6 million, or 123.1 per cent., in 2014. The increase in the Group's operating profit before deductions in 2015 and 2014 principally reflected growth in the Group's operating income, which was higher than the corresponding increase in operating expenses due to increased efficiency, which decreased the Group's cost to income ratio from 45.2 per cent. in 2014 to 42.9 per cent. in 2015, as well as a decrease in provisions by KD 2.0 million.

Taxation

The Group's taxation charge comprises the national labour support tax charged in Kuwait, its contribution to the Kuwait Foundation for the Advancement of Sciences and its Zakat charge. Together, these amounted to KD 1.6 million for 2015 compared to KD 1.3 million for 2014 and KD 0.6 million for 2013, with the KD 0.3 million, or 25.0 per cent., increase in 2015 principally reflecting an increase in taxation due to growth in profit.

Net profit for the year

Reflecting the above factors, the Group's net profit for 2015 was KD 35.2 million compared to KD 28.5 million for 2014 and KD 12.7 million in 2013, an increase of KD 6.7 million, or 23.4 per cent., in 2015 and an increase of KD 15.8 million, or 124.1 per cent., in 2014 principally reflected growth in operating profit before deductions.

The Group's profit attributable to equity holders of the Bank for 2015 was KD 35.2 million compared to KD 28.2 million for 2014 and KD 13.4 million in 2013, an increase of KD 7.0 million, or 24.8 per cent., in 2015 and an increase of KD 14.8 million, or 110.6 per cent., in 2014.

Other comprehensive income/(loss)

The Group's other comprehensive income/(loss) principally comprises changes in the fair value of its available for sale investments, recycling of impairment losses and foreign currency translation adjustments.

In 2015, the Group recorded a KD 3.0 million negative change in the fair value of its available for sale investments compared to a KD 0.9 million positive change in the fair value of its available for sale investments in 2014. The Group's impairment losses on available for sale investments transferred to statement of income increased to KD 2.2 million in 2015 compared to KD 1.4 million in 2014. In 2015, the negative change in the fair value of the Group's available for sale investments was substantially offset by the transfer of its impairment losses on its available for sale investments to the consolidated income statement.

In 2014, the Group recorded KD 0.9 million in changes in the fair value of its available for sale investments compared to a KD 2.2 million negative change in the fair value of its available for sale investments in 2013. The Group's impairment losses on available for sale investments transferred to the income statement was KD 1.4 million in 2014 compared to KD 2.1 million in 2013. In 2014, the positive change of KD 0.9 million in fair value of available for sale investments was only partially offset by the net gains on available for sale investments that were transferred to the consolidated income statement of KD 0.09 million. In 2013, the negative change in the fair value of its available for sale investments of KD 2.2 million was offset by the impairment losses on its available for sale investments of KD 2.1 million that were transferred to the income statement.

Total comprehensive income for the year

Reflecting the above factors and the Group's profit for the year, the Group's total comprehensive income for 2015 was KD 31.5 million compared to KD 32.0 million for 2014 and KD 9.3 million for 2013, a decrease of KD 0.5 million, or 1.7 per cent., in 2015 and an increase of KD 22.7 million, or 244.8 per cent., in 2014.

Segmental analysis

The Group's reporting segments comprise:

- **Consumer banking.** Consumer banking provides a diversified range of products and services to individuals, including consumer finance, credit cards, deposits and other branch-related services. Private banking provides customised banking services to high net worth individuals and institutional clients;
- **Corporate banking.** Corporate banking provides murabaha, ijara, trade services and other related services to business and corporate customers;
- **Investment banking.** Investment banking provides direct investments, investments in associates, local and international real estate investment and asset management services;
- **Treasury.** Treasury provides local and international murabaha and other Islamic financing services, primarily to banking clients, and manages the Bank's funding operations; and
- **Group centre.** Group centre includes other group and residual activities in respect of transfer pricing and inter segment allocation.

The tables below show certain income statement line items of each of the Group's reporting segments for each of 2015 and 2014. See "*Presentation of financial and other information—Presentation of financial information—Historical financial statements*" for an explanation as to why 2013 information has not been included.

	Consumer and private banking	Corporate banking	Investment banking and asset management	Treasury	Group centre	Total
			(KD '000)			
2015						
Net financing income/(loss)	47,293	27,758	(1,837)	4,625	1,503	**79,342**
Operating income/(loss)	49,339	34,490	2,392	6,277	(1,145)	**91,353**
Net profit/(loss) for the year	27,232	27,357	(5,803)	5,876	(19,477)	**35,185**
2014						
Net financing income/(loss)	36,952	24,572	(1,895)	4,980	1,599	**66,208**
Operating income/(loss)	38,440	29,476	5,899	6,332	(1,742)	**78,405**
Net profit/(loss) for the year	20,548	18,447	118	5,983	(16,591)	**28,505**

	Consumer and private banking	Corporate banking	Investment banking and asset management	Treasury	Group centre	Total
			(per cent.)			
2015						
Net financing income/ (loss)	59.6	35.0	(2.3)	5.8	1.9	**100**
Operating income/ (loss)	54.0	37.8	2.6	6.9	(1.3)	**100**
2014						
Net financing income/ (loss)	55.8	37.1	(2.9)	7.5	2.4	**100**
Operating income/ (loss)	49.0	37.6	7.5	8.1	(2.2)	**100**

Note:

Consumer banking

Consumer banking recorded operating income of KD 49.3 million in 2015 compared to KD 38.4 million in 2014. The increase of KD 10.9 million, or 28.4 per cent., principally reflected growth in business activities. Consumer banking's segment net profit was KD 27.2 million in 2015 compared to KD 20.5 million in 2014, an increase of KD 6.7 million, or 32.5 per cent., principally reflecting growth in net operating income.

Corporate banking

Corporate banking recorded operating income of KD 34.5 million in 2015 compared to KD 29.5 million in 2014. The increase of KD 5.0 million, or 17.0 per cent., principally reflected growth in the volume of business and in fees and commission income. Corporate banking's segment net profit was KD 27.4 million in 2015 compared to KD 18.4 million in 2014, an increase of KD 8.9 million, or 48.3 per cent., principally reflecting growth in net operating income in 2015.

Investment banking

Investment banking recorded operating income of KD 2.4 million in 2015 compared to KD 5.9 million in 2014. Investment banking's segment net loss was KD 5.8 million in 2015 compared to a net profit of KD 0.1 million in 2014, principally reflecting impairment losses on investments, including associates, in 2015.

Treasury

Treasury recorded operating income of KD 6.3 million in each of 2015 and 2014. Treasury's segment net profit remained relatively stable at KD 5.9 million in 2015 compared to KD 6.0 million in 2014.

Group centre

Group centre recorded an operating loss of KD 1.1 million in 2015 compared to KD 1.7 million in 2014. The decrease in operating loss of KD 0.6 million, or 34.3 per cent., principally reflected movements in the pricing of funds transfers. Group centre's segment net loss was KD 19.5 million in 2015 compared to KD 16.6 million in 2014, an increase of KD 2.9 million, or 17.4 per cent., principally reflecting an increase in the operating expenses of the support function required to meet the necessities arising from the expansion of business and the opening of new branches in 2015.

LIQUIDITY AND FUNDING

Overview

The Group's liquidity needs arise primarily from making Islamic financing available to customers, the payment of expenses and investments in securities. To date, the Group's liquidity needs have been funded principally through deposits and operating cash flow, including profit received on its customer financing portfolio and its portfolio of investment securities. See "*—Funding*".

Liquidity

The table below shows the Group's cash flow from operating activities, investing activities and financing activities for each of 2015, 2014 and 2013.

	2015	2014	2013
		(KD '000)	
Net cash from operating activities	181,000	161,852	36,610
Net cash used in investing activities	(18,339)	(51,999)	(518)
Net cash used in financing activities	(12,223)	(654)	—
Cash and cash equivalents at the beginning of the year	314,821	205,622	169,530
Cash and cash equivalents at the end of the year	465,259	314,821	205,622

Net cash from operating activities for 2015 was KD 181.0 million compared to KD 161.9 million for 2014 and KD 36.6 million for 2013. The Group's net cash from operating activities before changes in operating assets and liabilities principally reflects its profit for the year adjusted to reflect its provisions charge for credit losses, depreciation and net investment income.

Net cash used in investing activities for 2015 was KD 18.3 million compared to KD 52.0 million in 2014. In 2013, the Group recorded net cash used in investing activities of KD 0.5 million. In each period, the principal investment activities were acquisitions and sales or redemptions of available for sale securities, with significantly more acquisitions being effected in 2015, and 2013.

Net cash used in financing activities for 2015 was KD 12.2 million compared to KD 0.7 million in 2014 principally reflecting dividends paid for the year 2014. Net cash used in financing activities was nil in 2013.

Funding

The Group's principal sources of funding are its depositors' accounts and, to a lesser extent, interbank deposits. The Group also has access to a pool of unencumbered and liquid securities in the form of quoted available for sale investments and equity securities that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions.

The Group's depositors' accounts were KD 2,398.9 million, or 85.3 per cent. of its total liabilities, as at 31 December 2015, KD 2,092.0 million, or 89.1 per cent. of its total liabilities, as at 31 December 2014 and KD 1,657.4 million, or 86.2 per cent. of its total liabilities, as at 31 December 2013. Deposits from the Kuwaiti government and its related agencies have approximated 39 to 42 per cent. of the Group's total funding over the three years to 31 December 2015. See "*Risk factors—Factors that may affect the Bank's ability, in its capacity as Obligor to fulfil its obligations under the Certificates—The Group's customer financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region*" and "*Risk factors—Factors that may affect the Bank's ability, in its capacity as Obligor, to fulfil its obligations under the Certificates—The Group has significant customer and sector concentrations*".

The Group has no outstanding financing as at 31 December 2015 and 31 December 2014.

The table below shows the Group's funding in the form of due to banks, depositors' accounts and other liabilities as at 31 December in each of 2015, 2014 and 2013.

	As at 31 December					
	2015		2014		2013	
	(KD '000)	*(% of total)*	*(KD '000)*	*(% of total)*	*(KD '000)*	*(% of total)*
Due to banks	382,749	13.6	226,739	9.7	236,018	12.3
Depositors' accounts	2,398,935	85.3	2,092,028	89.1	1,657,398	86.2
Other liabilities	30,402	1.1	28,061	1.2	29,083	1.5
Total liabilities	**2,812,086**	**100.0**	**2,346,828**	**100.0**	**1,922,499**	**100.0**

The Group's depositors' accounts comprise current and demand accounts, savings accounts and time deposits.

The Group's current and demand accounts are mostly non-profit bearing and amounts may be withdrawn from these accounts at any time without notice. The Group's savings accounts are Shari'a-compliant accounts subject to the principles of mudaraba and amounts may also be withdrawn from these accounts at any time without notice.

The Group believes that its current, demand and savings accounts are diversified and sticky in nature, and constitute a stable and secure source of low cost funding. The Group's current, demand and savings accounts form a significant proportion of its total depositors' accounts.

The Group accepts time deposits for a range of periods up to five years.

As at 31 December 2015, the Group's depositors' accounts accounted for 85.0 per cent. of its total funding.

Maturity profile

The table below shows the maturity profile of the Group's total deposits issued as at 31 December 2015, 2014 and 2013. This analysis is based on contractual cash flows and maturity dates.

	Up to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
			(KD '000)		
2015					
Due to banks and other financial institutions	382,749	—	—	—	382,749
Depositors' accounts	1,371,830	504,917	506,468	15,720	2,398,935
Other liabilities	**6,179**	**—**	**13,741**	**10,482**	**30,402**
Equity	**—**	**—**	**—**	**320,799**	**320,799**
Total	**1,760,758**	**504,917**	**520,209**	**347,001**	**3,132,885**

	Up to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
			(KD '000)		
2014					
Due to banks and other financial institutions	201,221	5,006	20,512	—	226,739
Depositors' accounts	1,247,238	493,890	341,715	9,185	2,092,028
Other liabilities	**16,915**	**—**	**11,018**	**128**	**28,061**
Equity	**—**	**—**	**—**	**301,102**	**301,102**
Total	**1,465,374**	**498,896**	**373,245**	**310,415**	**2,647,930**

	Up to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
			(KD '000)		
2013					
Due to banks and other financial institutions	202,437	7,730	—	25,851	236,018
Depositors' accounts	1,010,366	329,081	293,427	24,524	1,657,398
Other liabilities	**11,992**	**—**	**9,309**	**7,782**	**29,083**
Equity	**—**	**—**	**—**	**269,487**	**269,487**
Total	**1,224,795**	**336,811**	**302,736**	**327,644**	**2,191,986**

A significant proportion of the Group's funding disclosed in the table above as at 31 December 2015 is short term in nature, with 63.0 per cent. of such funding being payable within three months and a further 36.4 per cent. being payable within one year. The issue of the Certificates is intended to help the Group diversify its sources of funding and to extend the average maturity of its funding base.

Given the state-run and oil-driven nature of the domestic economy, the Group's deposit base is, at least in the near future, expected to remain concentrated by depositor type, namely cash-rich Kuwaiti government and government-related entities. Significant time deposits from large customers are, with the customers' agreement, divided into smaller deposits with varying maturities, thereby partly mitigating the risks associated with single party deposit concentration.

Equity funding

For a discussion of the Group's share capital and reserves as at 31 December 2015, 2014 and 2013, see notes 20 to 26 to each of the 2015 Financial Statements and the 2014 Financial Statements.

FINANCING

The Group's total Islamic financing to customers portfolio (which comprises its Islamic financing provided to customers (net of provisions)) was KD 2.2 billion as at 31 December 2015.

The table below shows the Group's Islamic financing to customers portfolio, provisions and financing to deposit ratios as at 31 December in each of 2015 and 2014.

	As at 31 December	
	2015	**2014**
	(KD '000)	
Total Islamic financing to customers(1)	2,220,944	1,845,204
Less: provisions	(49,150)	(40,089)
Net Islamic financing to customers(3)	2,171,794	1,805,115
Net Islamic financing to customers/customer deposits	90.5%	86.3%
Net Islamic financing to customers/total deposits(2)	78.1%	77.8%

Notes:

(1) Total Islamic Financing to Customers comprises total Islamic financing provided to customers disregarding impairment.

(2) Total deposits comprises customer deposits, due to banks and other financial institutions and certificates of deposit issued.

(3) Net financings comprise gross financings less impairment charges.

The Group's Islamic financing assets portfolio is principally denominated in Kuwaiti dinar, although Islamic financing is also provided in U.S. dollars, pounds sterling and euro, among other currencies. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms.

Distribution of customer financings by maturity

The table below shows the distribution of the Group's Islamic financing assets portfolio by maturity (based on contractual cash flows and maturity dates) as at 31 December in each of 2015 and 2014.

	Up to 3 months	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
			(KD '000)		
31 December 2015	703,406	222,738	164,901	1,080,749	2,171,794
31 December 2014	639,047	257,104	101,445	807,519	1,805,115

Distribution of customer financings by geographical region and customer segment

The table below shows the distribution of the Group's Islamic financing to customers portfolio by geographical region as at 31 December in each of 2015 and 2014.

	Kuwait & Middle East	Europe	Asia	Total
		(KD '000)		
31 December 2015	2,167,221	3,351	1,222	2,171,794
31 December 2014	1,798,661	4,379	2,075	1,805,115

The table below shows the distribution of the Group's Islamic financing to customers portfolio by customer segment as at 31 December in each of 2015 and 2014.

	Corporate	Consumer	Total
		(KD '000)	
At 31 December 2015			
Gross Exposure	1,221,920	999,024	**2,220,944**
Less specific provision	(7,123)	(1,597)	**(8,720)**
Less general provision	—	—	**(40,430)**
Exposure net of provisions	—	—	**2,171,794**

	Corporate	Consumer	Total
		(KD '000)	
At 31 December 2014			
Gross Exposure	1,058,237	786,967	**1,845,204**
Less specific provision	(3,756)	1,624	**(5,380)**
Less general provision	—	—	**(34,709)**
Exposure net of provision	—	—	**1,805,115**

Distribution of the Group's maximum exposure to credit risk by sector

The Group does not disclose the sectoral split of its Islamic financing to customers portfolio in the Financial Statements, although it does disclose the sectoral split of its maximum exposure to credit risk, which comprises its customer financing portfolio plus its investments, cash and cash equivalents (excluding cash balances), deposits with banks and certain other assets. The table below shows the breakdown by industry sector of the Group's maximum exposure to credit risk as at 31 December in each of 2015 and 2014.

	As at 31 December	
	2015	**2014**
	(KD '000)	
Trading	160,991	145,864
Manufacturing	83,672	73,327
Banks and other financial institutions	669,345	542,842
Construction	37,306	33,503
Real estate	648,343	503,037
Retail	967,672	764,658
Government	165,776	182,914
Others	200,977	196,369
Total	**2,934,082**	**2,442,514**

The Group seeks to limit its credit risk through diversification of its assets by geography and industry sector. As at 31 December 2015, the Group's exposure to banks and other financial institutions, before taking into account any collateral held or credit enhancements, accounted for 22.8 per cent. of its total exposure compared to 22.2 per cent. as at 31 December 2014. Approximately 15.0 per cent. of the Group's 22.8 per cent. exposure to banks and other financial institutions as at 31 December 2015 was in the form of short-dated inter-bank placements and approximately 7.8 per cent. was in the form of trade finance exposures.

The Group's second major sector of credit exposure is the consumer banking segment, which accounted for 33.0 per cent. of the Group's total credit exposure as at 31 December 2015, and represented financings made to a diverse base of individual customers.

These exposures mainly comprise a range of products and services to individuals, including consumer financings and credit cards.

The real estate sector constituted 22.1 per cent. of the Group's exposure as at 31 December 2015. As per CBK regulations, the real estate segment includes not only credit facilities granted to companies engaged in real estate business but also credit facilities granted to customers where the purpose of the specific facility concerned is to finance real estate development and acquisition. The Group's exposure to this sector is mostly spread across Kuwait. In all cases, the Group has full recourse to all the assets and resources of the customer concerned, which, with only limited exceptions, includes assets beyond those being financed.

See "*Risk management—Credit risk*" for a discussion of the Group's financing origination and monitoring procedures, its financing classification system, collateral policy and an analysis of its non-performing financings and provisioning and write-off policies.

INVESTMENT SECURITIES PORTFOLIO

The Group's investment securities portfolio comprises a portfolio of available for sale investments, funds and equity securities. The Group invests in these securities both to generate returns and to provide an additional source of liquidity when required.

The table below summarises the Group's investment securities portfolio as at 31 December 2015, 2014 and 2013.

	2015	2014	2013
		(KD '000)	
Investment in unquoted securities	2,560	2,995	3,932
Investment in unquoted funds	12,828	9,743	1,934
Total	**15,388**	**12,738**	**5,866**

	2015	2014	2013
		(KD '000)	
Investment in Sukuk	96,805	77,982	31,289
Investment in unquoted funds	18,015	22,046	18,383
Investment in unquoted securities	10,153	11,906	11,159
Investment in quoted securities	1,334	1,918	2,213
Total	**126,307**	**113,852**	**63,044**

The Group's investment policy requires all investments in securities to have an investment grade rating.

The Group's available for sale and fair value through statement of income securities are measured at fair value. For further information on the manner in which the fair value of these securities is determined, see note 30.6 to the 2015 Financial Statements.

CAPITAL ADEQUACY

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are also governed by guidelines of the Basel Committee on Banking Supervision (the **Basel Committee**) as adopted by the CBK.

In June 2014, the CBK issued directives on the adoption of capital adequacy standards under the Basel III framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier Basel II requirements. The Basel III reforms strengthen the quality of capital and introduce several buffer requirements in line with proposals made by the Basel Committee. The CBK Basel III framework consists of three Pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach";
- Pillar 2 relates to the supervisory review process and emphasises the importance of the Internal Capital Adequacy Assessment Process (ICAAP) performed by banks; and
- Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

The Basel III framework raises both the quality and quantity of the capital base and increases capital requirements for certain positions. The minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures. There are also buffer requirements in the form of a capital conservation buffer, a countercyclical capital buffer and an additional surcharge for banks designated as domestic systemically important.

A key objective for the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and complying with externally imposed capital requirements. The Group aims to ensure adherence to the CBK's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures that proactive action is taken where necessary and a strategy that ensures that a sufficient capital buffer above minimum required levels is maintained at all times. This process is supported by the use of proprietary capital-planning methodology which takes into consideration regulatory capital requirements, rating agency views, stress testing and bottom-up views of business plans.

The total capital adequacy ratio required by the CBK increased to 12.5 per cent. from 31 December 2015 and is scheduled to increase to 13.0 per cent. from 31 December 2016.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 31 December 2015 (determined in accordance with Basel III as implemented in Kuwait) and as at 31 December 2014 and 2013 (determined in accordance with Basel II as implemented in Kuwait).

	As at 31 December		
	2015	**2014**	**2013**
		(KD '000)	
Risk weighted assets	1,631,425	1,356,592	1,149,157
Capital required	203,928	162,791	137,899
Capital available			
Tier 1 capital	259,594	229,781	200,264
Tier 2 capital	18,332	15,148	—
Total capital	**277,926**	**244,929**	**200,264**
Tier 1 capital adequacy ratio	15.91%	16.94 %	17.43%
Total capital adequacy ratio	17.04%	18.05%	17.43%

The Group is also subject to a CBK Basel III leverage ratio requirement of 3.0 per cent. The Group's leverage ratio was 7.9 per cent. at 31 December 2015.

CAPITAL EXPENDITURE AND OTHER COMMITMENTS

The Group does not have any material ongoing capital expenditure or, save as disclosed under "—*Contingent liabilities*" below, other commitments.

CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of funding commitments it has made as well as in relation to acceptances, letters of credit and guarantees issued by it. The table below shows these contingent liabilities as at 31 December in each of 2015, 2014 and 2013.

	As at 31 December		
	2015	**2014**	**2013**
		(KD '000)	
Guarantees	184,644	172,768	166,952
Acceptances and letters of credit	49,756	43,120	26,872
Other commitments	3,812	914	411
Total	**238,212**	**216,802**	**194,235**

RELATED PARTY TRANSACTIONS

The Group's principal related party transactions are with its directors and executive officers, their close family members and companies controlled by them or their close family members as well as with associates of the Group. IFRS requires the disclosure of shareholder related parties only in cases where those related parties exercise significant influence. In 2015, the Group had two shareholders who owned 5 per cent. or more of the Bank's shares, see "*Description of the Bank—Capital Structure and Shareholders*". On this basis, related party transactions with these shareholders were disclosed in note 27 of the Financial Statements. Certain related parties are customers of the Group in the ordinary course of business. Transactions with related parties are made on substantially the same terms, including collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve an amount of risk that is higher than the amount of risk taken in comparable transactions with unrelated parties. Financings to directors and their related parties are secured by tangible collateral in accordance with CBK regulations.

The Group adheres to CBK guidelines on extending financing to related parties. Credit facilities to Board members can only be approved under conditions specified by the CBK which include the following:

- all facilities to Board members must be approved, renewed or modified only at the Board level and this authority cannot be delegated to a committee or other body;
- the approval, renewal or modification of Board members' facilities can only be considered approved when at least three-quarters of the Board members have approved the same; and
- the Bank must acquire adequate collateral.

Further credit extensions to related parties are also subject to adherence to the overall CBK limits which include that the total related party exposures should not exceed 50 per cent. of a bank's capital.

Further information on the Group's related party transactions in 2015, 2014 and 2013 is set out in note 27 to each of the 2015 Financial Statements and the 2014 Financial Statements.

Recent Developments

Financial Condition as at 31 March 2016

As at 31 March 2016, the Group's consolidated total assets stood at KD 3,260.1 million compared to KD 3,132.9 million as at 31 December 2015, representing an increase of 4.1 per cent. The increase in consolidated total assets reflected growth in the Group's financing portfolio and in treasury liquid assets.

The Group's total Islamic financing to customers portfolio (which comprises its Islamic financing provided to customers (net of provisions)) was KD 2.3 billion as at 31 March 2016, representing an increase of 4.4 per cent. compared to 31 December 2015. The increase in total Islamic financing to customers reflected growth in the Group's consumer and corporate financing activities.

The table below shows the Group's Islamic financing to customers portfolio, provisions and financing to deposit ratios as at 31 March 2016 and 31 December 2015.

	31 March 2016	31 December 2015
	(KD'000) *(Unaudited)*	*(KD'000)*
Total Islamic financing to customers(1)	2,317,700	2,220,944
Less: provisions	50,047	49,150
Net Islamic financing to customers(3)	2,267,653	2,171,794
Net Islamic financing to customers/customer deposits	86.5%	90.5%
Net Islamic financing to customers/total deposits(2)	77.9%	78.1%

Notes:

(1) Total Islamic financing to customers comprises total Islamic financing provided to customers disregarding impairment.

(2) Total deposits comprises customer deposits, due to banks and other financial institutions.

(3) Net financings comprise gross financings less impairment charges.

The table below shows the distribution of the Group's Islamic financing to customers portfolio by customer segment as at 31 March 2016.

	Corporate	Consumer	Total
		(KD '000) *(Unaudited)*	
At 31 March 2016			
Gross Exposure	1,299,832	1,017,868	2,317,700
Less specific provision	7,094	1,988	9,082
Less general provision	—	—	40,965
Exposure net of provisions			**2,267,653**

As at 31 March 2016, the consolidated total liabilities of the Group stood at KD 2,939.7 million compared to KD 2,812.1 million as at 31 December 2015, representing an increase of 4.5 per cent. compared to 31 December 2015. The increase was primarily a result of growth in customer deposits to fund the Group's asset growth.

The Group's depositors' accounts were KD 2,620.9 million, or 89.2 per cent. of its total liabilities, as at 31 March 2016.

The table below shows the Group's funding in the form of due to banks, depositors' accounts and other liabilities as at 31 March 2016.

	As at 31 March 2016	
	(KD '000)	*(% of total)*
Due to banks	290,944	9.8
Depositors' accounts	2,620,852	89.2
Other liabilities	27,953	1.0
Total liabilities	**2,939,749**	**100.0**

As at 31 March 2016, the consolidated total equity of the Group stood at KD 320.4 million compared to KD 320.8 million as at 31 December 2015, representing a decrease of 0.1 per cent. The decrease was primarily a result of the distribution of cash dividends, which was partially offset by the capitalisation of profit for the three months ended 31 March 2016.

Consolidated Income Statement

Three months ended 31 March 2016 and three months ended 31 March 2015

The Group's operating income increased by 18.1 per cent. from KD 21.2 million for the three months ended 31 March 2015 to KD 25.1 million for the three months ended 31 March 2016, whereas operating profit before provision increased by 22.7 per cent. from KD 11.7 million for the three months ended 31 March 2015 to KD 14.4 million for the three months ended 31 March 2016.

The principal reason for the increases in operating income and operating profit before provision for impairment was an increase in net financing due to growth in the volume of the Group's financing receivables.

The Group's income from Murabaha and other Islamic financing increased by 23.2 per cent. from KD 23.2 million for the three months ended 31 March 2015 to KD 28.5 million for the three months ended 31 March 2016. This increase was principally a result of growth in the Group's financing receivables by 19.0 per cent., which was due to an increase in the size of the Group's consumer financing and corporate financing portfolios.

The Group's net fees and commission income increased by 25.1 per cent. from KD 2.5 million for the three months ended 31 March 2015 to KD 3.1 million for the three months ended 31 March 2016. This increase was principally a result of an increase in the number of customers and in credit card utilisation, growth in corporate fees and in the Group's non-cash business.

Operating profit before deductions increased by 23.8 per cent. from KD 7.7 million for the three months ended 31 March 2015 to KD 9.5 million for the three months ended 31 March 2016 principally as a result of growth in operating profit, which was offset by an increase in provisions.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 31 March 2016 and as at 31 December 2015 (determined in accordance with Basel III as implemented in Kuwait).

	As at 31 March 2016	**As at 31 December 2015**
	(KD '000)	
Risk weighted assets	1,671,776	1,631,425
Capital required	208,972	203,928
Capital available		
Tier 1 capital	266,345	259,594
Tier 2 capital	18,918	18,332
Total capital	**285,263**	**277,926**
Tier 1 capital adequacy ratio	15.9%	15.91%
Total capital adequacy ratio	17.1%	17.04%

The Group continued to achieve low levels of non-performing financings for the three months ended 31 March 2016. Total non-performing financings as at 31 March 2016 amounted to KD 19.5 million (which represented 0.8 per cent. of total Islamic financing to customers for that period), comprising KD 14.7 million in respect of financings to corporate customers and KD 4.8 million in respect of financings to retail customers.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank, which along with its subsidiaries is referred to as the Group and which is the ultimate holding company within the Group, was established by the Kuwait Investment Authority (**KIA**) in 2004 as an Islamic bank to operate in accordance with Islamic Shari'a law and to apply Islamic principles in relation to client and investor transactions in Kuwait and was the first Islamic bank in Kuwait to be established under Law No. 30/2003 (concerning Islamic Banks). As at 31 December 2015, the Group is the third largest Islamic banking group in Kuwait in terms of assets, deposits and customer financing products and has substantial market shares in the consumer and corporate segments across various products and services including Murabaha financing and credit card usage among other services.

The Bank's core businesses are consumer and private banking, corporate banking and investment management. The Bank is primarily focused on offering its products and services in Kuwait and has a presence outside Kuwait through its ownership of shareholdings in entities in the United Kingdom and Indonesia.

The Bank offers its clients a wide range of banking and financial services through one of the fastest growing branch networks in Kuwait, comprising 32 branches as at 31 December 2015, a network of 140 automated teller machines (**ATMs**) and point of sale (**POS**) terminals, telebanking, internet banking and mobile banking.

As at 31 March 2016, the Bank's total assets were KD 3.3 billion compared to KD 3.1 billion as at 31 December 2015 and its equity attributable to shareholders of the Bank was KD 317.8 million as at 31 March 2016 compared to KD 318.2 million as at 31 December 2015. As at 31 March 2016, the Bank's customer financing portfolio was KD 2.3 billion compared to KD 2.2 billion as at 31 December 2015 and its aggregate customer deposits and deposits from financial institutions were KD 2.9 billion compared to KD 2.8 billion as at 31 December 2015. In the three months ended 31 March 2016, the Bank's net profit was KD 9.1 million compared to KD 7.4 million for the three months ended 31 March 2015. The Bank's profit attributable to shareholders for the three months ended 31 March 2016 was KD 9.1 million compared to KD 7.4 million for the three months ended 31 March 2015. In 2015, the Bank's profit for the year was KD 35.2 million compared to KD 28.5 million in 2014 and the Bank's profit attributable to shareholders of the Bank for 2015 was KD 35.2 million compared to KD 28.2 million for 2014.

As at 31 March 2016, the Bank's total and tier 1 capital adequacy ratios, calculated in accordance with the Basel III methodology adopted by the CBK, were 17.1 per cent. and 16.0 per cent., respectively, and its leverage ratio, calculated in accordance with CBK requirements, was 7.8 per cent.

The Bank has been listed on the KSE since 15 May 2006. Its total market capitalisation as at 31 March 2016 was KD 0.9 billion.

The Bank's registered office is at Al-Hamad Towers, P.O. Box 25507, Safat 13116, Kuwait and its telephone number is +965 2232 5000. Its commercial registration number with the Kuwaiti Ministry of Commerce is 104042.

HISTORY

The Bank was incorporated in Kuwait with a share capital of KD 100.0 million by an Amiri decree on 21 September 2004 (Amiri Decree No. 88 of 2004 permitting the foundation of Boubyan Bank) by the KIA and the Public Institution for Social Security (**PIFSS**), which owned 20 per cent. and 4 per cent. of the Bank, respectively. The Bank is regulated by the CBK, which issued its licence on 28 November 2004. The KIA subsequently sold its stake in the Bank via an auction in the year 2009.

Having first acquired a minority shareholding in the Bank in 2009 as a bidder for the KIA shares, the National Bank of Kuwait (**NBK Group**) held 47.3 per cent. of the Bank's shares at the end of 2010 and increased its shareholding in 2012 to 58.3 per cent., by virtue of which the Bank has been consolidated as a subsidiary of the NBK Group for accounting purposes since 31 July 2012. The NBK Group acquired its shareholding in the Bank in order to enter into the Islamic banking sector and to stabilise the Bank, financially and operationally. Consequently, the NBK Group was able to enhance the Bank's position in the local market and develop its various Islamic banking services, as well as implement major strategic initiatives, providing the NBK Group with a gateway into the Islamic banking market. To ensure the continued stability of the Bank, in 2009 the Bank appointed a leading international consulting firm to implement a new strategy. The strategy project focused on various initiatives, including the development of a strong retail banking offering and the improvement of sales effectiveness (see "*Strategy*" below). The Bank is an Islamic bank, with estimated market shares of total banking sector assets and customer deposits in Kuwait of 5.4 per cent. and 5.9 per cent., respectively, as at 31 December 2015.

Having first acquired approximately 20 per cent. of the Bank in 2006, the Investment Dar (**TID**) sold its stake in the Bank to the Commercial Bank of Kuwait (**CBOK**), subject to the right to buy its stake back (see "*Capital Structure and Shareholders*" below).

In 2010, the Bank completed a rights issue of 583,000 ordinary shares, in which it raised KD 145.0 million (**Rights Issue**), and which was approved by an extraordinary general meeting of the Bank held on 1 October 2009. Shareholders were offered one share for every two shares held at an offer price of KD 0.25 per share comprising a nominal value of KD 0.100 per share and a premium of KD 0.150 per share. The Rights Issue was fully subscribed resulting in an increase in share capital of KD 58.0 million and a share premium of KD 87.0 million. The purpose of the Rights Issue was to increase the equity base of the Bank in order to support the continued growth of the Bank's assets.

The Bank's shares were first listed on the KSE on 15 May 2006 and, as at 31 March 2016, two shareholders had holdings in excess of 5 per cent. of the Bank's share capital (see "*Capital Structure and Shareholders*" below).

STRATEGY

The Bank completed its first five-year strategy from 2009 to 2014, which developed the strategic direction and initiatives for the Bank to build foundations for sustainable growth that would allow Boubyan to capture opportunities. The focus was on growing the retail business specifically in affluent banking while, in relation to the corporate business, the focus was on large, medium and large corporates. In addition, the strategy focused on stabilising and addressing potentially high risk areas in the loan and investment portfolios. The outcome of the strategy was positive at all levels. In 2014, the Bank launched its new strategy, titled "Boubyan 2020", which became effective in that year. The Bank's Boubyan 2020 strategy focuses on: (i) further developing the Bank's retail offering and growing its position in the domestic market by capitalising on its growing brand value in such market; (ii) continuing to grow in the large and super large corporate segments while building relationships with medium-sized enterprises by providing new and innovative Islamic banking services; (iii) achieving the best operational performance among its peers; and (iv) targeting new markets.

Building a leading Islamic finance franchise

The Bank's long-term aspiration is to become one of the top five Islamic banks in the world and to be a modern Islamic bank that offers innovative products and services to its customers. As part of that aspiration, the Bank has differentiated itself successfully from its competitors and will continue to so differentiate itself from its competitors by offering excellent customer service with a clear focus on affluent and high net worth clients and medium and large corporate customers. During the period from 2017 to 2020, the Bank expects to achieve this strategy by building on its current business platform which it established during the Bank's recent growth phase, challenging market leaders domestically in terms of market share, introducing innovative products and exploring new growth opportunities. The Bank will continue to focus its efforts primarily on its domestic business. The Bank aims to solidify its existing international presence, although further international expansion is currently under review due to current global macroeconomic conditions.

The Bank's short-term strategy during the period from 2014 to 2017 is to: (i) continue innovating its product service offering to enhance customer experience; (ii) maximise operational efficiency; and (iii) become an emerging Islamic banking leader in Kuwait itself.

Based on the financial statements published by Kuwaiti banks:

- as at 30 September 2015, Islamic banks accounted for 38.0 per cent. of total Kuwaiti bank assets and 43.0 per cent. of total Kuwaiti bank deposits in Kuwait; and
- over the five years to 30 September 2015, asset growth among Kuwaiti Islamic banks has averaged 8.9 per cent. compared to 8.2 per cent. asset growth for Kuwaiti conventional banks.

The Bank aims to expand its core domestic business by growing its market share across various segments and products within that business above and beyond the average market growth rate. The growth across products and segments is intended to occur simultaneously with a disciplined approach in managing both risk and costs. Within its core domestic product groups of corporate, consumer and private banking, the Bank intends to implement the strategy as follows:

Consumer banking

Within the consumer banking sector in Kuwait, the Bank's objectives include:

- becoming a leader in customer service and redefining the customer experience;
- expanding market share through the Bank's focus segments as well as its private, affluent and mass affluent segments;
- growing market shares across various products and customer age groups with targeted product offerings to focus segments;
- increasing acquisitions of customers with salary transfers to expand its deposit portfolio as well as to maintain stable growth within its asset portfolio;
- continuing to expand the Bank's branch footprint to facilitate the acquisition of target customers; and
- innovating in respect of the Bank's products and sales and delivery channels.

In relation to its consumer banking operations, the Bank aims to expand its market share through focusing on mass affluent, affluent and private banking customers and has been working on positioning itself as the bank of choice for affluent customers and Kuwaiti nationals in particular. The Bank will achieve this by emphasising improved customer experience, focusing on innovation in product and services offerings and promoting its products through the use of campaigns. The Bank is complementing its product and services offering through the introduction of market leading reward and loyalty programmes, developing segment specific products (such as private banking affluent accounts described below), differentiating affluent value proposition across products, services and customer experience, and introducing liability products with attractive features (such as drawdown flexibility). The Bank aims to grow personal finance volumes and deposit volumes by acquiring salary transfers and increasing its share of wallet with affluent and private banking customers. The Bank is also building a comprehensive consumer banking platform in terms of distribution channels to achieve its consumer banking ambitions. Between 2009 and the end of 2015, the Bank grew its branch network from 15 to 32 branches and more than doubled the number of ATMs from 45 to 140 ATMs. Along with expanding its footprint and distribution network the Bank's customer satisfaction ratings continue to be higher than the average for both Islamic and non-Islamic Kuwaiti banks, all of which have contributed to its recent growth in profitability and its increased market shares.

Corporate banking

Within the corporate banking sector in Kuwait, the Bank's objectives include:

- defending, and strategically expanding, its position and market share in large corporate clients;
- increasing its share of wallet with super large corporates;
- expanding its mid-size companies client base to diversify income and improve returns;
- offering innovative products and services to its clients; and
- delivering faster solutions through the improvement of its credit processes and systems.

In relation to its corporate operations, the Bank aims to become the bank of choice for mid-size companies and expand its customer base in this segment, while continuing to capture market share in the large companies segment. The Bank increased its corporate client base by 100 per cent. over the past three years reaching a total of over 500 clients in diversified sectors with a special focus on mid-sized companies, which represent approximately 25 per cent. of its total client base. The Bank increased the number of customers which are mid-sized companies from 36 in 2012 to 145 by the end of 2015. In relation to large corporates, the Bank's focus is to encourage proactive client acquisition, increase its share of wallet from existing clients by focusing on ancillary business, offering tailored products and terms to its customers and improving the delivery of services to its clients by providing them with accessible and competent corporate finance bankers. In relation to mid-size companies, the Bank intends to increase the generation of leads to increase its client database through a targeted pipeline of potential customers, simplify credit processes in order to enhance the speed of delivery of services and products to its customers and customise its coverage model, involving the use of relationship managers to provide quick and innovative financial solutions, while continuing to manage credit risk in a focused manner. The Bank aims to improve its offering in the corporate segment through innovation in products and services, which would enable it to provide its clients with a wider variety of financing solutions. In particular, it has introduced new products such as a Shari'a-compliant overdraft structure and Istisna, and additional products such as Musharaka, factoring and equipment Ijarah are being developed. Furthermore, the Bank continues to work on strengthening and improving its processes. For example, the Bank has considered introducing automated credit approvals to reduce approval times and introduced new staff training and development programmes, new leadership programmes and a comprehensive performance management framework.

Solidifying existing international presence

The Bank's strategy of solidifying its existing international presence includes strengthening its balance sheet and transforming, from a business perspective, PT Bank Muamalat Indonesia Tbk (**BMI**) in which the Bank owns a 22.0 per cent. stake. The Bank intends to achieve the strengthening and transformation of BMI through offering continuous support to BMI in the form of access to experienced management teams as well as by improving BMI's financial position. In providing access to experienced management teams, the Bank has worked together with other shareholders of BMI to hire a new experienced management team to implement this strategy. The Bank is also focusing its efforts on revenue generation and cost reduction initiatives in respect of BMI.

The Bank's strategy also includes boosting the performance of Bank of London and the Middle East (**BLME**) in order to protect its capital. As part of the strategic review of the Group by an international management consultancy, the Bank aims to assist BLME in streamlining BLME's business by focusing BLME on real estate finance and wealth management. This strategy aims to transform BLME into a private bank for Middle Eastern clients.

Monitoring selected growth opportunities

The Bank's long-term geographic diversification strategy involves expanding its regional presence in the GCC, and strengthening its Islamic banking franchise in the MENA region and elsewhere. The Bank's international expansion strategy is currently under review due to the current global macroeconomic conditions. In the short- to medium-term, the Bank's strategy is to focus on increasing and improving its position in its domestic market.

STRENGTHS

The Bank benefits from a number of business strengths. In particular:

Leading Islamic bank in Kuwait with a growing market position and strong growth record

Since 2011, the Bank has increased its domestic market share across several segments. As at 31 March 2016, the Bank had total assets of KD 3.3 billion, total Islamic financing assets of KD 2.3 billion and total depositors' accounts of KD 2.6 billion compared to KD 3.1 billion, total Islamic financing assets of KD 2.2 billion and total depositors' accounts of KD 2.4 billion as at 31 December 2015, making it the third largest Islamic bank in Kuwait on all three metrics. Over the period from 2009 to 2015, the Bank increased its financing portfolio at 5 times the rate of the market and increased its deposits at 2.9 times the rate of the market. It also has one of the fastest growing and one of the most diversified distribution networks within Kuwait. The Bank's distribution network is described under "*—Reporting segments—Consumer banking—Distribution channels*". The Bank increased its market share in personal finance from 2.4 per cent. in 2010 to 10.4 per cent. in 2015 and increased its market share in credit card spends from 0.9 per cent. in 2010 to 11.0 per cent. in 2015. Furthermore, the Bank maintains a 6.5 per cent. and 6.0 per cent. market share in financings and deposits, respectively, as at 31 December 2015.

Sound and consistent financial performance

The Bank has a history of profitability and remained profitable, growing its total assets at 3 times the rate of the market between 2010 and 2015. Between 2010 and 2015, the Bank's operating profit (being its operating profit (before provisions for credit losses and impairment losses) grew at a compound annual growth rate (**CAGR**) of 23.1 per cent., its total assets grew at a CAGR of 19.0 per cent. and equity attributable to shareholders of the Bank grew at a CAGR of 6.0 per cent. In addition, the Bank benefits from low cost funding due to its strong liquidity position, institutional relationships and branch network and believes that its asset quality is strong, as evidenced by its relatively low levels of non-performing financings, amounting to 0.9 per cent. as at 31 December 2015 compared to an average of 3.7 per cent. for Kuwaiti banks over the same period. As at 31 March 2016, the Bank's liquid assets ratio was 26.4 per cent. (compared to 26.3 per cent., 26.6 per cent. and 26.2 per cent. as at 31 December 2015, 31 December 2014 and 31 December, 2013, respectively. Since the NBK Group took over in 2009, the Bank has maintained a conservative financial profile and, had no outstanding financing for the three months ended 31 March 2016 and the years ended 31 December

2015, 31 December 2014 and 31 December 2013, respectively), (see —"*Selected Financial Information*"). This has enabled the Group to generate cash flow that it has utilised to maintain its strategy. The conservative approach has enabled the Bank to maintain its domestic and to take advantage of opportunities to grow its business; challenging global financial market and economic conditions have, however, led the Bank to place further international expansion plans on hold. The Group generated cash flow from operations of KD 62.7 million for the three months ended 31 March 2016 and KD 15.5 million for the three months ended 31 March 2015. The Group generated cash flow from operations of KD 181.0 million, KD 161.9 million and KD 36.6 million, for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 respectively. The cash flow generation allowed the Group to maintain a net cash position at the end of each of these periods and the Group had KD 380.7 million, KD 465.3 million, KD 314.8 million and KD 205.6 million in cash and cash equivalents as at 31 March 2016, 31 December 2015, 31 December 2014 and 31 December 2013, respectively.

Increasingly diversified customer base

Since 2009, the Bank has had an increasingly diversified customer base. As at 31 March 2016, the Bank's consumer banking customers represented 42.0 per cent. of its total customer deposits compared to 43.0 per cent. of its total customer deposits and 37.4 per cent. as at 31 December 2015 and 31 December 2014, respectively. As at 31 March 2016, the Bank's corporate banking customers represented 58.0 per cent. of its total customer deposits compared to 57.0 per cent. of its total customer deposits and 62.6 per cent. of its total customer deposits as at 31 December 2015 and 31 December 2014, respectively. The Bank's top 10 largest depositors constituted approximately 51.8 per cent. of the Bank's total funding from deposits as at 31 March 2016. In addition, as discussed under "*Strategy—Building a leading Islamic finance franchise—*", the Bank is focusing on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Bank's core strengths as well as focusing on high-quality growth. By focusing on high net worth and affluent clients and large(including super-large) and mid-market corporate customers, the Bank's customer base has changed and diversified, resulting in a higher concentration of these clients and greater diversification within the Bank's customer base. For the period from 2010 to 2015 the concentration of the Bank's affluent customers (which included platinum customers (consisting of customers with salaries above KD 2,000 per month or a total balance of KD 30,000 or more in any Boubyan fixed deposit or investment fund) and private banking customers) in its portfolio increased from 3 per cent. to 17 per cent. as at 31 December 2015. The concentration of affluent customers increased from 1 per cent. to 32 per cent. of its total financings and the concentration of affluent customers increased from 27 per cent. to 65 per cent. of its total deposits over the period from 2010 to 2015.

A strong domestic network

The Bank has one of the fastest growing branch networks in Kuwait and has successfully adapted its branch network to cater for the specific needs of its various customer segments in an efficient and timely manner. Within the MENA region, the Bank operates 32 branches in Kuwait, whilst, in support of its domestic network, the Bank has investments of between 21.67 and 33.33 per cent. in associated companies in Indonesia, the United Kingdom and Sudan. (See also "*—Reporting segments—Consumer banking—Distribution channels*" for a description of the Bank's distribution network.) The Bank has also achieved one of the highest levels of customer satisfaction among Kuwaiti banks (see "*—Reporting Segments – Consumer banking*") and believes that its current, demand and savings accounts are diversified and sticky in nature, and constitute a stable and secure source of low cost funding.

In Kuwait, the Bank's subsidiaries are Boubyan Takaful Insurance Company K.S.C. (Closed) (**Boubyan Takaful**) and Boubyan Capital Investment Company K.S.C. (Closed) (**Boubyan Capital**) in which the Bank has a 67.63 per cent. and a 99.55 per cent. shareholding, respectively, as at 31 March 2016. See ("*—Subsidiaries*"). Boubyan Takaful provides takaful insurance products for retail and institutional clients across various sub-sectors such as auto, healthcare and life insurance. Boubyan Capital is the investment management arm of the Bank and provides asset management and brokerage services to the Bank's clients in addition to managing the Bank's investments around the world.

Stable shareholder base and strong management team

The Bank believes that it has a strong and stable Board of Directors and a long-serving executive team with a strong track record in Kuwait. Further details of the Bank's management are set out under "*Management and employees—Management*". The Bank also believes that it has a strong shareholder base, with the NBK Group owning approximately 58 per cent. of its shares, see "*Capital Structure and Shareholders*".

High investment grade credit ratings and among the top brand values regionally

The Bank has one of the highest credit ratings in the MENA region and internationally, with stable outlook ratings of Baa1 from Moody's, which was affirmed on 23 September 2015 and A+ from Fitch, which was affirmed on 11 December 2015. In addition, the Boubyan brand is well recognised domestically. The Bank has been recognised by Global Finance and, in 2014, was named "Best Islamic Bank in Project Finance" in 2014 "Best Islamic Financial Institution in Kuwait", as well as "Best Islamic Digital Bank in Kuwait" in 2015. The Bank also received the distinguished "Kuwaitisation Award" from the Ministry of Social Affairs.

CAPITAL STRUCTURE AND SHAREHOLDERS

As at 31 March 2016, the Bank's share capital comprised 2,063,251,570 authorised, issued and fully paid ordinary shares of 100 fils each, and 103,162,579 shares issued as bonus shares, giving it a share capital of KD 216.6 million.

As at the date of this Prospectus, there is an ongoing dispute between the CBOK and TID over the disputed ownership of a 19.2 per cent. holding in the Bank, or approximately 220.6 million shares. However, management of the Bank do not believe that this dispute has any implications for the Bank's business or otherwise.

In December 2008, TID sold its stake in the Bank to CBOK subject to the right to buy its stake back. CBOK claimed that this right to buy its stake back had lapsed and sought to sell the shares to the NBK Group at a price of KD 121.34 million (U.S.$ 422.2 million). However, TID won a court ruling in June 2009 forcing CBOK to suspend the sale of the Bank's stake to the NBK Group. In 2014, Kuwait's Court of Appeal referred the case to the Court of First Instance in the Commercial Courts. As at the date of this Prospectus, the final ruling is not known.

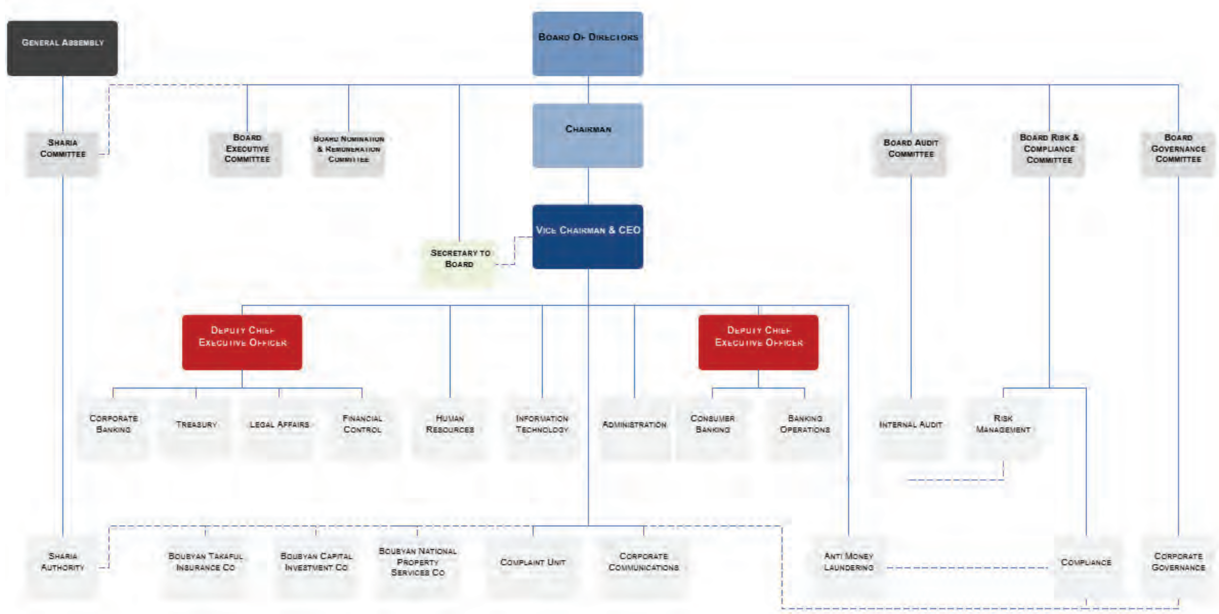
The Bank believes that it benefits from a strong shareholder base, with the NBK Group still controlling the majority of its share capital. As at 31 March 2016, the following shareholders had holdings in excess of 5 per cent. of the Bank's share capital:

Shareholders	**Percentage of shares***	**Number of ordinary shares (in million)**
National Bank of Kuwait S.A.K.	58.3	1,203.0
The Commercial Bank of Kuwait S.A.K.	11.9	246.4

* *Calculated as number of shares held divided by the paid-up share capital.*

ORGANISATIONAL STRUCTURE OF THE GROUP

The chart below illustrates the current organisational structure of the Bank.



REPORTING SEGMENTS

The Bank currently operates through five segments for financial reporting purposes:

- **Consumer banking.** Consumer banking provides a diversified range of products and services to individuals and institutional customers, including consumer finance, credit cards, deposits and other branch-related services;
- **Corporate banking.** Corporate banking provides a comprehensive product and service offering to business and corporate customers, including murabaha, ijarah, trade service and other related services to business and corporate customers;
- **Investment management.** Investment management (referred to as "Investment banking" in the Bank's 2015 Financial Statements) oversees direct investments, investments in associates, local and international real estate investment and asset management services;
- **Treasury.** Treasury provides local and international Murabaha and other Islamic financing services to its clients, primarily banks, and is also responsible for the management of the Bank's funding operations; and
- **Group centre.** Group centre provides other defined Group activities and residual activities in respect of transfer pricing and inter-segment allocations.

The table below is derived from note 29 to the 2015 Financial Statements and shows certain financial information in relation to each reporting segment for each of 2015 and 2014.

	Consumer banking	Corporate banking	Investment Banking	Treasury	Group Centre	Total
			(KD '000)			
2015						
Net financing income / (loss)	47,293	27,758	(1,837)	4,625	1,503	79,342
Share of results of associates	—	—	313	—	—	313
Operating income / (loss)	49,339	34,490	2,392	6,277	(1,145)	91,353
Depreciation	(1,571)	(50)	(79)	(10)	(926)	(2,636)
Profit/(loss) for the year	**27,232**	**27,357**	**(5,803)**	**5,876**	**(19,477)**	**35,185**
Total assets	1,004,871	1,381,277	175,623	597,377	(26,263)	3,132,885
Total liabilities	1,034,387	258,201	20,009	1,497,611	1,878	2,812,086
2014						
Net financing income / (loss)	36,952	24,572	(1,895)	4,980	1,599	66,208
Share of results of associates	—	—	(247)	—	—	(247)
Operating income / (loss)	38,440	29,476	5,899	6,332	(1,742)	78,405
Depreciation	(1,248)	(57)	(54)	(9)	(810)	(2,178)
Profit/(loss) for the year	**20,548**	**18,447**	**118**	**5,983**	**(16,591)**	**28,505**
Total assets	791,539	1,176,156	192,601	520,509	(32,875)	2,647,930
Total liabilities	782,442	190,718	19,115	1,344,421	10,132	2,346,828

Consumer banking reporting segment

The Bank's Consumer banking reporting segment constitutes: (i) consumer banking; and (ii) private banking.

Consumer banking

The Bank offers a wide range of consumer banking products and related services in Kuwait through its integrated distribution network, comprising branches, ATMs and other remote banking platforms. The Bank has dedicated offices as well as relationship managers for platinum customers. In addition, the Bank has a direct sales force which markets its consumer products and services to its customers. The Bank's consumer banking products include a range of consumer financings (including auto finance, health finance, education finance, boat and marine equipment finance and construction finance), deposits, debit and credit cards and investment management services.

The Bank intends to increase its customer base (by developing segment-specific products and introducing liability products with attractive features such as drawdown flexibility) including the younger generation and mass affluent, as well as professional business owners. The Bank has also introduced various unique services that enable customers to withdraw cash from the Bank's ATMs using their civil ID without the need to use an ATM card, and has launched "near field communication" enabled credit cards and a new iWatch App for Apple Watch, which makes it easier for customers to review and manage their bank accounts. As at 31 December 2015, more than 94 per cent. of the Bank's customers in Kuwait were Kuwaiti nationals.

In addition, the Bank intends to focus on customer service in its consumer banking business as a key differentiator and intends to improve its service levels through improving the quality of its sales force and launching a relationship manager activity dashboard. (See "*—Strategy—Building a leading Islamic finance franchise*"). The Bank semi-annually measures and monitors its overall customer satisfaction as well as customer satisfaction with specific products and services offered. The Bank achieved one of the highest levels of customer satisfaction among Kuwaiti banks, amounting to 91.7 per cent. as at 31 December 2015, compared to an industry average of 79.4 per cent. as at 31 December 2015. The Bank aims to maintain a 90+ customer satisfaction index score. The Bank has implemented proactive customer reward and loyalty programmes and has increased its operational efficiency through the enhancement of its technology platform and by repositioning its alternative delivery channels as attractive, user-friendly and reliable alternatives to branch banking (see "*—Distribution Channels*" below).

Private banking

The Bank has offered tailored products and services to its private banking clients since 2004. These services are customised to fit each client's risk tolerance and financial needs. The Bank's private banking services include fixed-income and money market products and investment funds designed to preserve customers' capital without restricting capital growth.

The Bank aims to establish strong relationships with its personal banking clients based on professional expertise, integrity, confidentiality and trustworthiness. Within the private banking business, the Bank intends to continue to grow at a consistent pace by focusing on key objectives including:

- new client acquisition – over the five years to 31 December 2015, the number of the Bank's private banking clients has grown at a CAGR of 27 per cent., or 412 customers; and
- increasing its share of wallet of existing clients – over the five years to 31 December 2015, the Bank's assets under management have grown at a CAGR of 27.0 per cent., or 202 customers.

Distribution channels

The Bank's principal distribution channels in Kuwait comprise:

- ***Branch network:*** The Bank has one of the fastest growing branch networks in Kuwait, with 32 branches across the country (which include women-only sections), and a large ATM and customer deposit-machine network, with more than 140 machines. The Bank has adapted its branch network based on customer segments and operates a 24/7 self-service automated facility at its major branches where customers can conduct a range of banking services, such as cash deposits and withdrawals, balance enquiries and statement printing, ordering of cheque books and internet and telebanking access. In addition, the Bank operates a 24-hour service branch at Kuwait Airport.
- ***Telebanking:*** The Bank introduced automated banking by telephone to its customers and opened its call centre in 2006. This call centre, which has been operated on a 24/7 basis since it was introduced, can be used by customers to conduct a variety of transactions, including reporting lost or stolen cards, performing account transfers and bill payments and making enquiries and complaints. The Bank has recently extended this distribution channel to also serve as a telemarketing tool through which the Bank sells products to customers directly or refers them to their channel of choice. In 2015, the Bank's call centre handled approximately 2.2 million inbound and outbound calls.
- ***Online banking:*** The Bank commenced offering online banking to its consumer banking customers in 2006 and, as at 31 December 2015, had approximately 78,485 registered online banking customers with approximately 71,433 transactions executed in 2015. The services provided to accountholders through the Bank's online banking platform include account balances, history and transaction detail enquiries, funds transfers, bill payments, online trading, foreign exchange enquiries, online credit card payments, cheque book ordering and statement requests. The Bank has also established a prominent social media presence on twitter, instagram and snapchat.
- ***Mobile banking:*** Since 2010, the Bank has introduced market-leading functionalities for mobile banking and ATMs and the Bank's customers have been able to use mobile banking services that provide regular account updates and also SMS alerts to registered mobile phone users and through which they can conduct a large range of banking services, such as balance enquiries, bill payments, funds transfers, and statement and cheque book requests. Several new features, such as cardless withdrawals, instant deposits, and a unique fingerprint log-in feature have been introduced. The Bank had approximately 78,485 registered mobile banking subscribers as at 31 December 2015 with approximately 1.4 million transactions executed in 2015.
- ***Direct sales force:*** The Bank has one of the largest direct sales forces in Kuwait including sales staff at car dealerships and sales staff located at key government ministries and strategic corporate clients. It has recently expanded its direct sales forces to focus on attracting persons entering employment by offering competitive products and focusing on customer service.
- ***Bespoke private banking services at select branches:*** The Bank offers comprehensive financial solutions and customised private banking services at the Bank's private banking branch in Sharq and at any of its other branches in Kuwait. The Bank seeks to maintain a high level of service

quality through extensive and diverse training programmes and careful recruitment of its private banking employees. The Bank aims to establish long-term relationships with its private banking clients.

Products and services

The Bank offers its consumer banking customers a wide range of banking services, including:

- ***Deposits***: The Bank has a complete range of deposit products, including current, savings and time deposit accounts. In addition, it offers specific deposit products to encourage savings among retail customers. The Bank also offers flexible deposits allowing customers to increase or to partially drawdown from an existing deposit. The Bank's flexible deposit products are popular with the Bank's affluent customers.
- ***Financings and credit cards***: The Bank's financing products include consumer and instalment financings with payment terms extending up to five years and 15 years, respectively. The Bank also provides one of the widest premium ranges of Visa and MasterCard credit and debit cards in Kuwait. The Bank's cards are aimed at different customer segments based on income and offer a range of benefits that vary based on the card type. Applications for financings and credit cards can be made through the Bank's branch network, direct sales, telebanking or through the internet. Consistent with its credit risk management strategy, the Bank prioritises attracting financing and credit card customers with good credit standing and salary transfers. Financing and credit card applicants are screened and credit limits are assessed according to the Bank's credit policy based on demographic and financial factors and the past credit behaviour of the customer in question, while ensuring strict adherence to relevant CBK regulations.

  The Bank uses local and international merchant relationships, promotions, a credit card reward programme and other incentives in order to increase card usage and expenditure levels and to increase customer loyalty and retention. The Bank's credit card provides customers with access to airport lounges.
- ***Other services***: The Bank's principal deposit and financing products are complemented by a range of more general consumer banking services, including bill payments, remittances, foreign exchange, safe deposit boxes and share custody, electronic funds transfer and online trading. In addition, the Bank's consumer banking customers have access to a suite of investment products which are managed by Boubyan Capital. See "*—Investment management reporting segment—Investments*" below.

Corporate banking reporting segment

The Bank offers its corporate clients a range of commercial banking products and services, including ijara finance, murabaha financings, *Shari'a*-compliant overdraft structures, trade finance products (letters of credit and guarantees), online corporate cash management services, and a range of current and deposit accounts. Additionally, the Corporate banking group works with other business units within the Bank, such as the Bank's Treasury department and Boubyan Capital, to offer other services including foreign exchange, hedging products and corporate finance and advisory services.

The Bank's corporate internet banking tool is known as "Corporate Online Banking". As at 31 December 2015, the Bank had 235 active corporate online banking customers who generated 801 transactions in 2015 for a total volume of KD 9.6 million. The Bank offers its clients products across services, and customer experience. The Bank also receives cross-referrals from the NBK Group when opportunities arise.

The Bank's corporate banking reporting segment comprises:

The domestic corporate banking group

This banking group caters to major Kuwaiti companies and is organised around units with specific industry expertise, principally:

- large: contracting, manufacturing, (including in the food and drink, ship building, steel and metal fabrication, cement and clothing sectors) and oil and energy;
- large: trading and services, including telecommunications, education, transport and logistics, healthcare and retail services;
- medium corporate services;
- corporate real estate, development and construction including building materials;

- individual real estate; and
- structured financings, financial institutions and correspondent banking.

The Bank also has a unit dedicated to the middle market segment.

The Trade Finance Division

This division uses its extensive knowledge of international trade to help corporate clients enhance their global competitiveness and reduce risk. The Trade Finance Division offers the Group's customers a wide range of services, including:

- letters of credit, including both inward and outward back-to-back, transferable, deferred payment, standby and revolving letters of credit;
- letters of guarantee, including bid bonds, performance, advance payment, retention, suppliers credit and contract guarantees;
- collections settled; and
- financing under letters of credit.

Investment management reporting segment

The Bank's investment management reporting segment comprises the activities of Boubyan Capital. Boubyan Capital has 20 professionals and offers high quality investment products and services to its clients, who are required to be customers of the Bank, due to its ability to provide boutique services because of its size. Boubyan Capital focuses on three primary lines of business:

- principal investments, where it manages more than U.S.$ 290 million in 12 private equity and mezzanine investments, seeking mid-market growth and proactive value-creation across a variety of industry sectors;
- asset management, where it has U.S.$ 434 million in assets under management in regional and international funds across various asset classes, including money market, Islamic leasing, global fixed-income and real estate; and
- real estate, where it has U.S.$ 144 million in managed assets.

In 2014, the Bank launched various investment funds, in addition to the Boubyan KD Money Market Fund, including the Boubyan Kuwait Real Estate Fund, and Boubyan USD Liquidity Fund, which led to a significant increase in the Bank's portfolio of managed assets in 2014. The Bank offers Boubyan Capital fund products only to its customers.

Treasury

The Bank's treasury manages the Bank's assets and liabilities and liquidity requirements under the supervision of the Assets and Liabilities Management Committee (**ALCO**), which meets at least monthly to monitor and review all aspects of the Bank's liquidity profile, asset and liability structure and internal and statutory ratio requirements. Cash flow requirements as well as foreign exchange activities are under the supervision of Bank's treasury. Asset and liability management, including liquidity management, is managed by the Bank's treasury, in coordination with the Risk Management Division.

In addition, the Bank's treasury:

- manages the money market books and money market funding positions for the Bank's own account to fund its domestic and international foreign-currency assets;
- undertakes a wide range of foreign exchange business, across both spot and forward markets, largely on behalf of the Bank's customer base; and
- maintains a portfolio of high quality sukuk (being rated in accordance with CBK requirements) to meet relevant CBK requirements and to manage surplus domestic currency liquidity.

Subsidiaries and Associates

The following table sets out details of each subsidiary and associated company of the Bank as at 31 December 2015 and 31 December 2014:

SUBSIDIARIES

Name of subsidiary	Country of incorporation	2014 Equity interest (%)	2015 Equity interest (%)
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	67.63	67.63
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	99.55	99.55

INVESTMENTS IN ASSOCIATES

Name of Associate Company	Country of incorporation	2014 Equity interest (%)	2015 Equity interest (%)
United Capital Bank	Republic of Sudan	21.67	21.67
Al Ijarah Indonesia Finance Company	Indonesia	33.33	33.33
Saudi Projects Holding Group	Kuwait	25.00	25.00
Bank of London and the Middle East (BLME)	United Kingdom	25.62	25.62
Bank Syariah Muamalat Indonesia Tbk (BSMI)	Indonesia	22.00	22.00

Subsidiaries

The purchase method of accounting, which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date, is used to account for the acquisition of subsidiaries by the Bank.

Boubyan Takaful Insurance Company K.S.C. (Closed)

Boubyan Takaful was established on 29 May 2006 in Kuwait to provide takaful insurance services. The Bank acquired a 56.41 per cent. shareholding in 2006, which increased to 67.63 per cent. in 2012. As at 31 December 2015, the Bank had a 67.63 per cent. shareholding in Boubyan Takaful and Boubyan Takaful had paid up capital of KD 10.0 million. For the year ended 31 December 2015, Boubyan Takaful's total revenue was KD 0.3 million and it made a profit of KD 0.2 million, which represent 0.3 per cent. and 0.5 per cent. of the Group's revenue and profit, respectively. For the year ended 31 December 2014, Boubyan Takaful's total revenue was KD 0.2 million and it made a profit of KD 0.1 million.

Boubyan Capital Investment Company K.S.C. (Closed)

Boubyan Capital was established in 2007 in Kuwait to provide investment management services. As at 31 December 2015, the Bank had a 99.55 per cent. shareholding in Boubyan Capital Investment and Boubyan Capital Investment had paid up capital of KD 15.7 million. For the year ended 31 December 2015, Boubyan Capital Investment's total revenue was KD 3.5 million and it made a profit of KD 0.9 million, which represent 3.8 per cent. and 2.4 per cent. of the Group's revenue and profit, respectively. For the year ended 31 December 2014, Boubyan Capital Investment's total revenue was KD 3.0 million and it made a profit of KD 0.7 million.

Associate Companies

Investments in associates are initially recognised at cost and subsequently accounted for using the equity method of accounting in the Bank's financial statements.

Bank of London and the Middle East

BLME was established in 2006 in the United Kingdom to provide Islamic commercial banking services. The Bank acquired a 100.0 per cent. shareholding in 2006, which decreased to 25.62 per cent. in 2013. As at 31 December 2015, the Bank had a 25.62 per cent. shareholding in BLME and BLME had paid up capital of KD 22.0 million. For the year ended 31 December 2015, BLME's total revenue was KD 19.5 million and it made a profit of KD 0.3 million. For the year ended 31 December 2014, BLME's total revenue was KD 28.9 million and it made a profit of KD 0.5 million.

Bank Muamalat Indonesia

BMI was established in 1991 in Indonesia to provide Islamic commercial banking services in Indonesia. The Bank acquired a 21.28 per cent. shareholding in 2005, which increased to 22.0 per cent. in 2013. As at 31 December 2015, the Bank had a 22.00 per cent. shareholding in BMI and BMI had paid up capital of KD 24.0 million. For the year ended 31 December 2015, BMI's total revenue was KD 49.0 million and it made a profit of KD 2.8 million. For the year ended 31 December 2014, BMI's total revenue was KD 47.0 million and it made a profit of KD 1.3 million.

Al Ijarah Indonesia Finance Company

Ijarah Indonesia Finance Company (**AIIFC**) was established in 2007 in Indonesia to provide Islamic financing banking services in Indonesia, specifically in respect of automobile financing. The Bank acquired a 33.33 per cent. shareholding in 2007. As at 31 December 2015, the Bank had a 33.33 per cent. shareholding in AIIFC and AIIFC had paid up capital of KD 2.3 million. For the year ended 31 December 2015, AIIFC's total revenue was KD 3.1 million and it made a loss of KD 31,000. For the year ended 31 December 2014, AIIFC's total revenue was KD 4.0million and it made a profit of KD 0.7 million.

Saudi Projects Holding Group

Saudi Projects Holding Group (SPHG) was established in 2008 in Kuwait to provide real estate development and management services. The Bank acquired a 20.0 per cent. shareholding in 2011, which increased to 25.0 in 2013. As at 31 December 2015, the Bank (including the BCIC) had a 25.00 per cent. shareholding in SPHG and SPHG had paid up capital of KD 10.0 million. For the year ended 31 December 2015, SPHG's total revenue was KD 0.5 million and it made a loss of KD 0.2 million. For the year ended 31 December 2014, SPHG's total revenue was KD 1.0 million and it made a profit of KD 0.3 million.

United Capital Bank

United Capital Bank (UCB) was established in 2007 in the Republic of Sudan to provide Islamic commercial banking services to customers in Sudan. The Bank acquired a 21.67 per cent. shareholding in 2007. As at 31 December 2015, the Bank had a 21.67 per cent. shareholding in UCB and UCB had paid up capital of KD 12.0 million. For the year ended 31 December 2015, UCB's total revenue was KD 7.6 million and it made a profit of KD 2.8 million. For the year ended 31 December 2014, UCB's total revenue was KD 7.1 million and it made a profit of KD 3.4 million.

COMPETITION IN KUWAIT

The Bank is the third largest Islamic bank in Kuwait in terms of total assets, customer deposits and Islamic financing assets according to annual reports for 2015 published by Kuwaiti banks.

The Kuwaiti banking sector (excluding foreign banks that operate in Kuwait) comprises five banks operating according to the requirements of Islamic Shari'a (including the largest, Kuwait Finance House). In addition there are five Kuwaiti banks with a conventional banking licence that also operate in Kuwait.

The tables below show rankings for the 10 largest Kuwaiti banks by total assets, by customer deposits and by financing assets as at 31 December in each of 2015 and 2014.

	As at 31 December	
	2015	**2014**
	(KD million)	
Ranking by total assets[1]		
National Bank of Kuwait (K.S.C.)	23,597.6	21,784.1
Kuwait Finance House (K.S.C.)	16,526.7	17,181.9
Burgan Bank (K.P.S.C)	6,824.7	7,751.4
Gulf Bank (K.S.C.)	5,437.7	5,330.9
Al-Ahli Bank of Kuwait (K.S.C.)	4,359.1	3,499.0
Commercial Bank of Kuwait (K.S.C.)	4,037.4	4,212.8
Al-Ahli United Bank (K.S.C.)	3,904.3	3,596.9
Boubyan Bank (K.S.C.)[2]	3,132.9	2,647.9
Kuwait International Bank (K.S.C)	1,790.0	1,662.6
Warba Bank (K.S.C)	776.1	594.8

Source: 2015 annual financial statements for each bank. Note:

(1) Total assets are based on consolidated figures and include international assets.

(2) Boubyan Bank is a subsidiary of the NBK Group.

As at 31 December 2015, the Group's total assets represented 12.0 per cent. of the total assets of the Kuwaiti Islamic banking sector (excluding foreign banks).

	As at 31 December	
	2015	**2014**
	(KD million)	
Ranking by customer deposits[1]		
National Bank of Kuwait (K.S.C.)	12,059.2	11,259.7
Kuwait Finance House	10,838.8	10,881.4
Burgan Bank (K.P.S.C.)	3,874.3	4,708.3
Gulf Bank	3,837.4	3,661.7
Al-Ahli United Bank	2,660.6	2,453.8
Commercial Bank of Kuwait	2,546.2	2,554.3
Al-Ahli Bank of Kuwait	2,496.3	1,938.3
Boubyan Bank[2]	2,398.9	2,092.0
Kuwait International Bank (K.S.C)	1,018.1	988.7
Warba Bank (K.S.C)	433.5	346.1

Source: 2015 annual financial statements for each bank. Note:

(1) Customer deposits are based on consolidated figures and include international customer deposits.

(2) Boubyan Bank is a subsidiary of the NBK Group.

As at 31 December 2015, the Bank's customer deposits represented 14.0 per cent. of the total customer deposits of the Kuwaiti Islamic banking sector (excluding foreign banks).

	As at 31 December	
	2015	**2014**
	(KD million)	
Ranking by customer financings and advances(1)		
National Bank of Kuwait (K.S.C.)	13,551.0	11,908.7
Kuwait Finance House	8,127.5	8,118.9
Burgan Bank (K.P.S.C.)	4,011.6	4,386.5
Gulf Bank	3,633.6	3,583.1
Al-Ahli Bank of Kuwait	3,047.1	2,422.3
Al-Ahli United Bank	2,680.3	2,480.4
Commercial Bank of Kuwait	2,297.5	2,319.7
Boubyan Bank(2)	2,171.8	1,805.1
Kuwait International Bank (K.S.C)	1,172.9	1,072.7
Warba Bank (K.S.C)	543.8	388.2

Source: 2015 annual financial statements for each bank. Note:

(1) Total customer financings and advances are based on consolidated figures and include international customer financings and advances. Figures for the Bank include Islamic financing.

(2) Boubyan Bank is a subsidiary of the NBK Group.

As at 30 September 2015, the Bank's customer financings and advances represented approximately 14.6 per cent. of the total customer financings and advances of the Kuwaiti Islamic banking sector.

The Bank's current competitive strategy is to focus on growing its market share and building a leading franchise in its domestic market and to attract new customers through the products and services which it offers. See "*Strategy—Building a leading Islamic finance franchise*".

The Islamic banking sector in Kuwait is attracting a growing customer base. Regulatory restrictions relating to interest rates and ratios for personal financings typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are capped, the Islamic banks in Kuwait are able to earn better margins than conventional banks on their financing portfolios, as the CBK permits Islamic banks to charge higher margins to compensate for the fixed nature of profit on financings. The Bank's strategy is to differentiate itself by focusing on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Bank's core strengths. See "*Strategy—Monitoring selected growth opportunities*".

INFORMATION TECHNOLOGY

To ensure that its IT continues to meet changing business requirements, the Bank's IT strategy is structured to optimise people, process and technology (each as discussed further below), with the main focus on governance, organisation, quality, applications portfolios and technology infrastructure.

People

The Bank aims to recruit and retain talented and competent IT staff to manage its technology assets and deliver change. In addition, a focus on training and succession planning aims to establish clear career paths for IT staff. However, the Bank may consider alternative forms of resourcing in the future, including managed services and selective outsourcing, to allow the IT function to contain costs and better source growing needs in end user support, network management, mainframe management, tooling, project operations support, service desk and the network operations centre.

Process

The Bank believes that process and automation are becoming more aligned, which will reduce manual intervention and enhance workflow. As part of its service improvement programme, change request processes, system development lifecycle, IT service management, IT vendor management, project management and risk and audit management are all within the IT realm of continuous improvement. The system and service tools adopted will help to monitor versions, highlight end-of-life technologies and help stabilise systems to ensure production deficiencies and incidents are kept to a minimum. The Bank has recently implemented projects to enhance stability and customer experience, including upgrading its branch network and data storage capacity and increasing the stability and availability of its online banking and ATM systems.

Technology

The Bank focuses on stability and increased availability to ensure that its customers are able to access online channels and systems when needed, including online banking, mobile banking, ATMs and branch systems. As a result, the Bank has focused on foundation technologies such as networks (microwave and multi-protocol label switching) upgrades and enhanced tiered storage. The Bank's disaster recovery site has automated orchestration improving the cut-over between its data centres to one hour. The Bank also aims to adopt enhanced metrics where both infrastructure and business applications can be fine-tuned with performance-monitoring tools. All Bank businesses have measurable service level agreements which will be used to benchmark key performance indicators with a view to further continuous improvements.

Data security

The Bank has an offsite IT operations centre and a disaster recovery site located at Shuwaikh exchange that can be activated when required. This is to ensure that all critical systems are fully operational in line with the Bank's business continuity plan, in order to provide essential services to its customers. The Bank carries out daily and other periodic data back-ups which are stored in the main data centre and replicated online (in real time) to the disaster recovery centre.

Additionally, the Bank provides periodic tape back-ups of all critical systems and data to an international location (which is in London) in compliance with CBK instructions. The Bank's information security office carries out various security assessments using external agencies and has adopted the latest technologies to assist in mitigating cyber threats. Whilst the Bank has experienced cyber threats, the controls and incident response procedures in place have minimised any adverse impact on the service provided by the Bank.

RISK MANAGEMENT

INTRODUCTION

Risk, including credit risk, liquidity risk, market risk and operational risk, is inherent in the Group's activities. The complexity in the Group's business operations and diversity of geographical locations require the identification, measurement, aggregation and effective management of risks and efficient allocation of capital towards achieving an optimal balance between risk and return.

The Group seeks to manage its risks in a structured, systematic manner through a global risk policy, which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors (the **Board**) with the support of the Board Risk Committee and the Board Audit Committee. The Group's Risk Management and Compliance functions and its Internal Audit function assist executive management in controlling and actively managing the Group's overall risk profile.

The key features of the Group's comprehensive risk management policy are:

- the Board provides overall risk management direction and oversight;
- the Group's risk appetite is reviewed by the Board Risk Committee and approved by the Board;
- risk management is embedded in the Group as an intrinsic process and is a core competency of all its employees;
- the Group manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation; and
- the Group's Internal Audit function reports to the Board Audit Committee and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Group-wide basis.

GROUP RISK MANAGEMENT AND COMPLIANCE FUNCTIONS

The Group Risk Management function, which is headed by the Group Chief Risk Officer (**CRO**), reports directly to the Board Risk Committee and is responsible for:

- identifying and assessing the key risks faced by the Group;
- measuring the Group's exposure to those risks;
- monitoring this exposure in light of the Group's risk appetite;
- determining the corresponding capital needs on an ongoing basis; and
- monitoring and assessing major decisions related to risk-taking.

The Group's Compliance department is responsible for ensuring that the Group adheres to all applicable rules and regulations issued by regulators, including the CBK, the CMA and other applicable regulatory authorities.

The Board is responsible for setting the Group's risk appetite and strategy, approving the Group's risk management framework, policies and procedures and monitoring salient risks.

Group Risk Management comprises the following departments:

- the Corporate Credit Risk Review Unit;
- the Corporate Finance Risk Analytics Unit;
- the Operational Risk Management Unit;
- the Market Risk Management Unit;
- the Consumer Finance Risk Analytics Unit; and
- the Technology Risk Management Unit.

RISK STRATEGY

The key elements of the Board-approved risk strategy are:

- balancing performance across the Group's functions;
- maintaining stability and sustainability during crisis situations;
- aligning the risk framework with the overall business strategy of the Group;

- ensuring effective and adequate compliance with regulatory capital requirements, in keeping with the Group's strategy;
- effective planning of risk through an appropriate risk appetite; and
- performing stress tests consistently to assess the impact on the Group's capital requirements, capital base and liquidity position.

RISK APPETITE

The Group's risk appetite defines the maximum limit of risk that the Group is willing to accept in relevant business categories in order to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives. Any risk which breaches the Group's stated risk appetite must be mitigated as a matter of priority to within acceptable levels.

The risk appetite is reviewed and recommended by the Board Risk Committee to the Board for final approval. This ensures the risk appetite statements are consistent with the Group's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Group, determined in a manner which meets the objectives of shareholders, depositors and regulators.

Group Risk Management aims to identify early warnings of risk limit and risk appetite breaches, and is responsible for notifying them to the Board Risk Committee and the Board.

SCOPE AND NATURE OF RISK REPORTING TOOLS

The Group's risk management framework enables it to identify, assess, limit and monitor risks using a range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable the generation of information such as:

- credit risk in commercial and consumer financing and other asset exposures, such as collateral coverage ratio, limit utilisation and past-due alerts;
- quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis); and
- quantification of exposure to losses due to extreme movements in market prices or rates.

The CBK requires all Kuwaiti banks to perform semi-annual stress tests under three scenarios: mild, medium and severe. These tests must be based on two sets of assumptions: one based on CBK-prescribed parameters, which are essentially shocks on Pillar 1 risks and the other based on the Bank's own assumptions, which are generally required to be more comprehensive (by including Pillar 2 risks) than those prescribed by the CBK.

These parameters cover stress scenarios for Islamic financing income, fee income, foreign exchange trading income, falls in collateral value and stock market declines resulting in additional impairment losses. The Group conducts these stress tests semi-annually, as stipulated by the CBK, and also undertakes scenario testing at periodic intervals to quantify potential inherent risks that the Group faces.

The Group regularly assesses the adequacy and effectiveness of its reporting tools and metrics in light of the changing risk environment.

PRINCIPAL RISKS

The principal risks faced by the Group are:

- **credit risk**, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations to the Group under a contract and arises principally in the Group's financing, trade finance and treasury activities;
- **market risk**, which is the risk that movements in market rates, including foreign exchange rates, equity prices and credit spreads, will reduce the Group's income or the value of its portfolios and arises principally from financial claims and financings, position-taking and investment activities;
- **liquidity risk**, which is the risk arising from the inability of the Group to meet its payment obligations on time without incurring unacceptable losses and principally arises in the course of its general funding activities; and

- **operational risk**, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The Bank also considers Shari'a non-compliance risk to be a part of operational risk and has adopted the IFSB1 definition. Operational risk also includes compliance risk, which is separately managed.

Credit Risk

Credit risk management strategy

Executive management implements the credit risk strategy approved by the Board following the recommendations of the Board Risk Committee and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The Group's Board Risk and Compliance Committee (**BRCC**) reviews the credit policies prior to Board approval, taking into consideration the recommendations of the Group's Management Executive Committee, chaired by the Group Chief Executive Officer (the **CEO**). Further, the Group follows a well-defined authority matrix for the approval of credit transactions, where processing of credit transactions undergoes various review and approval levels, which may be submitted to the Group's Board or Board Executive Committee (**BEC**) for approval depending on the relevant limits and terms. In addition, the Group's Board monitors the performance of the credit portfolio on a regular basis, where the Board receives various reports from different sources, including the BEC on significant credit activities, the BRCC on credit risk management and measures, the Bank's management on credit portfolio performance, and external parties on the credit health-check review.

In compliance with CBK regulations, financing to individual Board members and related parties is fully secured and monitored by the Management Credit Committee and the Board Credit Committee. Furthermore, facilities granted to these related parties are made on substantially the same terms, including collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board in accordance with authorities granted by the Shareholders' General Assembly.

Country limits are determined based on an analysis of economic, social and political factors, taking into consideration reliable, externally-produced data on the country (where available) as well as through the application of local business and market knowledge. All country-limit exposures are subject to periodic review and approval by the Board or the Board Credit Committee.

The Group Risk Management Committee, chaired by the CEO and comprising senior executives from business divisions and key operational/support functions, meets regularly to review salient risks throughout the Group, and advises the Board appropriately. These committee meetings are led and conducted by Group Risk Management.

Corporate credit risk management

Corporate credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of payment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer group.

Internal credit-rating models are regularly reviewed by the Group Risk Management function in co-ordination with management and the Board Risk Committee and are periodically enhanced in line with industry credit risk management best practices.

Credit risk in facilities granted to banks is assessed by utilising data from external credit agencies. This data is further complemented by the relevant financial institution's existing and potential bilateral transaction history and relationship with the Group. The resulting credit facilities are structured across various products and maturities and are subject to review at least once on an annual basis. All new credit proposals along with reviews of, and material changes to, existing credit facilities are evaluated and approved by an appropriate credit committee. The Group has the following hierarchy of credit committees at the head office level:

- Board Executive Committee, which consists of one executive Board member and three non-executive Board members and approves all facilities exceeding the competence of the other committees;

- Management Credit Committee, which consists of the CEO, the Deputy CEOs, the Group Chief Risk Officer (the **CRO**), the CEO of Boubyan Capital, the Head of Corporate Banking, the Deputy General Manager of Risk and a number of senior executives in Corporate Banking and is competent to review, approve or recommend domestic credit proposals that exceed the Management Credit Committee's competence as well as those concerning criticised accounts; and
- Management Sub-Credit Committee, which consists of the Head of Corporate Banking, the Deputy Head of Corporate Banking, the Head of Domestic Credit Risk and a number of senior executives in Corporate Banking and is competent to review, approve or recommend domestic credit proposals except those concerning criticised accounts, which are escalated to the Management Credit Committee.

The credit committees have a set of approval authorities in place as delegated by the Board and which vary by reference to the type of counterparty (for example, sovereign, financial institution and corporate), the counterparty rating (investment grade or speculative) and whether the facility is funded or non-cash, among other factors. Specific approval authorities exist for fully-secured facilities as well as criticised accounts.

Credit facility administration is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

Consumer credit risk management

The Group's consumer credit risks are managed through an independent unit, which is part of the Group Risk Management function and works with the consumer banking business. Consumer credit risk management functional areas are aligned with key concepts of risk management, namely governance, control and measurement and reporting.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers. Within this framework, all credit exposure limits are approved within a defined credit approval authority framework. Policies and procedures specific to each business/product line are approved by the Executive Committee and significant policies are ratified by the Board.

Credit review procedures and financing classification

Corporate

The Group's policy is to assess the credit risk in commercial banking through a risk-rating process which provides transparency and consistency to enable comparison between obligors. The Group uses an industry standard risk rating tool to make these assessments. Under this risk rating framework, the customers are rated based on financial and business assessments.

The risk rating process derives Obligor Risk Ratings (**ORRs**). The rating methodology focuses on factors such as operating performance, liquidity, facility service capabilities and capital structure. The ratio analysis includes the assessment of each ratio's trend across multiple periods, in terms of both rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessments of the operations, liquidity and capital structure are also included in the assessment. The ORR yields a scale of 10 ratings for performing obligors plus three for non-performing obligors and reflects the probability of default for an obligor (irrespective of facility type or collateral) over the next 12 months for a senior unsecured facility. The Group is also implementing risk rating modules for commercial real estate, HNWIs and project finance facilities.

The Group is building a Facility Risk Rating (**FRR**). While the ORR does not take into consideration factors such as the availability of collateral and support, the FRR is a measure of the quality of the credit exposure based on the overall facility structure, collateral and support.

In cases where the risk rating tool is not applicable, the Bank assigns a rating based on an internal assessment which is mapped to the relevant external rating scale.

The Group classifies its exposure in accordance with the North American Industry Classification System Code in addition to the classification based on purpose codes as defined by the CBK. This additional classification helps to improve the accuracy of ORRs through peer group analysis in respect of performance and financial indicators and also allows the Group to classify its portfolio into sub-segments which facilitate analysis and improve the management of concentrations.

The Bank's policy is to assess the credit risk in commercial banking through a risk-rating process which provides transparency and consistency to enable comparison between obligors. The Group uses an industry standard risk rating tool (Moody's KMV) to make these assessments. Under this risk rating framework, the customers are rated based on financial and business assessments.

Consumer financing

Credit risk analytical models are used to facilitate credit decisions and to monitor credit facilities advanced to consumer banking customers. Applicant scoring models are customer-centric models which incorporate CBK regulatory guidelines and Group policies related to consumer credit facilities, such as profit-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from credit bureaus, particularly Ci-Net (the Kuwait credit bureau) statistics, to assist in assessing an applicant's ability to pay and the probability of default. These models are reviewed and refined on a continual basis.

Consumer credit risk is monitored with three lines of defence. As the first line of defence, the consumer business financing group is responsible for adherence to the credit policies, controls and processes. As the second line of defence, the consumer risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline and policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and the implementation of policies and procedures.

Portfolio management

The Group assesses and analyses the overall portfolio quality at regular intervals in risk management committees. In addition, a RAROC (Risk Adjusted Return on Capital) model is used to assist management in pricing credit facilities granted to corporate clients. The RAROC model is based on the premise that pricing should be aligned with the risk embedded in the proposal.

The table below shows a classification of the Group's customer financing portfolio by credit quality as at 31 December in each of 2015 and 2014.

	Neither past-due nor impaired		**Past-due and impaired**	**Total gross customer financing portfolio**
	High(1)	**Standard(2)**		
		(KD '000)		
31 December 2015	2,766,463	123,651	93,118	2,983,232
31 December 2014	2,300,669	138,771	43,163	2,482,603

Notes:

(1) Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and payment capacity which are considered to be good to excellent.

(2) Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired.

(3) Credit exposures classified as "Past-due but not impaired" are facilities that are past-due up to a maximum period of 90 days. Upon 91 days past-due the facilities are classified as impaired.

As at 31 December 2015 and 2014, 83.2 per cent. and 84.7 per cent., respectively, of the past-due but not impaired category was 60 days or less past-due, with the remaining financings being between 61 and 90 days past-due.

Financing monitoring

The Group's credit exposures are regularly reviewed and monitored through a system of triggers and early warning signals aimed at detecting adverse symptoms which could result in a deterioration of credit risk quality. The triggers and early-warning systems along with market intelligence, facility utilisation and collateral valuation updates are included in the regular review of the credit facilities to enable timely corrective action by management. These reviews are performed on a semi-annual, annual and ad-hoc basis as required. The results of the monitoring process are reflected in the internal rating.

The total portfolio credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure executive management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Consumer credit risk reporting also includes a "dashboard" for consumer and small-business financing, classification and delinquency monitoring, such as ageing and migration.

Credit risk mitigation strategy

Portfolio diversification is the cornerstone of the Group's credit risk mitigation strategy, which is implemented through customer, industry and geographical limit structures.

In accordance with CBK regulations, the Group limits its credit concentration per group of related entities to 15.0 per cent. of the Bank's regulatory capital. This does not apply to government and quasi-government entities, agencies and departments in the GCC countries that do not work on a commercial basis or to banks. The Group also measures its concentration levels across sectors, geographies and products to ensure and enhance the portfolio oversight and diversification.

Credit risk mitigants, such as collateral and guarantees from third parties, are effective mitigating factors within the Group's portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of syndications, risk participation arrangements with other banks and the sale of financings are additional practices used to manage the Group's exposures.

The main types of collateral accepted by the Group are:

- cash collateral;
- quoted shares listed on the Kuwait Stock Exchange;
- bank guarantees; and
- commercial and residential real estate.

In accordance with the Group's credit policies, banks and creditworthy companies and individuals with a high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel III framework, only cash collateral, quoted shares, eligible sukuk instruments and units in collective investment schemes are recognised as risk mitigants for capital adequacy purposes. The eligibility of commercial real estate for capital adequacy purposes is being gradually phased out as part of the CBK Basel III framework.

The custody and daily mark-to-market of financial collateral are performed independently of the business units. Except for private residences, real estate collateral is valued on an annual basis.

As at 31 December 2015, approximately 63.4 per cent. of the Group's corporate financing portfolio was secured by collateral.

The Group is authorised to liquidate the portfolio of collateral at its discretion in the event of any default in the payment of the covered financing. The most liquid collateral (such as cash and listed shares) can then be liquidated within a matter of days and the proceeds applied to discharge the amounts outstanding on the relevant financing.

The collateral enforcement process in Kuwait in respect of real estate involves a number of steps. Given the fact that the relevant debtor and/or guarantor may raise objections at each stage, if enforcement is contested the typical time taken to finalise enforcement proceedings in relation to real estate is between 1 and 2 months and, in difficult cases, up to 3 months.

Consumer financings are generally not secured. However, before granting consumer financings, the Group requires that the customer's employer makes the customer's salary payments direct to the customer's account held with the Group.

Financing provisioning and write-off

Impairment of financial assets

The Group assesses, at each reporting date, if there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred **loss event**) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

In relation to the Group's customer financings and advances, which are typically carried at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be connected objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income. In addition, in accordance with CBK instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not specifically provided for.

Past-due and impairment provisions

Credit facilities are classified as past-due when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered as non-performing and impaired if the profit or a principal instalment is past-due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

Past-due and past-due and impaired facilities are managed and monitored as "irregular" facilities and are classified into the following four categories, which are then used to guide the provisioning process:

- Watchlist, irregular for a period up to and including 90 days;
- Substandard, irregular for a period from and including 91 days and up to and including 180 days;
- Doubtful, irregular for a period from and including 181 days and up to and including 365 days; and
- Bad, irregular for a period exceeding 365 days.

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

In relation to credit facilities which have been rescheduled by agreement between the Group and the customer, any previously-made provision is required to be maintained to meet the rescheduled credit facilities. When a percentage (as determined on a case by case basis) of the rescheduled facility balance has been repaid, the Provision Committee may reduce the provision to a percentage of the facility balance (as determined on a case by case basis).

The general provision has to be maintained at minimum levels of 1.0 per cent. for cash facilities and 0.5 per cent. for non-cash facilities (net of certain categories of collateral) for all facilities in respect of which no specific provision has been made.

For a discussion of movements in the Group's specific and general provisions as at 31 December in each of 2015 and 2014, see note 11 to the Financial Statements.

Market risk

Market risk management

The management and oversight of market risk inherent within the Group's non-trading activities is managed by the Group Asset and Liability Executive Committee. All activities giving rise to market risk are conducted within a structure of approved credit and position limits.

The Group's strategy for controlling market risk involves:

- stringent controls and limits;
- strict segregation of "front" and "back" office duties;
- regular reporting of positions; and
- regular independent review of all controls and limits.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits established by the Group Asset and Liability Committee on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an on-going basis.

See note 30.3 to the 2015 Financial Statements for an exchange rate sensitivity analysis based on a 5 per cent. strengthening of certain currencies against the dinar.

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages equity price risk through diversification of investments in terms of geographic distribution and industry concentration.

The Group's investments unit is responsible for managing its investment securities portfolio. In accordance with IAS 39, the equity investments are classified as available-for-sale securities, which means that they are expected to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in exchange rates or equity prices. These investments are initially recognised at fair value and subsequent unrealised gains or losses arising from changes in fair value on each balance sheet date are recognised in comprehensive income. When an investment is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

The CBK has set a maximum limit of 50 per cent. of a bank's regulatory capital for investment in funds and equities, excluding subsidiaries.

The Group treats its available-for-sale equity instruments as impaired when there has been a significant or prolonged decline in the fair value below the cost of the investment or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgement by management. See note 3 to the Financial Statements.

See note 30.3 to the 2015 Financial Statements for an equity price sensitivity analysis based on a five per cent. change in market indices.

For investments classified as available-for-sale, a five per cent increase in stock prices as at 31 December 2015 would have increased equity by KD 0.6 million (compared to an increase of KD 0.7 million as at 31 December 2014). For investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of KD 0.1 million (compared to an increase of KD 0.2 million as at 31 December 2014). An equal change in the opposite direction would have had an equal, but opposite effect to the amounts shown above, on the basis that all other variables remained constant.

LIQUIDITY RISK

Liquidity risk can be caused by market disruptions or credit rating downgrades which may restrict the availability of certain sources of funding. To address this risk, management has diversified the Group's funding sources and its assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

Liquidity risk arises in the general funding of the Group's activities. Under the guidance of the ALCO, the head office treasury manages the Group's liquidity and funding to ensure that sufficient funds are available to meet its known cash funding requirements and any unanticipated needs that may arise. At all times, the Group aims to hold what it considers to be adequate levels of liquidity to meet deposit withdrawals, pay funding costs and fund new financings, even under stressed conditions.

The liquidity and funding management process includes:

- projecting cash flows by major currency;
- self-imposed and regulatory liquidity ratios;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- liquidity stress tests to make sure the Group can survive liquidity squeezes under different stress scenarios.

The Group maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further reduced by the Group's adherence to the CBK's liquidity requirements, which comprise:

- maturity ladder mismatch limits for specific time periods: 10 per cent. for seven days or less; 20 per cent. for one month or less; 30 per cent. for three months or less; and 40 per cent. for six months or less;
- a requirement to hold 18 per cent. of KD customer deposits booked in the Bank, in Kuwaiti government treasury bills, current account/deposit balances with the CBK and/or any other financial instruments issued by CBK; and
- a requirement to keep sufficient funding against financing generation, as required by the CBK under its maximum available financing limit requirements.

The Group also has a contingency funding plan to establish an action plan to manage a stressed liquidity situation created by bank-specific issues or by market-wide (systemic) liquidity disturbances. The purpose of the plan is to provide a framework within which an effective response to a liquidity crisis can be managed.

Note 30.4 to the 2015 Financial Statements contains maturity profiles of the Group's assets and liabilities based on contractual cash flows and maturity dates and on contractual payment arrangements.

The Bank does not trade in derivatives. The Bank quotes foreign currency forward rates for the sale of foreign currencies against the purchase of KD on a very selective basis to clients for covering their trade (import) requirements. The Bank also uses profit rate swaps using the Murabaha structure to hedge against the profit rate risk on the sukuk that the Bank purchases for its investment portfolio.

OPERATIONAL RISK

Operational risks are managed at the Group level through an operational risk management framework which defines the roles and responsibilities of the Board Risk Committee, the Management Risk Committee, the operational risk management function, business line management and the Internal Audit function for monitoring, managing and reporting operational risk. The key components of the Board-approved framework are:

- comprehensive, documented policies, procedures and controls which reflect CBK and Basel guidelines for internal controls and sound practices for managing and supervising operational risks in banks;
- regularly planned and ad-hoc risk and control self-assessments conducted by business line management in coordination with and supported by the operational risk management function;
- quarterly key risk indicator submission and validation to identify risk trends and develop mitigating actions;
- operational incident and loss reporting and investigation of causes and failed controls; and
- assessment of external operational loss incidents occurring at other banks, which are cross-checked against the Group's internal control system to proactively identify any potential control weaknesses.

The Group's Risk Management and Compliance function works closely with all of the Group's business lines to raise awareness of operational risk. In addition to the risk opinions and constant support provided by the operational risk function through daily activities, operational risk awareness is to be achieved through a comprehensive training programme developed and delivered by the operational risk function to the various business units. The aim of this training programme is to cultivate strategic relationships with business line management and to encourage open communication and ownership of risk issues. This risk awareness training is conducted at the employee induction stage and repeated periodically for current employees.

Risk and control self-assessments are conducted once every two years for each of the Bank's departments and on an ad-hoc basis when the need arises to ensure that management has a clear picture of the operational risk exposure in terms of residual risks and to highlight any major control weaknesses. The focus is on business units performing the self-assessment of actual risks facing them and on the effectiveness of the controls they are implementing which is then validated and reassessed by operational risk management.

Key risks across business and support units are identified and monitored on a quarterly basis using various key risk indicators developed with the business units in line with the Group's risk appetite.

The capture and reporting of operational risk incidents and losses is established as a firm process across all business and support units. Close coordination with business units and the Internal Audit function enables operational risk management to track operational incidents and losses and to propose mitigating actions for business to follow in order to address control weaknesses. The Bank has also utilised technology to introduce an incident reporting and monitoring system.

In addition, a comprehensive business continuity and disaster recovery management programme has been implemented and fully tested and is designed to cope with business disruptions and major disasters.

The Group's operational risk management function leads the process management and control function across the Group to ensure control gaps are minimised across its key processes. Operational risk reporting is escalated periodically to the Board Risk Committee to ensure proper oversight and review is conducted by relevant members of the Board and executive management.

COMPLIANCE

Overview

The Group's compliance function is an independent function which reports to the Board Risk Committee. The function is responsible for overseeing and managing compliance aspects across the Group through a robust compliance framework.

The compliance framework consists of compliance policies, procedures and a dashboard and compliance is monitored through timely reports. In addition, a risk and compliance matrix is used across the Group to assess and monitor the effectiveness of regulatory compliance self-assessment tools that are used by the various business units.

The Group's compliance programme has three main pillars (advise, monitor and report) built on a foundation of a sound understanding of the appropriate regulatory requirements. Advising encompasses the internal notification of regulatory change, new products and services and internal processes as well as other internal communications including training and a compliance calendar. Monitoring includes procedures for compliance reviews, breach escalation, complaints handling and compliance indicators.

Compliance confidence indicators (**CCIs**) are used as a key tool in providing a measurable way to monitor compliance across the Group. Every department head is assigned a CCI which also forms part of his/her appraisal.

The Group's Internal Audit department also ensures that a robust compliance framework is being proactively implemented.

A risk and compliance matrix is used across the Group to assess and monitor the effectiveness of regulatory compliance in addition to regulatory compliance self-assessment tools.

Anti-money laundering (AML) and counter-terrorism financing (CTF)

The Group applies an integrated AML/CTF policy and procedures which take account of Financial Action Task Force recommendations, international sanctions lists (such as those of the United Nations, the European Union and the US Office for Foreign Assets Control) and applicable AML-related laws and regulations.

The Group's CTF policies apply customer due diligence principles for applicants and customers which include the following:

- all new customers being identified and verified;
- all customers being screened against all prohibited lists to ensure full compliance with international sanctions lists; and
- all outward and inward transfers being screened to comply with all sanctions lists.

Customer transactions are monitored on a daily basis under a risk-based approach to ensure no money laundering transactions are conducted. In addition, the Group conducts enhanced due diligence in relation to high-risk customers.

Internal Audit

The Group's Internal Audit function is an independent function reporting directly to the Board Audit Committee. The Board Audit Committee has three members (two of whom have specialised financial and investments experience). The CEO is normally invited to attend Board Audit Committee meetings.

The Board Audit Committee's terms of reference require it to:

- ensure the independence and effectiveness of the Internal Audit function;
- review the adequacy, efficiency and effectiveness of internal controls in the Group;
- review the accuracy and reliability of financial statements; and
- oversee the selection of the external auditors and review their scope of work and reported findings.

The Internal Audit function is an independent objective assurance function headed by the Chief Internal Auditor. The Internal Audit group is governed by a Board-approved internal audit charter, which defines the independence, objectivity, authority and responsibilities of the Group. The charter is in line with applicable regulations and promotes the standards of best professional practice issued by the Institute of Internal Auditors and applicable Basel Committee guidelines.

The Internal Audit group has adopted a risk-based audit approach for planning and conducting its audits. In addition, identified issues are tracked and followed up on a periodic basis. Validation of action taken and reporting on implementation status with clear escalation mechanisms are in place.

Final audit reports are circulated to the Board Audit Committee, the Chairman of the Board and the executive management concerned. In addition, quarterly meetings and presentations to the Board Audit Committee, including highlights on key audit issues and their follow-up status, are held.

The Board Audit Committee submits a quarterly report to the Board on its activities and the internal audit outcomes.

MANAGEMENT AND EMPLOYEES

MANAGEMENT

Corporate governance framework

The Group's corporate governance framework (**Framework**) is based on principles and standards defined by leading professional bodies and regulatory authorities and is embedded into the business activities and practices of the Group. The Framework is designed to secure effective oversight of the Group's strategy and business operations with a robust risk management approach, transparency and accountability, and to ensure protection of the rights of shareholders and stakeholders.

The Group ensures that it has a sound and effective corporate governance framework. The Board adopts and reviews the Framework and the executive management ensures proper implementation of the Framework through adequate policies, procedures and authority matrices, which the employees adhere to.

Further, the Group is committed to providing timely, consistent and accurate information to its stakeholders and has adopted a disclosure and transparency policy to ensure that this is achieved. This policy covers a wide range of areas, including the key quantitative and qualitative information related to financial performance and financial stability, risk management factors, remuneration, corporate governance, related-party transactions, conflicts of interest and substantial changes in business.

Board of Directors

The Group operates under the direction of the Board, which comprises nine members elected by the shareholders under a mandate to deliver sustainable value to all stakeholders, including depositors / customers, shareholders, employees, and society.

The Board is granted the highest authorities and overall responsibilities by the shareholders to manage the Bank. The Board operates in line with the by-laws of the Bank and its charter, where its scope of work includes but is not limited to:

- setting the strategies and risk appetite for the Bank;
- approving capital and operating plans presented by management for the achievement of the Bank's strategic objectives;
- ensuring efficient application of the resources for the achievement of the objectives; and
- monitoring the performance of the Executive Management.

The primary mandate of the Board is to align the Group's strategic objectives, risk appetite and overall corporate governance framework with the best interests of the Group and thereby maximise value for shareholders. This mandate is coupled with responsibility for monitoring and maintaining the Group's financial and economic stability and safeguarding the rights and benefits of all of the Group's stakeholders.

The roles of the Board Chairman and the CEO are separate and independent of one another and there is a clear segregation of duties and responsibilities. The Chairman's responsibilities are set out in the Board Charter and in the terms of reference of the Board.

The table below shows the names of the members of the Board as at the date of this Prospectus.

Name	Position
Mahmoud Yousef Al-Fulaij	Chairman
Adel Abdul Wahab Al-Majed	Vice-Chairman and CEO
Abdulaziz Abdullah Al-Shaya	Board Member
Ahmad Khalid Al-Homaizi	Board Member
Ahmed Yousef Al-Sager	Board Member
Farid Soud Al-Fozan	Board Member
Hazim Ali Al-Mutairi	Board Member
Nasser Abdulaziz Al-Jallal	Board Member
Waleed Mishari Al-Hamad	Board Member
Fatwa & Shari'a Supervisory Board	
Sheikh Dr. Abdulaziz Khalifa Al-Qasar	Chairman
Sheikh Dr. Esame Khalaf Al-Enezi	Member/Reporter
Sheikh Dr. Mohammed Awad Al-Fuzaie	Member
Sheikh Dr. Ali Ibrahim Al-Rashid	Member

Detailed below is brief biographical information about each member of the Board.

Mahmoud Yousef Al-Fulaij – Chairman (Non-Executive)

Mr. Al-Fulaij is a well-known businessman in Kuwait and joined the Bank in 2010 with more than 34 years of experience; he manages two general trading and contracting companies in Kuwait and is a board director of the Arcadia Real Estate Company, KSCC (Kuwait). He graduated with a Bachelor's degree in Business Administration from the International University in the United States of America in 1980.

Adel Abdul Wahab Al-Majed – Vice-Chairman & Chief Executive Officer (Executive)

Mr. Al-Majed joined the Bank in August 2009 with more than 34 years of banking experience. During the course of his career, Mr. Al Majed worked for National Bank of Kuwait (NBK) where he held several positions including deputy chief executive officer and general manager of the consumer banking group. Mr. Al-Majed is also chairman of the board of Bank of London and the Middle East (UK) and a board director of Visa APCEMEA – Senior Client Council. Mr. Al-Majed graduated from the University of Alexandria with a Bachelor's degree in Accounting and has attended various executive management development training programmes at several universities including Harvard, Wharton and Stanford.

Abdulaziz Abdullah Al-Shaya – Director (Non-Executive)

Mr. Al-Shaya is a well-known businessman and joined the Bank in 2009 with more than 37 years of experience in the trading and real estate sectors; he manages a trading company in Kuwait. Mr. Al-Shaya is also vice-chairman of the Awtad Real Estate Company, KSCC (Kuwait), board director of Mabanee Company, KSPC (Kuwait), board director of the Orient Education Services Company, KSCC (Kuwait) and vice-chairman of the Enmaa Real Estate Company (Oman). Mr. Al-Shaya holds a Bachelor's degree in Economics from Kuwait University.

Ahmad Khalid Al-Homaizi – Director (Non-Executive)

Mr. Al-Homaizi joined the Bank in 2012 and has well-diversified experience in banking, investments and consultancy. He is the general manager of a consultancy company in Kuwait, a board director of the Combined Group Contracting Company, KSPC (Kuwait) and a board director of Boubyan Capital Investment Company, KSCC (Kuwait). Mr. Al-Homaizi obtained his Bachelor's degree in Finance and Management Information System from Northeastern University in the United States of America, and his MBA from the London Business School.

Ahmed Yousef Al-Sager – Director (Non-Executive)

Mr. Al-Sager joined the Bank in 2011 and is an entrepreneur with more than 30 years of business and management experience. He is currently the managing partner of a well-known food trading company in Kuwait. He is also vice-chairman of Al-Yasra International Food Group, KSCC

(Kuwait), a board director of Al-Shall Investment Company, KSCC (Kuwait), a board director of United Electronics Company – EXTRA (Saudi Arabia), a board director of Göknur Foodstuff Company (Turkey), and a board director of BiscoMisr (Egypt). Mr. Al-Sager graduated from Claremont McKenna College in the United States of America with a Bachelor's degree in Economics.

Farid Soud Al-Fozan – Director (Non-Executive)

Mr. Al-Fozan joined the Bank in 2009 and has more than 27 years of experience in various sectors such as contracting, real estate development, and industry and energy services. Mr. Al-Fozan is also vice-chairman of the Inovest Investment Company, BSC (Bahrain), vice-chairman of the Gulf Group Holding Company, KSCC (Kuwait), a board director of the SAFCORP Holding Company, KSCC (Kuwait) and a board director of the Gulf Real Estate Company (Saudi Arabia). He manages operations of companies in Kuwait and the Kingdom of Saudi Arabia. Mr. Al-Fozan graduated from Kuwait University with a Bachelor's degree in Finance and Banking.

Hazim Ali Al-Mutairi – Director (Non-Executive)

Mr. Al-Mutairi joined the Bank in 2010 and has diverse experience for more than 23 years in the fields of financing, investments, and treasury. He is currently the chief executive officer of CreditOne Kuwait Holding Company, a board director of Warba Insurance Company, KSPC (Kuwait), and a board director of the Idafa Holding Company, KSCC (Kuwait). He graduated from the American University Washington D.C. in the United States of America with a Bachelor's degree in Finance.

Nasser Abdulaziz Al-Jallal – Director (Non-Executive)

Mr. Al-Jallal joined the Bank in 2013 and is a well-known banker with more than 32 years of banking, investments, and business experience. Mr. Al-Jallal has held several executive positions in banking, including general manager of corporate banking and treasury at Ahli United Bank in Kuwait. He is currently the chief executive officer of a general trading company in Kuwait, and a board director of Al-Mustaqbal Investment Company, KSCC (Kuwait). He graduated from University of the Pacific in the United States of America with a Bachelor's degree in Economics.

Waleed Mishari Al-Hamad – Director (Non-Executive)

Mr. Al-Hamad joined the Bank in 2010 and has more than 22 years of experience, including 11 years in banking with the remainder of his experience in the investment sector. Mr. Al-Hamad is the managing director of a holding company in Kuwait, the chairman of Boubyan Capital Investment Company, KSCC (Kuwait) and the managing director of the Helvetia Arab Holding Company, KSCC (Kuwait). Mr. Al-Hamad holds a Bachelor's degree in Economics and a Master's degree in Finance from California State Polytechnic University, Pomona in the United States of America.

The business address of each member of the Board is Al-Hamad Towers, P.O. Box 25507, Safat 13116, Kuwait. No member of the Board has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties. All members of the Board are independent in their judgement and decisions.

Board committees

The Board has established the five board committees which are described below. The roles and authorities of each board committee are defined and delegated by the Board and are described in each committee's charter. The chairperson of each board committee regularly reports to the Board on the performance of the activities of the respective board committee.

Board Executive Committee (BEC)

The BEC comprises four Board Directors, and is headed by the Vice-Chairman and CEO. The members of the BEC are not members of the Board Audit Committee or the Board Risk and Compliance Committee. The members of the BEC collectively possess experience in banking, business, real estate, credit financing and Islamic Shari'a.

In accordance with the charter of the BEC, the BEC is required to meet at least six times a year. The main role of the BEC is to review and to approve limits and transactions relating to financing and investment activities as set out within the auditory matrices of the Bank. The BEC also reviews related policies.

During 2015, the BEC met 39 times, on an approximately weekly basis. The Committee performed various activities, which included but were not limited to:

- approving financing transactions in line with the approved authority limits;
- recommending settlement and/or legal cases of corporate customers to the Board for approval; and,
- approving related party transactions and investment transactions within its authority limits.

The members of the BEC are Mr. Adel Abdul Wahab Al-Majed (Chairman), Mr. Abdulaziz Abdullah Al-Shaya, Mr. Hazim Ali Al-Mutairi and Mr. Nasser Abdulaziz Al-Jallal.

Board Nomination and Remuneration Committee (BNRC)

The BNRC comprises three Board Directors who collectively have experience in banking, business and Islamic Shari'a.

In accordance with the charter of the BNRC, the BNRC is required to meet at least four times a year. The main role of the BNRC includes the assessment of the nominees for the Board based on set criteria, the administration of the assessment of the Board, the revision of the remuneration policy, the assessment of the performance of executive management, and ensuring an appropriate employee succession plan.

During 2015, the BNRC met five times. The activities of the BNRC included, but were not limited to, the following:

- reviewing the proposed remuneration schemes and proposing recommendations to the Board;
- ensuring that performance assessment was conducted for executive management;
- reviewing the employee succession plan;
- identifying training programmes to the Board; and
- approving a set of policies related mainly to human resources.

The members of the BNRC are Mr. Nasser Abdulaziz Al-Jallal (Chairman), Mr. Abdulaziz Abdullah Al-Shaya and Mr. Ahmed Yousef Al-Sager.

Board Governance Committee (BGC)

The BGC comprises four Board Directors who collectively have experience in banking, business and governance. The Chairman is the chairperson of the BGC. The BGC is required to meet at least twice a year. The main role of the BGC includes developing and updating the Group's governance manual, ensuring that the governance manual is adequately adhered to, reviewing the annual governance report and following up on governance-related recommendations and/or actions.

During 2015, the BGC met twice in line with the minimum requirements. The BGC covered the following activities:

- approving the governance report;
- deliberating the governance review reports of the Corporate Governance Unit and following up on the status of respective actions;
- ensuring that the Board and Board Committees held an adequate number of meetings; and
- following-up on the actions taken based on the Board assessment report.

The members of the BGC are Mr. Mahmoud Yousef Al-Fulaij (Chairman), Mr. Adel Abdul Wahab Al-Majed, Mr. Farid Soud Al-Fozan and Mr. Hazim Ali Al-Mutairi.

Board Audit Committee (BAC)

The BAC comprises three Board Directors, who collectively have experience in banking, business, governance and audit. None of the BAC members is a member of the BEC.

The BAC is required to meet at least on a quarterly basis and its main role includes:

- reviewing the Group's internal audit charter and manual and accounting policies;
- assessing and recommending appointment of external auditors;
- reviewing the Group's quarterly financial statements;

- approving the Group's internal audit plan, discussing the Group's internal audit report, and following up on audit corrective actions;
- providing support to the Group's internal audit division to ensure the fulfilment of its scope of work effectively and independently; and
- assessing the appointment and/or the resignation of the general manager of the Internal Audit Division, and assessing his annual performance.

The BAC met six times during 2015, including a meeting every quarter in line with the corporate governance regulatory requirements. The activities of the BAC included but were not limited to:

- reviewing and approving the Group's internal audit plan;
- deliberating the Group's internal audit reports, engagement letters of external auditors, and Group's internal control review (**ICR**) report;
- reviewing the Group's quarterly financial statements;
- reviewing the Group's accounting policies; and
- following up on the Group's internal audit, engagement letters, ICR, and CBK observations and respective actions.

The members of the BAC are Mr. Farid Soud Al-Fozan (Chairman), Mr. Ahmad Khalid Al-Homaizi and Mr. Waleed Mishari Al-Hamad.

Board Risk Management and Compliance Committee (BRCC)

The BRCC comprises three Board Directors. None of the BRCC members is a member of the BEC.

In accordance with its charter, the BRCC meets at least four times a year, and reports on its activities to the Board on a periodic basis.

The role of the BRCC includes:

- assessing the risk appetite measures, risk strategy, and other risk-related measures, and making recommendations to the Board;
- reviewing and discussing the reports of the risk management division (**Risk Management Division**), including the capital adequacy ratio, internal capital adequacy assessment process (**ICAAP**), stress testing, and other risk assessment reports;
- providing support to the Risk Management Division to ensure the fulfilment of its scope of work effectively and independently; and
- approving the appointment and/or the resignation of the general manager of the Risk Management Division, and assessing his annual performance.

During 2015, the BRCC met seven times. The activities of the BRCC included but were not limited to the following:

- discussing the capital management plan;
- reviewing and approving various policies including credit risk policy and corporate finance policy;
- discussing quarterly risk profile reports;
- reviewing periodic ICAAP and stress testing reports;
- discussing risk asset review reports; and
- discussing activity reports pertaining to compliance and AML functions.

The members of the BRCC are Mr. Ahmed Yousef Al-Sager (Chairman), Mr. Ahmad Khalid Al-Homaizi and Mr. Waleed Mishari Al-Hamad.

Executive management

The Board delegates the implementation of the Group's adopted strategy and business plan to the executive management, which is headed by the Vice-Chairman and Chief Executive Officer.

The Bank's executive management team comprises:

Name and position	Brief CV
Adel Abdul Wahab Al-Majed Vice Chairman and Chief Executive Officer	Mr. Al-Majed joined the Bank in August 2009, and has more than 34 years of banking experience. During the course of his career, Mr. Al-Majed worked for the National Bank of Kuwait (**NBK**) where he held several positions including Deputy Chief Executive Officer and General Manager – Consumer Banking Group. Mr. Al-Majed graduated from the University of Alexandria with a Bachelor's degree in accounting, and has attended various executive management development programmes at several universities, including Harvard, Wharton and Stanford.
Abdulla Al-Najran Al-Tuwaijri Deputy Chief Executive Officer	Mr. Al-Tuwaijri joined the Bank in December 2011 with more than 27 years of retail banking experience at NBK. During his time with NBK, Mr. Al-Tuwaijri held different leadership roles in retail banking in Kuwait and London, where his last position was the Deputy General Manager – Consumer Banking Group. Mr. Al-Tuwaijri received his Bachelor's degree in Finance from Kuwait University, and has attended several executive development programmes at Harvard Business School, INSEAD, and other reputable institutions.
Abdul-Salam Mohammed Al-Saleh Deputy Chief Executive Officer	Mr. Al-Saleh joined the Bank in October 2012, and has more than 28 years of banking experience. Mr. Al-Saleh worked for 18 years at NBK, where he gained experience in financial control and corporate banking. His last position at NBK was the Head of Domestic Corporate Banking. Prior to joining the Bank, Mr. Al-Saleh worked for over seven years for the National Bank of Abu Dhabi (NBAD) as the Regional Manager of its branch in Kuwait. Mr. Al-Saleh received his Bachelor's degree in Finance from Kuwait University, and has attended various management and leadership training programmes over the course of his career.
Waleed Khalid Al-Yaqout General Manager – Administration Group	Mr. Al-Yaqout joined the Bank from NBK with more than 34 years of banking experience. His last position at NBK was General Manager – Administration and Human Resources Group. Mr. Al-Yaqout graduated with a Bachelor's degree in Business Administration and Marketing from the University of Ashland in the United States of America, and has participated in various executive management programmes at Harvard, Wharton, Stanford and Columbia.
Saleh Ahmed Al-Ateeqi Chief Executive Officer – Boubyan Capital	Mr. Al-Ateeqi joined the Bank in January 2010 as Assistant General Manager overseeing corporate strategy and transformation and moved to Boubyan Capital in September 2010. Prior to joining the Bank, Mr. Al-Ateeqi held several positions in the private sector. Most recently, he was a Senior Adviser with The Tony Blair Office on a project in Kuwait. He was also the Deputy General Manager for Strategy and Business Development at Mabanee Co. Previously, Mr. Al-Ateeqi was an Engagement Manager at McKinsey & Company, as well as at NBK. Mr. Al-Ateeqi holds a Master's in Business Administration in Strategic Management and Finance from The Wharton School of Business and a Bachelor's degree in Accounting with honours from Georgetown University in the United States.

Name and position	Brief CV
Adel Abdullah Al-Hammad General Manager – Human Resources Group	Mr. Al-Hammad joined the Bank in December 2006 and has more than 32 years of experience in Human Resources Management, of which 23 years were gained at NBK, where he held several key positions, the last of which was the Head of Human Resources. Mr. Al-Hammad graduated with a Bachelor's degree in Economics from Kuwait University, and attended several executive training programmes at Harvard University and Stanford University.
Dr. Waleed Eisa Al-Hasawi General Manager – Information Technology Group	Dr. Al-Hasawi joined the Bank in February 2011 and has more than 38 years of IT experience. He has held several positions in various institutions, the most recent of which was assistant general manager in the IT Sector at Kuwait Finance House. Dr. Al-Hasawi studied at Worcester Polytechnic Institute in the United States of America, earned a Master's degree at Lehigh University and received his PhD. from Loughborough University of Technology in the UK. All of Dr. Al-Hasawi's studies were in the field of electronics and computer engineering.
Ashraf Abdallah Sewilam General Manager – Corporate Banking Group	Mr. Sewilam joined the Bank in 2013, and has over 21 of years experience in the banking sector. Prior to joining the Bank, Mr. Sewilam was chief executive officer of Al Rajhi Bank-Kuwait. He held the position of the chief executive officer of UBCI (Ahli United Bank (AUB) subsidiary in Libya) and was the deputy chief executive officer at AUB (Kuwait) for the corporate and treasury divisions. Mr. Sewilam also worked for 10 years at NBK, where he progressed into several managerial positions, the last of which was as executive manager. Mr. Sewilam holds a Bachelor's degree in Economics from Cairo University.
Nahed Al Awadi Acting Head of Risk Management	Mrs. Al Awadhi joined the Bank in 2014 as Assistant General Manager of the Risk Department, and has over 30 years of banking experience in conventional and Islamic banks in Kuwait and the region. She holds a degree in Civil Engineering from Kuwait University, and started her banking career with the Gulf Bank in corporate banking. Mrs. Al Awadhi joined Burgan Bank in 2000 where she held a senior position in Risk Management, and also held a major role during the transformation of Burgan Bank from being a local bank to a regional one. She was the Acting Head of Risk Management for a year at Kuwait International Bank, where she gained exposure to Islamic banking, and then held the role of Head of Risk Management at Bank Muscat (Kuwait branch).
Abdul Rahman Hamza Mansour General Manager – Internal Audit	Mr. Hamza joined the Bank in 2006 and has more than 30 years of professional experience within financial institutions. Prior to joining the Bank, Mr. Hamza held a position as audit manager at the Kuwait Investment Authority and prior to this, worked at the Al-Ahli Bank of Kuwait. Mr. Hamza holds a Bachelor's degree in Accounting from Ain Shams University, Egypt, and he is a certified public accountant, a certified internal auditor and a certified fraud examiner.
Mohamed Ibrahim Ismail General Manager – Financial Control Group	Mr. Ismail joined the Bank in 2005 and has more than 19 years of banking and financial services experience. Mr. Ismail started his career as an external auditor with Deloitte & Touche and at Ernst & Young. In the course of his career, he has worked at the Kuwait Finance House and Gulf Investment House. Mr. Ismail is a certified public accountant and a certified internal auditor, and holds a Master's in Business Administration in Finance from Manchester Business School.

Name and position	Brief CV
Mukkulam Jamal Jaffar Deputy General Manager – Treasury Services	Mr. Jaffar joined the Bank in March 2005 and has over 37 years of experience in the banking sector, primarily in treasury services. Prior to joining the Bank, Mr. Jaffar held the position of assistant treasurer at Burgan Bank. Mr. Jaffar holds a Master's degree in Physics and a diploma in Bank Management from the Indian Institute of Bankers.

The business address of each member of the executive management is Al Hamad Towers, P.O. Box 25507, Safat 13116, Kuwait. No member of the Bank's executive management has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties.

Management committees

The Bank has a set of management committees to assist in fulfilling the duties and responsibilities of the executive management. The management committees derive their authorities primarily from the Vice-Chairman and CEO, based on authorities and limits delegated by the Board of Directors.

Management Executive Committee (MEC)

The MEC deals with all significant management level matters other than those handled by other management committees. The MEC meets on almost a weekly basis.

Assets and Liability Management Committee (ALCO)

The ALCO reviews the assets and liability composition of the Bank, liquidity risks, market risks, trends and their impact on the Bank. The ALCO meets on a monthly basis.

Management Credit Committee (MCC)

The main objective of the MCC is to discuss and make decisions within its authorised limits on financing proposals submitted by the Group's business groups. The MCC usually meets on a weekly basis.

Management Investment Committee (MIC)

The MIC discusses and makes decisions within its authorised limits on investment proposals submitted by the relevant business groups. The MIC usually meets on a weekly basis.

Provisions Committee (PVC)

The PVC reviews and evaluates the outstanding investments and financing transactions for each customer to determine any issues or difficulties relating to the customer's position that require the classification of such investments and financing transactions as irregular and hence determining the required provisions in accordance with CBK instructions and IFRS. The PVC meets at least once every quarter.

EMPLOYEES

The Group's human resources policy is designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Group protects and abides by the rights provided to employees which include, but are not limited to: a transparent working environment, employee talent management schemes, a transparent remuneration and compensation structure and access to a "whistleblowing" policy (which enables all employees to raise concerns in good faith and confidence directly to top management).

The Group has developed a "Talent Development Program" to provide employees identified as possessing leadership potential with exposure to various departments within the Group. In line with its commitment to develop and invest in its key "human capital" resources, the Group collaborates with world-class universities to provide these employees with training in a wide range of leadership disciplines.

As at 31 March 2016, the Group employed 1,042 full-time staff compared to 1,032 full-time staff and 916 full-time staff as at 31 December 2015 and 31 December 2014, respectively.

The Bank is committed to identifying, attracting and developing Kuwaiti nationals in its workforce. The Kuwaiti government's recommended policy is that 64 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 March 2016 was 76.0 per cent. and it is currently in compliance with all other applicable employment regulations.

OVERVIEW OF KUWAIT

Unless indicated otherwise, information in this section has been derived from Kuwaiti government publications.

Country Profile

Kuwait is a sovereign state on the coast of the Arabian Gulf, enclosed by Saudi Arabia to the south and south-west and Iraq to the north and west. Kuwait has proven conventional crude oil reserves of 101,500 million barrels, the fifth largest in the world (according to OPEC's Annual Statistical Bulletin 2015). The total area of Kuwait is 17,818 square kilometres. Kuwait is a constitutional monarchy with a parliamentary system of government and Kuwait City serves as the state's political and economic capital. Kuwait has an open economy that is primarily dependent on its oil industry and which is dominated by the government sector. Based on information from the Public Authority for Civil Information, Kuwait's population was approximately 4.0 million as at June 2014 (of which Kuwaiti nationals accounted for 31.1 per cent.).

Political Overview

Kuwait is a constitutional monarchy. The head of state, the Emir, appoints the prime minister, who leads a collective majority of elected members of parliament (National Assembly) to form the government of Kuwait. The prime minister selects a cabinet of a maximum of 16 members and at least one cabinet minister must be drawn from the elected parliament. The membership of the cabinet is subject to the approval of the Emir. The current National Assembly was elected in July 2013.

The current Emir is His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, with the current Crown Prince being His Highness Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and the current prime minister being His Highness Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah.

In terms of foreign relations and membership of international organisations, Kuwait, together with Bahrain, Oman, Qatar, Saudi Arabia and the UAE, form the GCC. Kuwait is also a member of OPEC and the United Nations. It is also a member of numerous international and multilateral organisations, including the IMF, the International Bank for Reconstruction and Development, the World Trade Organisation, the League of Arab States, the Organisation of the Islamic Conference, the Multilateral Investment Guarantee Agency and the United Nations Educational, Scientific and Cultural Organisation (UNESCO).

Economic Overview

According to data from the IMF's World Economic Outlook Database April 2016, Kuwait's real GDP increased by 0.9 per cent. in 2015, is projected to increase by 2.4 per cent. in 2016 and is projected to increase by 2.6 per cent. in 2017. Kuwait had a decrease in real GDP in 2013, which was primarily caused by a fall in Kuwait's oil-related GDP. Kuwait has posted a budget surplus for each of the last 15 fiscal years through to 31 March 2015.

The IMF's data indicates that inflation, on an average consumer price-measure, was 2.7 per cent. in 2013, 2.9 per cent. in 2014 and 3.4 per cent. in 2015. The IMF projects that inflation will remain stable at 3.4 per cent. in 2016 and projects that inflation will increase to 3.5 per cent. in 2017.

The oil and oil products sector is the most significant contributor to Kuwait's GDP. Oil and gas exports accounted for 61.8 per cent. of Kuwait's nominal GDP in 2013 and 56.6 per cent. of Kuwait's nominal GDP in 2014. Oil and gas exports were projected to account for 42.6 per cent. of nominal GDP in 2015 (according to the IMF's December 2015 Article IV Consultation with Kuwait). The sector is also the main contributor to Kuwait's annual revenues. On average, Kuwait produced 2.9 million barrels of crude oil each day in 2014 (OPEC Annual Statistical Bulletin 2015).

The IMF estimates that real non-oil GDP growth is projected to have slowed in 2015 and to slow further in 2016 on account of slower consumption and private investment activity, and to increase to 3.5 to 4.0 per cent. in the medium term, supported by government investment in infrastructure and private investment.

The following table shows Kuwait's key economic data for the years indicated:

	2011	2012	2013	2014
Kuwait GDP (U.S.$ 'billions)*	154,027.5	174,070.0	174,161.5	163,612.4
Annual GDP growth* (%)	9.63	6.63	1.15	(1.62)
Current Account**	65.7	78.7	69.5	53.8
Goods Exports (f.o.b)	102.8	119.7	115.8	104.8
Oil Exports	96.7	112.9	108.6	97.6
Non-oil Exports	6.1	6.7	7.2	7.3
Goods Imports (f.o.b)	(22.6)	(24.2)	(25.6)	(27.4)

* World Bank
** IMF December 2015 Article IV Consultation

Kuwait is estimated to have held reserves of foreign exchange and gold worth U.S.$31,400,000,000 as at 31 December 2015 (source: the CIA). In addition, Kuwait's sovereign wealth fund, the Kuwait Investment Authority, which was launched in 1953 and is the oldest sovereign wealth fund in the GCC region, has approximately U.S.$548 billion of assets under management according to data from the Sovereign Wealth Fund Institute.

In February 2015, the National Assembly approved a new five-year development plan (the Kuwait Development Plan) that envisages spending of approximately KD 34 billion to implement over 500 projects. The Kuwait Development Plan commenced in 2015 and is scheduled to end in 2020. The Kuwait Development Plan is the second of a series of plans based on a strategic vision for 2035 that emphasizes investment in infrastructure, health and education, and envisages significant co-participation of the private sector through the establishment of public shareholding companies. The primary objectives of the plan are to boost GDP, increase the private sector share of the economy and raise the number of Kuwaitis in the private sector.

OVERVIEW OF BANKING AND FINANCE REGULATIONS IN KUWAIT

The Central Bank of Kuwait

The Central Bank of Kuwait (the **CBK**) was established by Law No. 32/1968 (the **Banking Law**) and is managed by a board which is chaired by the Governor of the CBK and includes the Deputy Governor, a representative from each of the Ministry of Finance and the Ministry of Commerce and Industry (the **MOCI**) and four other members, each of whom must be a Kuwaiti national who is nominated by the Minister of Finance (after obtaining the approval of the Council of Ministers) among expert practitioners in economics, finance or banking and is appointed by an Amiri Decree for three years.

The CBK is entrusted with the supervision of Kuwait's banking system. Its supervisory authority covers a vast array of banking institutions, including conventional banks operating in Kuwait, Islamic banks, specialised banks, branches of foreign banks operating in Kuwait and a number of investment and exchange companies. Only banks licensed and regulated by the CBK are allowed to engage in the conduct of banking activities in Kuwait. In addition to the CBK's supervisory responsibilities with respect to the various banking institutions it regulates and its role as the monetary authority, the CBK's responsibilities include acting as lender of last resort to the banking sector and serving as banker and financial adviser to the government. The CBK issues currency and directs relations with international institutions. The CBK, either directly or through other financial institutions, undertakes operations relating to the sale and management of securities issued or guaranteed by the Kuwaiti government, or issued in Kuwaiti dinar by any public organisation or institution. The CBK may purchase, sell, discount and rediscount Kuwaiti government treasury bills and purchase and sell public debt securities issued and offered for sale by the Kuwaiti government. Islamic banks have been under CBK supervision since 2003.

In its supervisory capacity, the CBK may at any time inspect banks, investment companies and other institutions subject to the CBK's supervision, including branches, companies and banks that operate abroad and are subsidiaries of Kuwaiti banks. The CBK may issue such instructions to banks as it deems necessary to realise its credit or monetary policy or to ensure the sound progress of the Kuwaiti banking system. The CBK has the right to inspect the accounts, books, records, instruments and any other documents that it deems necessary for performing its supervisory role and may also request any other relevant data and information to be provided by any member of the board of any supervised institution. On completion of each inspection, the CBK issues a comprehensive report incorporating its recommendations of action to be taken to address any issues identified during the inspection.

The CBK issues instructions which cover various areas of the banking system, including the liquidity system, maximum limits for credit concentration, credit facilities classification, profit rate ceilings, the organisation of banks' credit policy, the extension of consumer financings and other instalment financings, the extension of banking services, foreign exchange translation and portfolio management. The CBK may impose penalties on any institution that fails to comply with an instruction.

The Kuwait National Assembly passed Law No. 30/2003 (concerning Islamic Banks) that amended the Banking Law to include a special section on the rules and regulations governing Islamic banks (the **Islamic Banking Law**). The Islamic Banking Law allows conventional Kuwaiti banks to practise Islamic banking activities through affiliates in which the principal bank owns at least 51 per cent. of the capital, and that each bank is allowed to establish one affiliate that has only one headquarters with a capital of not less than KD 15 million. The Islamic Banking Law also allows CBK to introduce Islamic instruments to deal with Islamic banks in order to regulate banking liquidity. In conjunction with instructions issued to conventional banks, the CBK also issues separate instructions for Islamic banks.

The CBK has also established the Financial Stability Unit (the **FSU**), which seeks to safeguard Kuwait's banking and financial systems against financial and economic shocks, suggesting appropriate corrective measures using macro-economic models. The FSU also assists in ensuring an effective internal supervisory system and good governance practices.

The Banking Law has allowed the CBK to make progress towards meeting international standards on the supervision and management of the country's banking and financial system. Through the Banking Law, the CBK now has the power to enter into memoranda of understanding with foreign authorities for the purposes of collaborative supervision. The CBK can also impose fines, limit activities, remove senior management, and appoint a controller or a commissioner, or both, to manage a financial institution under its supervision.

The Capital Markets Authority

Responding to increased calls for greater regulation and transparency in the Kuwaiti securities market, the Kuwait government enacted new laws and regulations relating to securities activities in Kuwait in 2010. Law No. 7 of 2010 (**Law No. 7**) and Executive Bylaws for Law No. 7 of 2010 Concerning Establishment of the Capital Markets Authority and Organization of Securities Activity (the **CMA Bylaws**, together with the Law No. 7, the **Capital Markets Law**), which marked a complete reboot of the securities and capital markets laws and regulations in Kuwait. The Capital Markets Law called for the establishment of the Capital Markets Authority (the **CMA**) with the power and authority to regulate, develop and supervise the activities of the capital markets in the State of Kuwait, with the primary objective of creating an attractive investment environment that obtains investors' trust. The CMA's responsibilities include regulating the marketing, offer and sale of securities in Kuwait, regulating mergers and acquisitions activity, disclosure of interest and investment fund promotion and regulating the licensing requirements for the Kuwait Stock Exchange (the **KSE**), including, licensing of those who operate within the KSE such as funds, asset managers, and brokers. In addition to the CMA's role in regulating all securities activities in Kuwait, the CMA has issued a comprehensive set of corporate governance rules which cover all aspects of a CMA regulated corporate entity, including, but not limited to, the composition of the board, selection criteria of constituent members, risk management and corporate social responsibility.

Certain Banking Regulations

All banks operating within Kuwait are subject to the supervision of the CBK, which is the primary regulator of banks and financial institutions in Kuwait whilst the CMA exercises supervisory authority over all Kuwaiti entities (including banks and financial institutions) which are listed on the KSE or engage in securities activities as discussed further below. The CBK imposes the following rules and regulations upon banks:

LEGAL FORM

Only joint-stock companies and branches of foreign banks licensed by the CBK may engage in the business of banking.

LIQUIDITY

The CBK requires banks to maintain 18 per cent. of their KD customer deposits in the form of balances with the CBK. Islamic banks must maintain 18 per cent. of their KD customer deposits in the form of balances with the CBK, short-term international murabaha transactions or finance sukuk issued by the Islamic Development Bank or governments of the GCC member countries (provided that the sukuk are traded and not less than Grade BBB).

Banks' liquidity is monitored using the Maturity Ladder Approach, under which future cash inflows are compared with future cash outflows. The resulting liquidity mismatches are then examined in time bands against approved limits for each band. The relevant Instruction relating to liquidity establishes the elements to be included when calculating assets and liabilities for the purpose of determining liquidity.

CREDIT RISK REGULATIONS

Financings to deposit ratio

Kuwaiti banks are restricted by the CBK from providing financing in excess of a prescribed percentage of qualifying deposits. With effect from May 2012, the prescribed percentages are 75 per cent. for deposits with a maturity of less than three months, 90 per cent. for deposits with maturities from three months to one year and 100 per cent. for deposits with a maturity in excess of one year.

Investment limits

The total ratio of the securities portfolio held by a Kuwaiti bank should not exceed 50 per cent. of the bank's capital in its comprehensive concept, as defined under the CBK's instructions to the local banks in respect of the Capital Adequacy Ratio and CBK Instruction no. BS/104 in respect of the credit concentration limits. Further, the ratio of the investment in the securities of any one issuer should be the lower of 10 per cent. of the bank's capital in its comprehensive concept or 10 per cent. of the issuer's capital.

Credit facility classifications

The CBK requires banks operating in Kuwait to evaluate and classify their credit facilities into two categories (regular and irregular) on a periodic basis. The relevant instructions specify the cases when a credit facility must be classified as "irregular" and include where payment of an instalment is not made, profit is not paid on the maturity date or the debit balance exceeds the drawing limits for the customer.

Foreign exchange transactions

Local banks may deal with foreign banks for foreign exchange transactions, may deposit Kuwaiti dinar with foreign banks and may enter into foreign exchange swap and other derivative transactions, including options, futures and forward contracts.

CONCENTRATION RISK REGULATIONS

Maximum limit for credit concentration

Subject to certain exceptions, or where prior CBK approval has been obtained, the total credit liabilities of any single customer (including its legally or economically associated entities) to a bank may not exceed 15 per cent. of the bank's capital base.

Clustering limit – total limit for large concentrations

The aggregate of large credit concentrations (being concentrations which exceed 10 per cent. of a bank's capital base), including any exceptions approved by the CBK, may not exceed 400 per cent. of a bank's capital base.

Consumer financings

The CBK's instruction on consumer financings provides that any consumer financings granted to a bank's customers cannot be utilised for the purpose of paying an existing financing with another bank in Kuwait.

Extension of facilities for non-residents

Local banks are permitted to extend credit facilities in KD to non-residents without the need for prior consent from the CBK only in connection with financing contracts awarded by government bodies in Kuwait whose value does not exceed KD 40 million and where the financing does not exceed 70 per cent. of the total value of the contract. In all other cases, CBK consent is required for financings to non-residents.

CAPITAL ADEQUACY REGULATIONS

On 24 June 2014, the CBK issued its final instructions ("Implementing Capital Adequacy Standards – Basel III – for conventional banks" and ("Implementing Capital Adequacy Standards – Basel III – for Islamic banks") (the **Basel III Instructions**) to conventional and Islamic banks in Kuwait.

The Basel III instructions require that the terms and conditions of Tier 1 or Tier 2 instruments issued by a licensed bank in Kuwait must contain a provision that permits such instruments to be either written -off or converted into common equity, as determined by the CBK, should a "Trigger Event" (defined below) occur.

Pursuant to the Basel III instructions, a "Trigger Event" will have occurred if any one of the following events occurs:

(i) the issuing bank is instructed by the Financial Regulator to write-off or convert such instruments on the grounds of non-viability; or

(ii) an immediate injection of capital is required, by way of an emergency intervention, without which the issuing bank would become non-viable.

Notwithstanding the definition of "Trigger Event" set out above, the Conditions only allow for a Write-down (as defined in the Conditions), and not a conversion into ordinary shares, of the Certificates to take place following the occurrence of a "Trigger Event".

PROFIT RATE CAP REGULATIONS

The CBK's instruction on profit rates provides that the maximum limits for profit rates on KD financings to corporates should not exceed:

(i) 2.5 per cent. over the CBK's discount rate in the case of commercial financings with a maturity of one year or less; and

(ii) 4 per cent. over the CBK's discount rate in the case of commercial financings exceeding one year.

Profit rates for housing and consumer financings denominated in Kuwaiti dinar are currently capped at the CBK discount rate plus 3 per cent. for each block of five years. Such profit rates may be adjusted by no more than plus or minus 2 per cent. for each subsequent block of five years.

Profit rates for financings in currencies other than the Kuwaiti dinar are not regulated by the CBK.

OTHER NOTABLE CBK INSTRUCTIONS

Management of third parties' portfolios

Instructions apply to portfolios managed by banks and investment companies for the account of third parties and invested in foreign securities and other financial instruments.

Shari'a Supervisory Board

Islamic banks in Kuwait must have a Shari'ah supervisory board, which must have a minimum of three members. The Shari'ah supervisory board is responsible for determining the Shari'ah compliance of bank products and transactions. The board of directors of an Islamic bank must implement the directives of the Shari'ah supervisory board regarding Shari'ah compliance.

Corporate Governance

During June 2012, the CBK issued the "Instructions for the Governance of Kuwaiti Banks" (the **Governance Instructions**), which apply to all banks in Kuwait and were required to be implemented by 1 July 2013. The Governance Instructions provide principles that should be followed and applied by Kuwaiti banks in order to ensure proper governance. These include the independence of the board while conducting its work, the setting of a strategy for the bank, putting in place a clear risk policy, protecting the interests of depositors and conducting its business in a safe manner. The Governance Instructions require each bank to produce a governance manual (which must be approved by the bank's board) and establish a governance committee to ensure the execution of the governance manual.

The Governance Instructions define the role of a bank's board, the executive committee (which is to include the chief executive officer), the risk committee, the internal and external audit committee, and any other committees that have an active role in the business of the bank. The Governance Instructions also require each bank to adopt a disclosure and transparency policy (covering topics including material information that may affect the relevant bank's financial position, changes to its management, board or shareholding structure).

The Board of Directors of the Bank adopts and implements internationally accepted as well as local corporate governance practices, including the Governance Instructions. See "*Management and Employees— Management—Corporate governance*" for further detail.

Application of CBK Regulations to the Bank

The Bank is the third largest Islamic bank in Kuwait. It is incorporated as a public shareholding company in Kuwait, is registered as a bank with the CBK and is listed on the KSE. As a Kuwaiti shareholding company, the Bank is licensed by the MOCI and as a bank is primarily supervised by the CBK. The MOCI issued the Bank with a commercial licence, renewable according to Kuwaiti law, to carry on banking activities. The Bank's commercial licence was last renewed on 12 August 2012 for the period until 11 August 2016. The Bank has no reason to believe that its commercial licence will not be renewed by the MOCI.

The CBK acts as lender of last resort to all of the Kuwaiti banks. As a financial institution, the Bank is required to submit various periodic and one-off reports to the CBK in a format prescribed by it. The CBK also conducts inspections of banking and financial institutions (banks, investment companies, money exchange companies and mutual funds) which are subject to its supervision in order to ascertain their financial sustainability and their adherence to their constitutional by-laws. These inspections may be in the form of a specific inspection or a full audit of all activities. The CBK inspects all financial institutions, which are subject to its supervision periodically and its most recent inspection of the Bank was conducted during the period from 23 August 2015 to 28 August

2015. The final inspection report was issued by the CBK on 20 December 2015 and contained no material issues.

In addition to the CBK, the CMA also exercises supervisory authority over the Bank as a company listed on the KSE.

Banking System

As at 31 December 2015, the Kuwaiti banking sector comprised 23 banks, including five commercial banks, one specialised bank and five Shari'ah-compliant local banks.

The Kuwaiti banking sector has experienced increased competition and diversification from the entry of international banks establishing branches in Kuwait, following the promulgation of Law No. 28 of 2004 amending certain provisions of Law No. 32 of 1968 concerning Currency, CBK and the Organisation of Banking Business. As at 31 December 2015, total assets in the Kuwaiti banking sector amounted to KD 58.6 billion and total financings to Kuwaiti residents amounted to KD 30.8 billion (source: CBK).

The key performance indicators of the Kuwaiti banks for the year ended 31 December 2014 are set out below (source: annual reports published on the company website of each bank listed below).

	Cost to income ratio	Return on assets	Return on equity	Earnings per share
	(%)	*(%)*	*(%)*	*(fils)*
Boubyan	45.2	1.2	10.1	13.7
National Bank of Kuwait	33	1.3	10.1	56
Burgan Bank	44	0.8	10.9	37.6
Gulf Bank	34	0.7	7.1	13
Commercial Bank of Kuwait	24	1.2	8.8	34.9
Al-Ahli Bank of Kuwait	30	1.1	6.8	23

Financial Stability Law and Deposit Guarantee Law

In response to the global financial crisis, which began in 2008, the Kuwaiti government took a number of measures, including the passing of Decree No. 2 of 2009 (the **Financial Stability Law**). The Financial Stability Law sought to stabilise the financial sector in Kuwait and other economic sectors so as to encourage the financing of such sectors by local banks.

As a further measure, the Kuwaiti government passed Law No. 30 of 2008 regarding the guarantee of deposits held with local banks (the **Deposit Guarantee Law**). Under the Deposit Guarantee Law, the Kuwaiti government has undertaken to guarantee the principal (but not profit) of all deposits held with local banks in Kuwait, including saving accounts and current accounts.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

Declaration of Trust

The Declaration of Trust will be entered into on the Issue Date between the Bank, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets will comprise (i) the cash proceeds of the issuance of the Certificates pending application thereof in accordance with the terms of the Transaction Documents; (ii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (iii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by the Bank (acting in any capacity) pursuant to any of the Transaction Documents and the covenant to indemnify the Trustee given by the Bank pursuant to the Declaration of Trust); and (iv) all amounts standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust shall provide that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in Condition 5.3 (*The Trust*). After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

(a) hold the Trust Assets on trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and

(b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of the present and future powers (including the power to sub-delegate), trusts, rights, authorities (including but not limited to the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the provisions of the Declaration of Trust and the Conditions. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, shall not affect the Trustee's continuing role and obligations as trustee. Pursuant to the Declaration of Trust:

(a) upon the occurrence of a Bank Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 12.1 (*Bank Events*), the Delegate may at its discretion (acting on behalf of Certificateholders) or shall, if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction take one or more of the following steps: (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute steps, actions or proceedings for the bankruptcy of the Bank; and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or proceedings which, under the laws of the State of Kuwait, have an analogous effect to the actions referred to in (i) to (iv) above, in each case for (subject to the provisos contained in Condition 12.3(a) (*Proceedings for Winding-up*)), all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents); and

(b) without prejudice to Conditions 12.1 (*Bank Events*) and 12.3 (*Winding-up, dissolution or liquidation*) and the provisions of clause 16 of the Declaration of Trust, the Trustee (or the Delegate) may at its discretion and the Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*) if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice institute such steps, actions or proceedings against the Bank and/or the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*), and in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents.

A Transaction Account will be established in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of amounts payable under the Mudaraba Agreement immediately prior to each Periodic Distribution Date (see "*—Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in Condition 5.3 (*The Trust*).

Mudaraba Agreement

The Mudaraba Agreement will be entered into on or before the Issue Date between the Bank (as the Mudareb) and Boubyan Tier 1 Capital SPC Limited (as Trustee and Rab-al-Maal) and will be governed by English law.

The Mudaraba will commence on the date of payment of the Mudaraba Capital to the Mudareb and will end on (i) the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions following the liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement (the **Mudaraba End Date**) or (ii) (if earlier), and in the case of a Write-down in whole only, on the Non-Viability Event Write-down Date.

Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be contributed by the Rab-al-Maal to the Mudareb and shall form the Mudaraba Capital. The Mudaraba Capital shall be invested by the Bank (as Mudareb), on an unrestricted co-mingling basis, in its general business activities carried out through the General Mudaraba Pool in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the **Investment Plan**). The Mudareb will acknowledge and agree in the Mudaraba Agreement that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba in reliance on the Investment Plan. The General Mudaraba Pool does not include any other investment pool maintained by the Bank.

The Mudareb is expressly authorised to co-mingle the Mudaraba Capital with its shareholders' equity and such amounts may be co-mingled in its general business activities carried out through the General Mudaraba Pool, provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall deduct a proportion of any profit earned (including, for the avoidance of doubt, any profit earned in respect of the proceeds of all current savings and investment deposit accounts forming part of the General Mudaraba Pool) for its own account.

The Mudaraba Agreement provides that the profit (if any) generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

(a) the Trustee 99 per cent.; and

(b) the Mudareb 1 per cent.

If the Mudareb elects to make a payment of Mudaraba Profit or Final Mudaraba Profit is otherwise payable pursuant to the Mudaraba Agreement, and if the Trustee's share of the Mudaraba Profit (the **Rab-al-Maal Mudaraba Profit**) or the Trustee's share of the Final Mudaraba Profit (the **Rab-al-Maal Final Mudaraba Profit**) (as applicable) payable to the Trustee is (i) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (the **Mudaraba Reserve**) and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Trustee will be reduced accordingly; or (ii) is less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after re-crediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) and, if a shortfall still exists following such re-credit, it may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall. The Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date and to use such amounts for its own purposes provided that such amounts shall be repaid by it to the Mudaraba Reserve if so required to fund a shortfall.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Principal Paying Agent, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event in accordance with the notice periods set out in the Mudaraba Agreement. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit not paid as a result of either a Non-Payment Event or (in the case of any Rab-al-Maal Mudaraba Profit only) a Non-Payment Election and such non-payment in whole or in part, as applicable, in such circumstance will not constitute a Dissolution Event. If any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit is not paid as a consequence of a Non-Payment Election or a Non-Payment Event, then from the date of such Non-Payment Election or Non-Payment Event (the **Dividend Stopper Date**), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, declaring or paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until (i) the next following payment of Rab-al-Maal Mudaraba Profit or, (ii) as the case may be, Rab-al-Maal Final Mudaraba Profit following a Dividend Stopper Date, is made in full to the Trustee following such Non-Payment Election or Non-Payment Event (or an amount equal to that amount has been duly set aside or provided for in full for the benefit of the Trustee).

Subject to certain conditions as set out in the Mudaraba Agreement, the Bank (as Mudareb) may (in its sole discretion) liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(a) on the First Call Date or any Periodic Distribution Date thereafter by giving not less than 35 nor more than 65 days' prior notice to the Trustee; or

(b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 35 nor more than 65 days' prior notice to the Trustee:

    (i) upon the occurrence of a Tax Event; or

    (ii) upon the occurrence of a Capital Event.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (a) or (b)(i) above and the capital to be returned to the Trustee (the **Dissolution Mudaraba Capital**) which would be generated upon such liquidation is less than the Mudaraba Capital, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Trustee in which case there shall be a final constructive liquidation of the Mudaraba.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (b)(ii) above and the Dissolution Mudaraba Capital which would be generated upon such liquidation is less than the aggregate of the Mudaraba Capital and the Capital Event Profit Amount, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital, the Capital Event Profit Amount and such shortfall to the Trustee in which case there shall be a final constructive liquidation of the Mudaraba.

Under the terms of the Mudaraba Agreement, the Mudaraba will mandatorily be liquidated in whole but not in part if at any time an order is made, or an effective resolution is passed, for the winding-up, bankruptcy, dissolution or liquidation (or other analogous event) of the Mudareb and/or if a Bank Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*Bank Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts due in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions being satisfied.

The Mudaraba Agreement also provides that if a Non-Viability Event occurs, a Write-down (in whole or in part, as applicable) will take place. In such circumstances, in the case of a Write-down in whole only, the Mudaraba Agreement will be automatically terminated (and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets), and in the case of a Write-down in part only, the Mudaraba Capital shall be reduced in proportion to the face amount of the Certificates that are to be written-down and the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates.

The Bank (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by the Bank to be varied upon the occurrence of a Tax Event or a Capital Event pursuant to the Conditions, to make such variations to the Mudaraba Agreement as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall take such action as it deems appropriate, in each case, in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to *Shari'a*.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made free and clear of, and without any withholding or deduction for, or on account of, Taxes, unless such withholding or deduction is required by law and provide for the payment of Additional Amounts so that the net amounts received by the Certificateholders shall equal the respective amounts that would have been received in the absence of such withholding or deduction. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the Mudaraba Term), but excluding the Mudareb's obligations (if any) to pay any Taxes and/or Additional Amount, will be borne by the Mudaraba itself.

Agency Agreement

The Agency Agreement will be entered into on the Issue Date between the Trustee, the Bank, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate (or procure the authentication of) and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay all sums due under such Global Certificate; the Calculation Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to calculate the Profit Rate in respect of each Reset Period commencing on the relevant Reset Date, subject to and in accordance with the Conditions; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer all or part of the Definitive Certificate and issue Definitive Certificates in accordance with each request.

On the Issue Date, the Registrar will (i) authenticate (or procure the authentication of) the Global Certificate in accordance with the terms of the Declaration of Trust; and (ii) deliver the Global Certificate to the Common Depositary.

The Bank shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, in same day freely transferable, cleared funds, any payment which may be due under the Certificates in accordance with the Conditions.

The Principal Paying Agent agrees that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in Condition 5.3 (*The Trust*).

TAXATION

The following is a general description of certain Kuwait, UAE, DIFC, European Union and United States tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Kuwait

This summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955 (the "Decree"), as amended by Law No. 2 of 2008 "Amending Certain Provisions of Kuwait Income Tax Decree No. 3 of 1955" (the "Amendment"), the Executive Bylaws of the Amendment (the "Regulations"), and various ministerial resolutions and circulars relating thereto issued by the Ministry of Finance (the "MOF") (together, the "Taxation Laws") as interpreted and implemented by the MOF's Department of Income Tax ("DIT") as at the date of this Prospectus. Any subsequent changes in either the Taxation Laws or the interpretation or implementation of the same by the DIT would alter and affect this summary.

Income tax

Under the Taxation Laws, income tax (at a flat rate of 15 per cent.) is levied on, *inter alia*, the net income and capital gains realised by any corporate entity (interpreted by the DIT to mean any form of company or partnership), wherever incorporated, that conducts business in Kuwait. However, the DIT to date has granted a concession to such corporate entities incorporated in Kuwait or in any other GCC country (being referred to in this Prospectus as GCC corporate entities) and has only imposed income tax on corporate entities which are not GCC corporate entities (being referred to in this Prospectus as non-GCC corporate entities) which, for the avoidance of doubt, includes shareholders of GCC corporate entities which are themselves non-GCC corporate entities, in each case, conducting business in Kuwait. The following paragraphs in this section are therefore applicable only to non-GCC corporate entities. Pursuant to the Regulations, income generated from the lending of funds inside Kuwait is considered to be income realised from the conducting of business in Kuwait, and is therefore subject to income tax.

It is worth noting that pursuant to Law No. 22 of 2015 amending Law No. 7 of 2010 (the **CMA Amendment**), yields of securities, bonds, finance sukuk and all other similar securities regardless of the issuer thereof shall be exempted from taxation. Additionally, the tax exemption provided under the CMA Amendment were acknowledged by a recent administrative resolution, Administrative Resolution no. 2028 of 2015, issued by the Minister of Finance (the ministerial resolution and collectively with the CMA Amendments the **Tax Exemptions**). Although the Tax Exemptions are yet to be tested, they clearly provide for a tax exemption to the Certificateholders.

However, given the lack of precedent in this regard, it is not possible to state definitively how the DIT and/or the Kuwaiti courts may implement or enforce the Tax Exemptions.

Furthermore, it is important to note that notwithstanding the Tax Exemptions, it remains a possibility that the DIT may seek to bifurcate the sukuk structure – i.e. they may only consider the Tax Exemptions effective against those yields that are distributed from the Trustee to the Certificateholders and leave the distributions from the Mudareb to the Trustee as taxable. However, this possibility remains highly unlikely.

Individuals are not subject to any Kuwaiti income tax on their income or capital gains.

Retention

Under the Regulations, a Kuwaiti-based party making a payment (being referred to in this section as the payer) to any other party (being referred to in this section as the payee), wherever incorporated, is obliged to deduct five per cent. of the amount of each such payment until such time as the DIT issues a tax clearance certificate approving the release of such amount. The payer is not required to transfer the deducted amount to the DIT immediately, but instead retains such amount and releases it either (i) to the payee upon presentation to the payer by such payee of a tax clearance certificate from the DIT confirming that the payee is not subject to or is exempt from income tax, or has realised a loss, or has paid or guaranteed the payment of its income tax; or (ii) in the absence of such a tax clearance certificate, to the DIT, on demand. According to a literal interpretation of the Regulations, payments which are subject to a deduction as described above would include principal and profit payments.

Although payments made by the Mudareb would likely not be subject to retention because of the Tax Exemptions, there is a lack of guidance on this issue currently from the DIT, and as such, there is a remote possibility that retention could apply. Accordingly, the Mudareb would be required to deduct five per cent. from every payment made by it to the Trustee (under the terms of the Mudaraba Agreement), which amount would be released by the Mudareb upon presentation to it by the Trustee of a tax clearance certificate from the DIT.

However, the Issuer shall be able to rely on the provisions in the Mudaraba Agreement, which require the Mudareb to gross up each payment by an amount equal to any deduction, irrespective of whether a tax clearance certificate is presented or not.

Other taxes

Save as described above, all payments in respect of the Certificates and the Mudaraba Agreement may be made without withholding, deduction or retention for, or on account of, present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait.

No stamp, registration or similar duties or taxes will be payable in Kuwait by holders of Certificates in connection with the issue or any transfer of the Certificates.

United Arab Emirates (excluding the Dubai International Financial Centre)

There is currently in force in the Emirate of Dubai legislation establishing a general corporate taxation regime (the Dubai Income Tax Decree 1969 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE or Dubai taxation in respect of payments of profit and principal to any holder of the Certificates or any payments to be made by the Bank to the Trustee pursuant to the Mudaraba Agreement.

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into "Double Taxation Arrangements" with certain other countries, but these are not extensive in number.

Dubai International Financial Centre

Pursuant to Article 14 of Law No. (9) of 2004 in respect of the Dubai International Financial Centre (the **DIFC Law**), entities licensed, registered or otherwise authorised to carry on financial services in the Dubai International Financial Centre and their employees shall be subject to a zero rate of tax for a period of 50 years from 13 September 2004. This zero rate of tax applies to income, corporation and capital gains tax. In addition, this zero rate of tax will also extend to repatriation of capital and to transfers of assets or profits or salaries to any party outside the Dubai International Financial Centre. Article 14 of the DIFC Law also provides that it is possible to renew the 50-year period to a similar period upon issuance of a resolution by the Ruler of the Emirate of Dubai. As a result no payments by the Issuer under the Certificates are subject to any Dubai International Financial Centre tax, whether by withholding or otherwise.

The Proposed Financial Transactions Tax (*FTT*)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The proposed FTT has very broad scope and could, if introduced, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating Member State; or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Certificates are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to: (i) any non-U.S. financial institution (a foreign financial institution, or FFI (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA; and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Trustee (a **Recalcitrant Holder**). The Trustee may be classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2019.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the Model 1 and Model 2 IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Arab Emirates have entered into an agreement (the **U.S.-UAE IGA**) based largely on the Model 1 IGA.

If the Trustee is treated as a Reporting FI pursuant to the US-UAE IGA, it does not anticipate that it will be obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Trustee will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. The Trustee and financial institutions through which payments on the Certificates are made may be required to withhold FATCA Withholding if: (i) any FFI through or to which payment on such Certificates is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA; or (ii) an investor is a Recalcitrant Holder.

Whilst the Certificates are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Certificates by the Trustee, the Principal Paying Agent and the Common Depositary, given that each of the entities in the payment chain between the Trustee and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Certificates. The documentation expressly contemplates the possibility that the Certificates may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Certificates will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Trustee and to payments they may receive in connection with the Certificates.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement (the **Subscription Agreement**) dated 12 May 2016, agreed with the Trustee and the Bank to sell to the Joint Lead Managers U.S.$250,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers have jointly and severally agreed to subscribe for the Certificates.

In accordance with the terms of the Subscription Agreement, each of the Trustee and the Bank has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the Certificates and to indemnify the Joint Lead Managers against certain liabilities incurred by them in connection therewith.

The Trustee and the Bank will pay each relevant Joint Lead Manager a commission as agreed between them in respect of Certificates subscribed by it. To the extent permitted by law, the Trustee, the Bank and the Joint Lead Managers may agree that commissions or fees may be paid to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Certificates by such intermediary and/or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the relevant intermediary and none of the Trustee, the Bank, the Joint Lead Managers or any of their affiliates, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations. Each customer of any such intermediary is responsible for determining for itself whether an investment in the Certificates is consistent with its investment objectives.

The Subscription Agreement entitles the Joint Lead Managers to terminate any agreement that they make to subscribe Certificates in certain circumstances prior to payment for such Certificates being made to the Trustee.

In connection with the offering of the Certificates, any shareholder or related party of the Bank may invest in and may take up Certificates in the offering and may retain, purchase or sell for its own account such Certificates. Accordingly, references herein to the Certificates being offered should be read as including any offering of the Certificates to any shareholder or related party of the Bank. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

General

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Certificates or possesses or distributes this Prospectus and neither the Trustee, the Bank nor any of the Joint Lead Managers shall have any responsibility therefor.

Neither the Trustee, the Bank nor any of the Joint Lead Managers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

United States

The Certificates have not been and will not be registered under the Securities Act, as amended, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Certificates (i) as part of their distribution at any time or (ii) otherwise until expiration of 40 days after the completion of the distribution of all Certificates, as determined and certified to the Principal Paying Agent by such Joint Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Joint Lead Manager to which it sells Certificates during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Certificates are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until the expiration of 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by any Joint Lead Manager may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Trustee and the Bank for use in connection with the offer and sale of the Certificates outside the United States. The Trustee, the Bank and the Joint Lead Managers reserve the right to reject any offer to purchase the Certificates, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Trustee of any of its contents to any such U.S. person or other person within the United States, is prohibited.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or the Bank; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

Cayman Islands

Each Joint Lead Manager has represented and agreed that no invitation or offer, whether directly or indirectly, to subscribe for the Certificates has been or will be made to the public in the Cayman Islands.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(i) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the **DFSA**); and

(ii) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module.

State of Kuwait

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be marketed or sold by it in Kuwait unless (a) all necessary approvals from the CMA pursuant to Law No. 7/2010 and its implementing regulations and the various Resolutions, Instructions and Announcements issued pursuant thereto or in connection therewith have been granted and (b) the Certificates are marketed or sold through persons or corporate entities authorised and licensed by the CMA to carry out such activities.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates, except on a private placement basis to persons in Bahrain who are "accredited investors".

For this purpose, an **accredited investor** means:

(i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(ii) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(iii) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kingdom of Saudi Arabia

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Certificates. Any investor in Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 10 of the Offer of Securities Regulations as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**), through a person authorised by the Capital Market Authority (the **CMA**) to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations. The Certificates may thus not be advertised, offered or sold to any person in Saudi Arabia other than to "Sophisticated Investors" under Article 10 of the KSA Regulations.

Each Joint Lead Manager has represented and agreed that any offer of Certificates to a Saudi Investor will be made in compliance with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a public offer pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 10 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the CMA and: (i) the Certificates are offered or sold to a Sophisticated Investor; (ii) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (iii) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

State of Qatar

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Certificates in Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Joint Lead Manager has represented and agreed that it will not offer or sell any Certificates, directly or indirectly, offer or in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act of 1949 (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (a) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (b) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **Securities and Futures Ordinance**) and any rules made under that Ordinance; or (c) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Malaysia

Each Joint Lead Manager has represented and agreed that:

(i) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**); and

(ii) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Joint Lead Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Singapore

This Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Each Joint Lead Manager has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**); (ii) to a relevant person under Section 275(1) of the SFA or to any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Switzerland

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Certificates. The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Certificates constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Prospectus nor any other offering or marketing material relating to the Certificates may be publicly distributed or otherwise made publicly available in Switzerland.

GENERAL INFORMATION

Listing

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID. It is expected that the listing of the Certificates on the Official List and admission of the Certificates to trading on the Main Securities Market will be granted on or around 17 May 2016. The total expenses related to the admission to trading are estimated at Euro 6,540.

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer in relation to the Certificates and is not itself seeking admission of the Certificates to the Official List or to trading on the Main Securities Market.

Application has also been made to the DFSA for the Certificates to be admitted to listing on the DFSA Official List and to NASDAQ Dubai for the Certificates to be admitted to trading on NASDAQ Dubai. The total expenses relating to the admission to trading of the Certificates on NASDAQ Dubai are estimated to be U.S.$4,500.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 21 April 2016. Boubyan Tier 1 Capital SPC Limited, in its capacity as the Issuer and the Trustee has obtained all necessary consents, approvals and authorisations in the Dubai International Financial Centre in connection with the issue of the Certificates and the entry into the Transaction Documents.

The entry by the Bank into the Transaction Documents was authorised by the directors of the Bank on 3 July 2015.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 140708992 and ISIN XS1407089926.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, LI 855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Bank or the Group since 31 March 2016 and there has been no material adverse change in the prospects of the Bank or the Group since 31 December 2015.

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the prospects of the Trustee, in each case since the date of its incorporation.

Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

Neither the Bank nor the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank is aware) during the 12 months preceding the date of the Prospectus that may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Auditors

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by the laws of the Dubai International Financial Centre, and does not intend, to publish audited financial statements or appoint any auditors.

The Bank's appointed auditors are Ernst & Young Al Alban, Al Osaimi & Partners (**Ernst & Young Kuwait**) and Deloitte & Touche Al-Wazzan & Co (**Deloitte Kuwait**). The business address of Ernst & Young Kuwait is P.O. Box 74 Safat, 13001 Safat, Baitak Tower, Ahmed Al Jabar Street, Safat Square, Kuwait and the business address of Deloitte Kuwait is Ahmed Al-Jaber Street, Sharq, Dar Al-Awadi Complex, Floors 7 & 9, P.O. Box 20174, Safat 13062, Kuwait. Each of Ernst & Young Kuwait and Deloitte Kuwait is regulated in Kuwait by the Kuwait Ministry of Commerce and Industry and the CMA and is a registered auditor licensed to act as an auditor in Kuwait by the Kuwait Association of Accountants and Auditors.

The consolidated financial statements of the Group as at and for the years ended 31 December 2015 and 31 December 2014 have been audited by Deloitte Kuwait with license no. 62A in accordance with International Standards on Auditing as stated in their reports included herein.

Documents Available

For as long as any Certificates remain outstanding, copies of the following documents will be available in electronic and physical format and in English to be inspected and/or collected during normal business hours at the specified office for the time being of the Principal Paying Agent:

(a) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of the Bank;

(b) the Financial Statements;

(c) a copy of this Prospectus together with any supplement to this Prospectus; and

(d) the Transaction Documents.

Shari'a Boards

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by a member of the Fatwa and Shari'a Supervisory Board of the Bank, the Shari'a Supervision Board of Dubai Islamic Bank, the Executive Shariah Committee of HSBC, the KFH Capital Sharia Committee and the Sharia Supervisory Committee of Standard Chartered Bank. The composition of such Shari'a supervisory boards is disclosed below.

Fatwa and Shari'a Supervisory Board Members of the Bank

Dr. Abdulaziz Khalifa Al-Qasar – Chairman of Fatwa and Shari'a Supervisory Board

Dr. Al-Qasar is a professor of Comparative Jurisprudence at the College of Shari'a and Islamic Studies, University of Kuwait and lecturer in Islamic Financial Transactions. He has published several studies and works of research in the field of Islamic Transactions and Economics. Dr. Al-Qasar is also a member of the Shari'a committees of several Islamic institutions in Kuwait and abroad.

Dr. Esame Khalaf Al-Enezi – Fatwa and Shari'a Supervisory Board Member and Rapporteur

Dr. Al-Enezi is a professor of Comparative Jurisprudence at the College of Shari'a and Islamic Studies, University of Kuwait and lecturer in Islamic Financial Transactions. He has published several studies and works of research in the field of Islamic Transactions And Economics. Dr. Al-Enezi is also a member of the Accounting and Auditing Organisation for Islamic Financial Institutions and a member of the Shari'a committees of several Islamic institutions in Kuwait and abroad.

Dr. Ali Ibrahim Al-Rashid – Fatwa and Shari'a Supervisory Board Member

Dr. Al-Rashid is a faculty member of the College of Shari'a and Islamic Studies, University of Kuwait. He received his PhD from the Faculty of Science, Cairo University, and has significant interest in Islamic transactions and economics. Dr. Al-Rashid is also a member of several Shari'a committees.

Dr. Mohammed Awad Al-Fuzaie – Fatwa and Shari'a Supervisory Board Member

Dr. Al-Fuzaie is a faculty member of the Jurisprudence Department at the College of Shari'a and Islamic Studies, University of Kuwait. He received his PhD in Comparative Jurisprudence from the Faculty of Shari'a and Law at Al-Azhar University with first class honors in 2007. Dr. Al-Fuzaie has also undertaken many studies and works of research. He has also been involved in the work of several Shari'a committees and boards in Kuwait and abroad.

The Shari'a Supervision Board of Dubai Islamic Bank

Professor Dr. Hussain Hamid Hassan

Dr. Hussain completed his PhD in the Faculty of Sharia from Al Azhar University, Egypt, Master's degree in Comparative Jurisprudence from the University of NewYork, USA and graduated in Law and Economics from the University of Cairo, Egypt.

Dr. Hussain is a prominent scholar and teacher, having established Islamic universities and Islamic faculties in various parts of the world including Makkah, Islamabad, Kazakhstan and Libya.

For over 50 years, he has been adviser to the Presidents and leaders of various Islamic Republics, including acting as an adviser to Presidents of the Islamic Republic of Pakistan and to the Prime Minister of the Republic of Kyrgyzstan. He is also the President of the United States Muslim Jurists Association.

Besides DIB, Dr. Hussain is the Chairman of the Sharia supervisory boards of several Islamic financial Institutions including Islamic Development Bank, Ajman Bank, Amlak Finance, Deutsche Bank, Liquidity Management Centre, Dubai Financial Markets, AMAN Takaful Company, Methaq Takaful Insurance Company-Abu Dhabi, Jordan Dubai Islamic Bank, Abu Dhabi Islamic Bank Egypt, Dubai Islamic Bank Pakistan, Bank Al Salam-Bahrain, Bank Sohar-Oman and various other financial institutions. He is also a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (**AAOIFI**), the Islamic Financial Services Board, the Fiqh Academy of Muslim World League and the International Fiqh Academy of the Organisation of Islamic Countries.

Dr. Hussain is the author of 21 books and over 400 articles on Islamic Fiqh, jurisprudence, Islamic banking and insurance, and frequently presides over Islamic academic and financial conferences, seminars and workshops in different parts of the world. He has supervised the translation of the Holy Quran into Russian and the translation of 200 Islamic books into various languages.

Dr. Mohamed Abdul Hakim Zoeir

Dr. Zoeir holds a PhD in Islamic Economics and is a member of the Sharia boards of many Islamic banks across the Middle East and Africa. He is the author of a number of research papers and studies in the field of Islamic finance and banking. Dr Zoeir is also Chief Editor of Islamic Economics magazine.

Dr. Muhammad Qaseem

Dr. Qaseem holds a PhD (Islamic Studies) from the Faculty of Usul ud Dinis, University of Karachi. He has been a member of the Sharia boards of many other institutions. Dr. Qaseem has taught various courses for a number of B.A. and M.A. programmes of the International Islamic University, Islamabad. Dr. Qaseem has produced many academic contributions, articles and literary and translation works.

Dr. Muhammad Abdulrahim Sultan Al-Ulama

Dr. Al-Ulama holds a PhD in Islamic jurisprudence, is an assistant professor at various universities and is a member of numerous academic committees. He has published a number of articles and reports, in addition to his contributions to seminars and conferences in the Islamic finance arena held around the world.

Dr. Youssif Abdullah Saleh Al Shubaily

Dr. Al Shubaily holds a PhD in comparative Fiqh and is a professor in Saudi Arabia. He has contributed and presented numerous courses and training sessions to judges in Saudi Arabia. Dr. Al Shubaily has worked in the Islamic Institution in Washington, served as a member of the Sharia board of many other institutions and has more than 17 published reports and research papers.

The Executive Shari'a Committee of HSBC Saudi Arabia Limited

Dr. Nizam Yaguby

Dr. Yaguby studied traditional Islamic studies under the guidance of eminent Islamic scholars from different parts of the world. He has a BA in Economics and Comparative Religions and MSc in Finance from McGill University, Canada, and is also a PhD in Islamic Law from the University of Wales. In addition to advising Citi and other Islamic finance institutions and funds, Dr. Yaquby is a member of the Islamic Fiqh Academy and AAOIFI. Since 1976, he has taught Tafsir, Hadith and Fiqh in Bahrain and is a Shari'a adviser to several international and local financial institutions worldwide. He has also published several articles and books on various Islamic subjects including Banking and Finance.

Dr. Mohamed Ali ElGari

Dr. ElGari holds a PhD in Economics from the University of California. He is a professor of Islamic Economics at King Abdul Aziz University and an expert at the Islamic Jurisprudence Academies of the Organisation of Islamic Countries, having published several articles and books on Islamic finance. Dr. Elgari is a member of the Shari'a boards of several Islamic banks and Takaful companies, including the Shari'a board of Dow Jones International Islamic Fund Market. He also sits in the Shari'a boards of AAOIFI and is a member of the advisory board of Harvard Series on Islamic Law.

The KFH Capital Sharia Committee

Dr. Anwar Shuaib Abdulsalam

Chairman of Fatwa and Sharia Supervisory Board at KFH Capital, Chairman of Fatwa and Sharia Supervisory Board at Kuwait Turkish Participation Bank Turkey, Former Head of Department of Fiqh and Usul Al-Fiqh at the Faculty of Sharia and Islamic Studies at Kuwait University, and a member of the Fatwa and Sharia Supervisory Board for a number of companies and Islamic institutions. He received his PhD in Islamic Jurisprudence from Al-Azhar University in 1999.

Dr. Sayed Mohammad Abdulrazzaq Altabtabae

Member of KFH Capital Fatwa and Sharia Supervisory Board, Chairman of Fatwa and Sharia Supervisory Board at KFH Kuwait, Chairman of Fatwa and Sharia Supervisory Board of KFH Malaysia, Former Dean of Faculty Sharia and Islamic Studies at Kuwait University, a member of the teaching board, member of Sharia Board at Zakat House in Kuwait, International Committee for Contemporary Zakat Issues, member of Scientific Advisory Board at Kuwait University, and member of Fatwa and Sharia Supervisory Board to a number of financial Islamic institutions and companies. He received his PhD in Fiqh from the Higher Institute of Judiciary at Islamic University Imam Mohammed Bin Saoud in Riyadh in 1996.

Dr. Mubarak Jeza Alharbi

Member of KFH Capital Fatwa and Sharia Supervisory Board, and a member of the Fatwa and Sharia Supervisory Board at KFH Bahrain, Head of the Department of Comparative Fiqh and Sharia Governance at the Faculty of Sharia at Kuwait University, member of Fatwa Authority at Ministry of Awqaf in Kuwait, and a member of the Fatwa and Sharia Supervisory Board for a number of companies and Islamic institutions. He received his PhD from the Faculty of Darul Ulum, Cairo University, in 2002.

Shari'a Supervisory Committee of Standard Chartered Bank

Dr. Abdul Sattar Abu Ghudda

Dr. Abdul Sattar Abu Ghudda holds a PhD in Islamic Law and Comparative Fiqh from Al Azhar University, Cairo, Egypt. He has taught at various institutes, including the Imam Al Da'awa Institute (Riyadh), the Religious Institute (Kuwait), and the Shari'a College of the Law Faculty, Kuwait University. He is a Shari'a adviser to several international and local financial institutions worldwide and holds the positions of Shari'a adviser and director of financial instruments at Al-Baraka Investment Co., Saudi Arabia. He is an active member of the Islamic Fiqh Academy and the AAOIFI, and is also the secretary general of the Unified Shari'a Supervisory Board of Dallah Albaraka Group, Jeddah. He has also served in the Ministry of Awqaf, Kuwait and has written several books on Islamic Finance.

Dr. Nizam Yaguby

See biography above under "The Executive Shari'a Committee of HSBC Saudi Arabia Limited".

Dr. Mohamed Ali ElGari

See biography above under "The Executive Shari'a Committee of HSBC Saudi Arabia Limited".

Joint Lead Managers Transacting with the Bank

In the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates. Any such short positions could adversely affect future trading prices of the Certificates. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

INDEX TO FINANCIAL STATEMENTS

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

بـنـك بـوبـيـان
Boubyan Bank

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION AND INDEPENDENT AUDITORS' REVIEW REPORT FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 MARCH 2016 (UNAUDITED)

INDEX **Page**

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BOUBYAN BANK K.S.C.P.

Introduction
We have reviewed the accompanying interim condensed consolidated statement of financial position of Boubyan Bank K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group") as at 31 March 2016, and the related interim condensed consolidated statement of profit or loss ,the interim condensed consolidated statement of other comprehensive income, the interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on other Legal and Regulatory Requirements
Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of accounts of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, the Executive Regulations, or of the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the three months period ended 31 March 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 review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the three months period ended 31 March 2016 that might have had a material effect on the business of the Bank or on its financial position.

BADER A. AL-WAZZAN	WALEED A. AL OSAIMI
LICENCE NO. 62A	LICENCE NO. 68 A
DELOITTE & TOUCHE	EY
AL-WAZZAN & CO.	AL AIBAN, AL OSAIMI & PARTNERS

Kuwait
12 April 2016

بنك بوبيان
Boubyan Bank

	Notes	Three months ended 31 March 2016 KD'000	Three months ended 31 March 2015 KD'000
Income			
Murabaha and other Islamic financing income		**28,537**	23,169
Distribution to depositors and Murabaha costs		**(7,058)**	(5,523)
Net financing income		**21,479**	17,646
Net investment income	3	**612**	467
Net fees and commission income		**3,076**	2,458
Share of results of associates		**(527)**	238
Net foreign exchange gain		**449**	431
Other income		**8**	3
Operating income		**25,097**	21,243
Staff costs		**(6,487)**	(5,701)
General and administrative expenses		**(3,459)**	(3,229)
Depreciation		**(753)**	(581)
Operating expenses		**(10,699)**	(9,511)
Operating profit before provision for impairment		**14,398**	11,732
Provision for impairment		**(4,861)**	(4,031)
Operating profit before deductions		**9,537**	7,701
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(85)**	(70)
National Labour Support Tax ("NLST")		**(244)**	(195)
Zakat		**(98)**	(77)
Net profit for the period		**9,110**	7,359
Attributable to:			
Equity holders of the Bank		**9,097**	7,374
Non-controlling interests		**13**	(15)
Net profit for the period		**9,110**	7,359
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	4	**4.20**	3.41

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

Boubyan Bank

	Three months ended 31 March	
	2016	2015
	KD'000	KD'000
Net profit for the period	**9,110**	7,359
Other comprehensive income		
Items that are or may be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:		
Change in fair value of available for sale investments	**(14)**	185
Foreign currency translation adjustments	**594**	(10)
Other comprehensive income for the period	**580**	175
Total comprehensive income for the period	**9,690**	7,534
Attributable to:		
Equity holders of the Bank	**9,677**	7,549
Non-controlling interests	**13**	(15)
Total comprehensive income for the period	**9,690**	7,534

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2016

Boubyan Bank

	Notes	31 March 2016 KD'000	(Audited) 31 December 2015 KD'000	31 March 2015 KD'000
Assets				
Cash and cash equivalents	5	**380,737**	465,259	283,015
Due from banks		**327,390**	218,076	310,805
Islamic financing to customers		**2,267,653**	2,171,794	1,904,579
Financial assets at fair value through profit or loss		**14,796**	15,388	12,852
Available for sale investments		**136,368**	126,307	121,264
Investments in associates		**73,734**	79,713	84,956
Investment properties		**23,493**	23,397	26,317
Other assets		**16,085**	14,169	12,416
Property and equipment		**19,871**	18,782	16,455
Total assets		**3,260,127**	3,132,885	2,772,659
Liabilities and equity				
Liabilities				
Due to banks		**290,944**	382,749	176,660
Depositors' accounts		**2,620,852**	2,398,935	2,265,668
Other liabilities		**27,953**	30,402	31,332
Total liabilities		**2,939,749**	2,812,086	2,473,660
Equity				
Share capital		**216,641**	206,325	206,325
Share premium		**62,896**	62,896	62,896
Proposed bonus shares	12	**-**	10,316	-
Treasury shares	7	**(406)**	(568)	(568)
Statutory reserve		**9,998**	9,998	6,283
Voluntary reserve		**9,570**	9,570	6,015
Share based payment reserve		**1,209**	1,171	849
Fair value reserve		**4,145**	4,159	5,267
Foreign currency translation reserve		**(8,668)**	(9,262)	(6,478)
Retained earnings		**22,413**	13,320	13,350
Proposed cash dividends	12	**-**	10,307	-
Equity attributable to equity holders of the Bank		**317,798**	318,232	293,939
Non-controlling interests		**2,580**	2,567	5,060
Total equity		**320,378**	320,799	298,999
Total liabilities and equity		**3,260,127**	3,132,885	2,772,659

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

Boubyan Bank

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period from 1 January 2016 to 31 March 2016

	Share capital	Share premium	Proposed bonus share	Treasury shares	Statutory reserve	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2016	**206,325**	**62,896**	**10,316**	**(568)**	**9,998**	**9,570**	**1,171**	**4,159**	**(9,262)**	**13,320**	**10,307**	**318,232**	**2,567**	**320,799**
Total comprehensive income for the period	-	-	-	-	-	-	-	**(14)**	**594**	**9,097**	-	**9,677**	**13**	**9,690**
Share based payment	-	-	-	-	-	-	**149**	-	-	-	-	**149**	-	**149**
Dividends paid (note 12)	-	-	-	-	-	-	-	-	-	**(4)**	**(10,307)**	**(10,311)**	-	**(10,311)**
Issue of bonus shares (note 12)	**10,316**	-	**(10,316)**	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	**162**	-	-	**(111)**	-	-	-	-	**51**	-	**51**
Balance at 31 March 2016	**216,641**	**62,896**	-	**(406)**	**9,998**	**9,570**	**1,209**	**4,145**	**(8,668)**	**22,413**	-	**317,798**	**2,580**	**320,378**
Balance at 1 January 2015	196,500	62,896	9,825	(763)	6,283	6,015	864	5,082	(6,468)	5,978	9,815	296,027	5,075	301,102
Total comprehensive income for the period	-	-	-	-	-	-	-	185	(10)	7,374	-	7,549	(15)	7,534
Share based payment	-	-	-	-	-	-	(15)	-	-	145	-	130	-	130
Dividends paid	-	-	-	-	-	-	-	-	-	(2)	(9,815)	(9,817)	-	(9,817)
Issue of bonus shares	9,825	-	(9,825)	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	195	-	-	-	-	-	(145)	-	50	-	50
Balance at 31 March 2015	206,325	62,896	-	(568)	6,283	6,015	849	5,267	(6,478)	13,350	-	293,939	5,060	298,999

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

بـنـك بـوبـيـان
Boubyan Bank

	Three months ended 31 March	
	2016	2015
	KD'000	KD'000
OPERATING ACTIVITIES		
Net profit for the period	**9,110**	7,359
Adjustments for:		
Provision for impairment	**4,861**	4,031
Depreciation	**753**	581
Foreign currency translation adjustments	**1,863**	(1,021)
Net gain from available for sale investments	**(7)**	(3)
Net loss/(gain) from financial assets at fair value through profit or loss	**50**	(17)
Share of results of associates	**527**	(238)
Dividend income	**(90)**	(275)
(Gain)/loss on sale of investment properties	**(49)**	265
Share based payment reserve	**149**	130
Operating profit before changes in operating assets and liabilities	**17,167**	10,812
Changes in operating assets and liabilities:		
Due from banks	**(109,314)**	(47,212)
Islamic financing to customers	**(96,340)**	(104,763)
Other assets	**(1,916)**	(1,472)
Due to banks	**(91,805)**	(50,079)
Depositors' accounts	**221,917**	182,814
Other liabilities	**(2,499)**	(5,971)
Dividend income received	**90**	275
Net cash used in operating activities	**(62,700)**	(15,596)
INVESTING ACTIVITIES		
Proceeds from sale of financial assets at fair value through profit or loss	**525**	-
Purchase of available for sale investments	**(15,840)**	(6,992)
Proceeds from sale of available for sale investments	**5,198**	2,083
Purchase of property and equipment	**(1,842)**	(1,534)
Dividend received from associate	**397**	-
Net cash used in investing activities	**(11,562)**	(6,443)
FINANCING ACTIVITIES		
Cash dividends	**(10,311)**	(9,817)
Proceeds from exercise of shares options	**51**	50
Net cash used in financing activities	**(10,260)**	(9,767)
Net decrease in cash and cash equivalents	**(84,522)**	(31,806)
Cash and cash equivalents at beginning of the period	**465,259**	314,821
Cash and cash equivalents at end of the period	**380,737**	283,015

The notes from 1 to 12 form an integral part of this interim condensed consolidated financial information.

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P. ("the Bank") is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 of 2003).

The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

The new Companies Law No 1 of 2016 was issued on 24 January 2016 and was published in 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 will be effective retrospectively from 26 November 2012, and the executive regulation of Law No 25 of 2012 will continue until a new set of executive regulations is issued.

On 31 July 2012, the Bank became a subsidiary of National Bank of Kuwait K.S.C.P. ("the Parent Company").

This interim condensed consolidated financial information as at and for the three months period ended 31 March 2016 incorporates the financial information of the Bank and its principal operating subsidiaries, Boubyan Takaful Insurance Company K.S.C. (Closed) and Boubyan Capital Investment Company K.S.C. (Closed), (together referred to as "the Group") and the Group's interests in associates.

The total number of employees in the Group was **1223** employees as at 31 March 2016 (1201 employees as at 31 December 2015 and 1112 employees as at 31 March 2015).

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

This interim condensed consolidated financial information was authorised for issue by the Board of Directors on 5 April 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting, and the Kuwait Stock Exchange instruction No. 2 of 1998.

The annual consolidated financial statements for the year ended 31 December 2015 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39, 'Financial Instruments: Recognition and Measurement', requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not provided specifically.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2015.

The interim condensed consolidated financial information has been prepared using the same accounting policies and methods of computation with those used in the preparation of the annual audited consolidated financial statements for the year ended 31 December 2015, except for the adoption of the amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2016 and which did not result in any material impact on the accounting policies, financial position or performance of the Group.

In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. The operating results for the three months period ended 31 March 2016 are not necessarily indicative of the results that may be expected for the year ending 31 December 2016.

2.2 Judgement and estimates

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.
In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements as at and for the year ended 31 December 2015.

3. NET INVESTMENT INCOME

	Three months ended 31 March	
	2016	2015
	KD'000	KD'000
Sukuk coupon income	**516**	437
Dividend income	**90**	275
Net (loss)/gain from financial assets at fair value through profit or loss	**(50)**	17
Net gain from available for sale investments	**7**	3
Gain/(loss) on sale of investment properties	**49**	(265)
	612	467

4. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change to the reported basic earnings per share.

	Three months ended 31 March	
	2016	2015
	KD'000	KD'000
Net profit for the year attributable to the equity holders of the Bank (KD'000)	**9,097**	7,374
Weighted average number of shares outstanding during the period net of treasury shares (thousands of shares)	**2,164,737**	2,164,444
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**4.20**	3.41

Earnings per share for the prior period was 3.58 fils, before retroactive adjustment to the number of shares following the bonus issue (note 12).

5. CASH AND CASH EQUIVALENTS

	31 March 2016	(Audited) 31 December 2015	31 March 2015
	KD'000	KD'000	KD'000
Cash on hand	**22,872**	25,598	19,798
Balances with banks – current accounts	**5,942**	9,411	7,940
Placements with banks maturing within seven days	**351,923**	430,250	255,277
	380,737	465,259	283,015

6. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the Parent Company including their board member, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

	Number of board members or executive officers			Number of related parties				(Audited)	
	31 March 2016	31 December 2015	31 March 2015	**31 March 2016**	31 December 2015	31 March 2015	**31 March 2016**	31 December 2015	31 March 2015
							KD'000	KD'000	KD'000
Islamic financing to customers	**9**	8	9	**3**	3	1	**3,820**	3,918	4,726
Depositors' accounts	**16**	16	15	**8**	8	8	**47,822**	53,059	37,519
Letters of guarantee and letters of credit	**1**	1	1	**-**	-	-	**43**	43	18
Murabaha and other Islamic financing income							**21**	96	28
Distribution to depositors and Murabaha costs							**(212)**	(537)	(111)
Parent Company									
Due from banks							**76,219**	72,021	72,731
Due to banks							**49,389**	124,310	12,000
Murabaha and other Islamic financing income							**38**	234	45
Distribution to depositors and Murabaha cost							**(109)**	(246)	(5)

6. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

Details of compensation to key management comprise the following:

	Three months ended 31 March	
	2016	2015
	KD'000	KD'000
Short-term benefits	**462**	458
Post-employment benefits	**106**	87
Share based compensation	**121**	100
	689	645

7. TREASURY SHARES

The bank held the following treasury shares:

	31 March 2016	(Audited) 31 December 2015	31 March 2015
Number of treasury shares	**1,293,247**	1,790,413	1,510,538
Treasury shares as a percentage of total issued shares - %	**0.0597%**	0.0868%	0.0732%
Cost of treasury shares – KD thousand	**406**	568	568
Market value of treasury shares – KD thousand	**543**	790	627
Weighted average of market value per share (fils)	**0.423**	0.427	0.440

8. CONTINGENCIES AND COMMITMENTS

At the financial reporting date there were outstanding contingencies and commitments entered in the ordinary course of business in respect of the following:

	31 March 2016	(Audited) 31 December 2015	31 March 2015
	KD'000	KD'000	KD'000
Guarantees	**199,030**	184,644	174,345
Acceptances and letters of credit	**46,696**	49,756	59,235
Other commitments	**10,228**	3,812	606
	255,954	238,212	234,186

9. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments

For management purposes, the Bank is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional customers. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking: Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking: Principally handling direct investments, investment in associates, local and international real estate investment and asset management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre: Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	**Total**
Three months ended 31 March 2016	KD'000	KD'000	KD'000	KD'000	KD'000	**KD'000**
Net financing income/(loss)	**12,467**	**7,377**	**(530)**	**1,602**	**563**	**21,479**
Operating income/(loss)	**13,480**	**9,514**	**(19)**	**2,051**	**71**	**25,097**
Net profit/(loss) for the period	**8,509**	**8,516**	**(5,049)**	**1,944**	**(4,810)**	**9,110**
Total assets	**1,049,721**	**1,441,352**	**148,894**	**626,041**	**(5,881)**	**3,260,127**
Total liabilities	**1,098,533**	**260,608**	**22,472**	**1,562,138**	**(4,002)**	**2,939,749**

	Consumer banking	Corporate banking	Investment banking	Treasury	Group centre	Total
Three months ended 31 March 2015	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Net financing income/(loss)	10,792	6,186	(383)	1,141	(90)	17,646
Operating income/(loss)	11,371	8,211	724	1,572	(635)	21,243
Net profit/(loss) for the period	5,856	5,627	(8)	1,483	(5,599)	7,359
Total assets	845,249	1,232,999	162,856	539,197	(7,642)	2,772,659
Total liabilities	843,563	203,582	19,003	1,392,625	14,887	2,473,660

10. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the annual audited consolidated financial statements for the year ended 31 December 2015.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: input other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs that are not based on observable market data (unobservable inputs).

11. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Level 1	**Level 2**	**Level 3**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**
31 March 2016				
Financial assets at fair value through profit or loss	**-**	**12,236**	**2,560**	**14,796**
Available for sale investments	**104,832**	**21,432**	**10,104**	**136,368**
	104,832	**33,668**	**12,664**	**151,164**

	Level 1	Level 2	Level 3	Total
	KD'000	KD'000	KD'000	KD'000
31 December 2015 (Audited)				
Financial assets at fair value through profit or loss	-	12,828	2,560	15,388
Available for sale investments	98,139	18,015	10,153	126,307
	98,139	30,843	12,713	141,695

	Level 1	**Level 2**	**Level 3**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**
31 March 2015				
Financial assets at fair value through profit or loss	-	9,857	2,995	12,852
Available for sale investments	88,422	21,113	11,729	121,264
	88,422	30,970	14,724	134,116

Fair values of all financial instruments are not materially different from their carrying values.

The impact on the interim condensed consolidated statement of financial position or the interim condensed consolidated statements of profit and loss and other comprehensive income would be immaterial if the relevant risk variables used to fair value the securities classified under level 2 and level 3 were altered by 5 percent.

12. ANNUAL GENERAL ASSEMBLY MEETING

The shareholders' annual general assembly held on 21 March 2016 approved the audited consolidated financial statements of the Bank for the year ended 31 December 2015 and the distribution of a cash dividends of **5 fils** per share payable to the shareholders registered in Bank's records as of the date of Annual General Assembly Meeting and **5%** bonus shares to the shareholders on record at the date of regulatory approval for distribution of bonus shares.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015

INDEX

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Building a better working world

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

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

WALEED A. AL OSAIMI	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62 A
ERNST & YOUNG	DELOITTE & TOUCHE
(AL-AIBAN, AL-OSAIMI & PARTNERS)	(AL WAZZAN & CO.)

5 January 2016
Kuwait

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2015

	Notes	**2015** KD'000	2014 KD'000
Income			
Murabaha and other Islamic financing income		**101,462**	83,692
Distribution to depositors and Murabaha costs	5	**(22,120)**	(17,484)
Net financing income		**79,342**	66,208
Net investment income	6	**2,200**	4,986
Net fees and commission income	7	**7,839**	5,935
Share of results of associates	16	**313**	(247)
Net foreign exchange gain		**1,652**	1,352
Other income		**7**	171
Operating income		**91,353**	78,405
Staff costs		**(22,933)**	(20,833)
General and administrative expenses		**(13,624)**	(12,411)
Depreciation		**(2,636)**	(2,178)
Operating expenses		**(39,193)**	(35,422)
Operating profit before provision for impairment		**52,160**	42,983
Provision for impairment	8	**(15,058)**	(12,952)
Operating profit before deductions		**37,102**	30,031
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(327)**	(261)
National Labour Support Tax ("NLST")		**(926)**	(736)
Zakat		**(354)**	(289)
Board of directors' remuneration		**(310)**	(240)
Net profit for the year		**35,185**	28,505
Attributable to:			
Equity holders of the Bank		**35,235**	28,239
Non-controlling interests		**(50)**	266
Net profit for the year		**35,185**	28,505
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	9	**17.09**	13.70

The notes from 1 to 32 form an integral part of these consolidated financial statements.

	2015 KD'000	2014 KD'000
Net profit for the year	**35,185**	28,505
Other comprehensive income		
Other comprehensive (loss)/income to be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of available for sale investments	**(2,973)**	947
Net gains on available for sale investments transferred to consolidated statement of profit and loss	**(198)**	(86)
Impairment losses on available for sale investments transferred to consolidated statement of profit and loss	**2,248**	1,364
Foreign currency translation adjustments	**(2,794)**	1,278
Other comprehensive (loss)/income for the year	**(3,717)**	3,503
Total comprehensive income for the year	**31,468**	32,008
Attributable to:		
Equity holders of the Bank	**31,518**	31,742
Non-controlling interests	**(50)**	266
Total comprehensive income for the year	**31,468**	32,008

The notes from 1 to 32 form an integral part of these consolidated financial statements.

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 KD'000	2014 KD'000
Assets			
Cash and cash equivalents	10	**465,259**	314,821
Due from banks	11	**218,076**	263,593
Islamic financing to customers	12	**2,171,794**	1,805,115
Financial assets at fair value through profit or loss	13	**15,388**	12,738
Available for sale investments	14	**126,307**	113,852
Investments in associates	16	**79,713**	85,728
Investment properties	17	**23,397**	25,637
Other assets	18	**14,169**	10,944
Property and equipment		**18,782**	15,502
Total assets		**3,132,885**	2,647,930
Liabilities and Equity			
Liabilities			
Due to banks		**382,749**	226,739
Depositors' accounts		**2,398,935**	2,092,028
Other liabilities	19	**30,402**	28,061
Total liabilities		**2,812,086**	2,346,828
Equity			
Share capital	20	**206,325**	196,500
Share premium	21	**62,896**	62,896
Proposed bonus shares	22	**10,316**	9,825
Treasury shares	23	**(568)**	(763)
Statutory reserve	24	**9,998**	6,283
Voluntary reserve	25	**9,570**	6,015
Share based payment reserve	26	**1,171**	864
Fair value reserve		**4,159**	5,082
Foreign currency translation reserve		**(9,262)**	(6,468)
Retained earnings		**13,320**	5,978
Proposed cash dividends	22	**10,307**	9,815
Equity attributable to equity holders of the Bank		**318,232**	296,027
Non-controlling interests		**2,567**	5,075
Total equity		**320,799**	301,102
Total liabilities and equity		**3,132,885**	2,647,930

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 32 form an integral part of these consolidated financial statements.

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2015	**196,500**	**62,896**	**9,825**	**(763)**	**6,283**	**6,015**	**864**	**5,082**	**(6,468)**	**5,978**	**9,815**	**296,027**	**5,075**	**301,102**
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	**(923)**	**(2,794)**	**35,235**	-	**31,518**	**(50)**	**31,468**
Transfer to reserves	-	-	-	-	**3,715**	**3,555**	-	-	-	**(7,270)**	-	-	-	-
Issue of bonus shares	**9,825**	-	**(9,825)**	-	-	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	-	-	-	**(9,815)**	**(9,815)**	-	**(9,815)**
Capital redemption of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	**(2,458)**	**(2,458)**
Share based payment (note 26)	-	-	-	-	-	-	**307**	-	-	**145**	-	**452**	-	**452**
Sales of treasury shares	-	-	-	**195**	-	-	-	-	-	**(145)**	-	**50**	-	**50**
Proposed bonus shares (note 22)	-	-	**10,316**	-	-	-	-	-	-	**(10,316)**	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	**(10,307)**	**10,307**	-	-	-
Balance at 31 December 2015	**206,325**	**62,896**	**10,316**	**(568)**	**9,998**	**9,570**	**1,171**	**4,159**	**(9,262)**	**13,320**	**10,307**	**318,232**	**2,567**	**320,799**
Balance at 1 January 2014	183,645	62,896	12,855	(1,100)	3,306	3,167	860	2,857	(7,746)	3,204	-	263,944	5,543	269,487
Total comprehensive income for the year	-	-	-	-	-	-	-	2,225	1,278	28,239	-	31,742	266	32,008
Transfer to reserves	-	-	-	-	2,977	2,848	-	-	-	(5,825)	-	-	-	-
Issue of bonus shares	12,855	-	(12,855)	-	-	-	-	-	-	-	-	-	-	-
Capital redemption of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(734)	(734)
Share based payment (note 26)	-	-	-	-	-	-	4	-	-	257	-	261	-	261
Sales of treasury shares	-	-	-	337	-	-	-	-	-	(257)	-	80	-	80
Proposed bonus shares (note 22)	-	-	9,825	-	-	-	-	-	-	(9,825)	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	(9,815)	9,815	-	-	-
Balance at 31 December 2014	196,500	62,896	9,825	(763)	6,283	6,015	864	5,082	(6,468)	5,978	9,815	296,027	5,075	301,102

The notes from 1 to 32 form an integral part of these consolidated financial statements.

	Notes	2015 KD'000	2014 KD'000
OPERATING ACTIVITIES			
Net profit for the year		**35,185**	28,505
Adjustments for:			
Provision for impairment	8	**15,058**	12,952
Depreciation		**2,636**	2,178
Foreign currency translation adjustments		**(2,791)**	(1,487)
Net (gain)/loss from available for sale investments		**(198)**	10
Net losses from financial assets at fair value through profit or loss		**630**	547
Share of results of associates		**(313)**	247
Dividend income		**(1,824)**	(1,112)
Net unrealized loss/(gain) from change in fair value of investment properties		**998**	(2,441)
Net loss/(gain) on sale of investment properties		**180**	(270)
Share based payment reserve		**452**	261
Operating profit before changes in operating assets and liabilities		**50,013**	39,390
Changes in operating assets and liabilities:			
Due from banks		**45,517**	35,278
Islamic financing to customers		**(377,879)**	(338,678)
Other assets		**(3,649)**	572
Due to banks		**156,010**	(9,279)
Depositors' accounts		**306,907**	425,456
Other liabilities		**2,257**	8,001
Dividend income received		**1,824**	1,112
Net cash generated from operating activities		**181,000**	161,852
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(3,690)**	(8,765)
Proceeds from sale of financial assets at fair value through profit or loss		**544**	1,451
Purchase of available for sale investments		**(170,963)**	(95,211)
Proceeds from sale of available for sale investments		**158,991**	48,488
Dividends received from associates		**559**	359
Purchase of investment properties		**(58)**	(6,916)
Proceeds from sale of investment properties		**2,194**	13,845
Purchase of property and equipment		**(5,916)**	(5,250)
Net cash used in investing activities		**(18,339)**	(51,999)
FINANCING ACTIVITES			
Capital redemption of non-controlling interest		**(2,458)**	(734)
Proceeds from exercise of share options		**50**	80
Dividends paid		**(9,815)**	-
Net cash used in financing activities		**(12,223)**	(654)
Net increase in cash and cash equivalents		**150,438**	109,199
Cash and cash equivalents at the beginning of the year		**314,821**	205,622
Cash and cash equivalents at the end of the year	10	**465,259**	314,821

The notes from 1 to 32 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P ("the Bank") is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 of 2003).

The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

The Bank is a subsidiary of National Bank of Kuwait S.A.K.P ("the Parent Company").

The total number of employees in the Group was **1201** employees as at 31 December 2015 (1081 employees as at 31 December 2014).

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

The consolidated financial statements were authorised for issue by the Board of Directors on 5 January 2016 and the shareholders have the power to amend these consolidated financial statement at the annual assembly meeting.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRSs except for the IAS 39 requirements for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirements for a minimum general provision as described in accounting policy 3.9.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of investment securities, available for sale investments, financial asset at fair value through profit or loss, investment properties and derivatives.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars, which is the Bank's functional currency. All financial information presented in Kuwaiti Dinars ("KD") has been rounded to the nearest thousands, except when otherwise indicated.

2.4 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of the following new or amended IFRS applicable to the Group.

IFRS 3 Business Combinations (Effective for annual periods beginning on or after 1 July 2014)
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value at each reporting date whether or not they fall within the scope of IAS 39.

IAS 24 Related Party Disclosures (Effective for annual periods beginning on or after 1 July 2014)
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

IAS 40 Investment Property (Effective for annual periods beginning on or after 1 July 2014)
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.

These amendments did not have any material impact on the accounting policies, financial position or performance of the Group.

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted

The following IFRS and Interpretations have been issued but are not yet effective and have not been early adopted by the Group. The Group intends to adopt them when they become effective.

IFRS 9 'Financial Instruments':

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

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in this consolidated financial statements, and have been applied consistently by all of the Group's entities.

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C. and Boubyan Capital Investment Company K.S.C., which are controlled by the Bank as set out in note 15.

3.1.1 *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an investee if and only if the Group has:

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

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

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

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

3.1.2 Non-controlling interests

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognized amount of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Bank.

3.1.4 Loss of control

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in the consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

3.1.5 Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting right.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The Group recognises in the consolidated statement of profit or loss its share of the total recognised profit or loss of the associate from the date that influence effectively commences until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investments. Adjustments to the carrying amount may also be necessary for changes in Group's share in the associate arising from changes in the associate's equity and other comprehensive income. The Group's share of those changes is recognised directly in equity or in other comprehensive income as appropriate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill within the carrying amount of the associates.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of profit or loss.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the consolidated statement of profit or loss for the year. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the year, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the consolidated statement of profit or loss in the year in which the foreign operation is disposed off.

3.3 Revenue recognition

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

- Income from Murabaha, Wakala, and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.
- Dividend income is recognized when the right to receive payment is established.
- Fees and commission income is recognized at the time the related services are provided.
- Rental income from investment properties is recognised on a straight line basis over the lease period.

3.4 Financial instruments

3.4.1 Financial assets

Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in the fair value between trade date and settlement date are recognized in the consolidated statement of profit or loss for financial assets at fair value through profit or loss and are recognized in other comprehensive income for available for sale investments. 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.

Recognition and derecognition of financial assets

Financial assets are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a liability for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

Offsetting
Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

The Group classifies financial assets into the following categories: cash and cash equivalents, due from banks, Islamic financing to customers, financial assets at fair value through profit or loss, available for sale investments and other assets.

Cash and cash equivalents
Cash and cash equivalents consist of cash in hand, current account with other banks and placements with banks maturing within seven days.

Due from banks and Islamic financing to customers
Due from banks and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

Murabaha
Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Wakala
Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Leased assets - the Group as a lessor
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortized cost net of provision for impairment.

Renegotiated finance facilities
In the event of a default, the Group seeks to restructure facilities rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new facility conditions. When the terms and conditions of these finance facilities are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these facilities remain past due. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continues to be subject to an individual or collective impairment assessment.

Financial assets at fair value through profit or loss
A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's strategy or such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Attributable transaction costs are recognised in consolidated statement of profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (continued)

3.4.1 Financial assets (continued)

Available for sale investment
Available for sale investments are non-derivative financial assets that are not classified in any of the above categories of financial assets.

Available for sale investment are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3.9) and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised or is determined to be impaired, the gain or loss accumulated in equity is reclassified to consolidated statement of profit or loss.

3.4.2 Financial liabilities

All financial liabilities are recognised initially on the settlement date at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities comprise due to banks, depositors' accounts and other liabilities.

Due to banks and depositors' accounts
Depositors' accounts are deposits received from customers under current account, saving investment accounts and fixed term investments accounts. The depositors' accounts of the Bank comprise the following:

i) 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 Hassan from depositors to the Bank under Islamic Sharia'a principals. Investing such Qard Hassan is made at the discretion of the Group, the results of which are attributable to the equity shareholders of the Bank.

i) Investment deposit accounts include savings accounts, fixed term deposit accounts, and open term deposit accounts.

Saving Investment Accounts
These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time.

Fixed-Term Deposit Investment Accounts
These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits mature monthly, quarterly, semi-annually, or annually.

Open –Term Deposit Investment Accounts
These are open-term deposits and are treated as annual deposits renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit.

In all cases, investment accounts receive a proportion of profit, bear a share of loss and are carried at cost plus profit payable.

3.5 Fair values

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 in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Fair values (continued)

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing 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.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and also considering the ability to generate economic benefits by using the property in its highest and best use.

3.6 Derivative

Derivative instruments are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

The Group enters into foreign exchange forward contracts. Forward foreign exchange contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and losses from derivatives are included in the consolidated statement of profit or loss.

3.7 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.8 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance is expensed as incurred.

Items of property and equipment are depreciated on a straight-line basis in consolidated statement of profit or loss over the estimated useful lives of each component.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

• Furniture and leasehold improvement	5 years
• Office equipment	3 - 10 years
• Building on leasehold land	20 years

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted, if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment

3.9.1 Financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss.

Financial assets measured at amortised cost

The amount of impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective yield. Losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against Islamic financing to customers. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

In addition, in accordance with Central Bank of Kuwait's instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provisions is made. In March 2007, CBK issued a circular amending the basis of calculating general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 1% to 0.5% for non-cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non-cash facilities as of 31 December 2006 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

Available for sale investment

Impairment losses on available for sale investment are recognised by reclassifying the losses accumulated in the other comprehensive income to consolidated statement of profit or loss. The cumulative loss that is reclassified from other comprehensive income to consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in consolidated statement of profit or loss. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

3.9.2 Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market rates and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

For non-financial assets excluding goodwill, 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. Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the financial reporting date and are discounted to present value where the effect is material.

3.11 Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes of the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable

3.12 Share based payment

The Bank operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of options or shares is recognized as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

3.13 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3.14 Treasury shares

Treasury shares consist of the Bank's own shares that have been issued, subsequently reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account.

No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

3.15 Post-employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

3.16 Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% in accordance with the calculation based on the Foundation's Board of Directors resolution.

3.17 National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Zakat

Effective from 10 December 2007, the Bank has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of profit and loss.

3.19 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

3.20 Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its customers. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Classification of investments

Management decides on acquisition of an investment whether to classify it as held to maturity, available for sale or financial asset at fair value through profit or loss.

In designating financial assets at fair value through profit or loss, the Group determines if it meets one of the criteria for this designation set out in the significant accounting policies (see note 3.4.1).

Impairment of investments

The Group treats available for sale equity investments 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 judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Fair value hierarchy

As disclosed in note 30.6, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment losses on finance facilities

The Group reviews its irregular finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. In particular, considerable judgement 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, and actual results may differ resulting in future changes to such provisions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty (continued)

Valuation of unquoted equity investments
Valuation of unquoted equity investments is based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that has substantially the same characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

5. DISTRIBUTION TO DEPOSITORS AND MURABAHA COSTS

The Bank determines and distributes the depositors' share of profit based on the Bank's results at the end of each month.

6. NET INVESTMENT INCOME

	2015 KD'000	2014 KD'000
Sukuk coupon income	**1,986**	1,487
Dividend income	**1,824**	1,112
Net rental income from investment properties	**-**	233
Net losses from financial assets at fair value through profit or loss	**(630)**	(547)
Net gains /(loss) from available for sale investments	**198**	(10)
Net (loss)/gain on sale of investment properties	**(180)**	270
Unrealized (loss)/gain from changes in fair value of investment properties	**(998)**	2,441
	2,200	4,986

7. NET FEES AND COMMISSION INCOME

	2015 KD'000	2014 KD'000
Gross fees and commission income	**10,812**	8,385
Fees and commission expenses	**(2,973)**	(2,450)
	7,839	5,935

8. PROVISION FOR IMPAIRMENT

	2015 KD'000	2014 KD'000
Provision for impairment of finance facilities	**9,951**	11,497
Impairment of investments	**2,672**	1,455
Impairment losses in associate	**2,435**	-
	15,058	12,952

The analysis of provision for impairment of finance facilities based on specific and general provision is as follows:

	Specific KD'000	General KD'000	Total KD'000
Balance at 1 January 2014	3,707	33,089	36,796
Provided during the year	8,382	3,115	11,497
Recovery of written off balances	971	-	971
Written off balances during the year	(7,680)	-	(7,680)
Balance at 31 December 2014	5,380	36,204	41,584
Provided during the year	**4,139**	**5,812**	**9,951**
Recovery of written off balances	**1,463**	**-**	**1,463**
Written off balances during the year	**(2,262)**	**-**	**(2,262)**
Balance at 31 December 2015	**8,720**	**42,016**	**50,736**

8. PROVISION FOR IMPAIRMENT (CONTINUED)

Further analysis of provision for impairment of finance facilities by category is as follows:

	Islamic finance to customers	Non-cash facilities	Total
	KD'000	KD'000	KD'000
Balance at 1 January 2014	35,452	1,344	36,796
Provided during the year	11,346	151	11,497
Recovery of written off balances	971	-	971
Written off balances during the year	(7,680)	-	(7,680)
Balance at 31 December 2014	40,089	1,495	41,584
Provided during the year	**9,860**	**91**	**9,951**
Recovery of written off balances	**1,463**	**-**	**1,463**
Written off balances during the year	**(2,262)**	**-**	**(2,262)**
Balance at 31 December 2015	**49,150**	**1,586**	**50,736**

At 31 December 2015, non-performing finance facilities amounted to **KD 10,803 thousand**, net of provision of **KD 8,720 thousand** (31 December 2014: KD 14,895 thousand, net of provision of KD 5,380 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. BASIC AND DILUTED EARNING PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change from the reported basic earnings per share.

	2015	2014
Net profit for the year attributable to the equity holders of the Bank (KD'000)	**35,235**	28,239
Weighted average number of shares outstanding during the year (thousands of shares)	**2,061,510**	2,061,216
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**17.09**	13.70

Earnings per share for the year ended 31 December 2014 was 14.39 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

10. CASH AND CASH EQUIVALENTS

	2015	2014
	KD'000	KD'000
Cash on hand	**25,598**	24,555
Balances with banks – current accounts	**9,411**	9,653
Placement with banks maturing within seven days	**430,250**	280,613
	465,259	314,821

11. DUE FROM BANKS

The geographical distribution of balances due from banks is as follows:

	2015	2014
	KD'000	KD'000
Kuwait & Middle East	**192,276**	206,816
Europe	**25,800**	56,777
	218,076	263,593

12. ISLAMIC FINANCING TO CUSTOMERS

The geographical distribution of Islamic financing to customers is as follows:

	Kuwait & Middle East KD'000	Europe KD'000	Asia KD'000	**Total KD'000**
2015				
Corporate banking	**1,215,001**	**3,385**	**3,534**	**1,221,920**
Consumer banking	**999,024**	**-**	**-**	**999,024**
	2,214,025	**3,385**	**3,534**	**2,220,944**
Less: provision for impairment	**(46,804)**	**(34)**	**(2,312)**	**(49,150)**
	2,167,221	**3,351**	**1,222**	**2,171,794**

	Kuwait & Middle East KD'000	Europe KD'000	Asia KD'000	Total KD'000
2014				
Corporate banking	1,050,485	4,423	3,329	1,058,237
Consumer banking	786,967	-	-	786,967
	1,837,452	4,423	3,329	1,845,204
Less: provision for impairment	(38,791)	(44)	(1,254)	(40,089)
	1,798,661	4,379	2,075	1,805,115

Provisions for impairment of Islamic financing to customers are as follows:

	Specific		General		Total	
	2015	2014	**2015**	2014	**2015**	2014
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**5,380**	3,707	**34,709**	31,745	**40,089**	35,452
Provided during the year	**4,139**	8,382	**5,721**	2,964	**9,860**	11,346
Recovery of written off balances	**1,463**	971	-	**-**	**1,463**	971
Written off balances during the year	**(2,262)**	(7,680)	-	**-**	**(2,262)**	(7,680)
Balance at end of the year	**8,720**	5,380	**40,430**	34,709	**49,150**	40,089

Further analysis of specific provision based on class of financial assets is given below:

	Corporate banking		Consumer banking		Total	
	2015	2014	**2015**	2014	**2015**	2014
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**3,756**	2,369	**1,624**	1,338	**5,380**	3,707
Provided during the year	**3,093**	7,581	**1,046**	801	**4,139**	8,382
Recovery of written off balances	**1,066**	690	**397**	281	**1,463**	971
Written off balances	**(792)**	(6,884)	**(1,470)**	(796)	**(2,262)**	(7,680)
Balance at end of the year	**7,123**	3,756	**1,597**	1,624	**8,720**	5,380

Whenever necessary, Islamic financing to customers is secured by acceptable forms of collateral to mitigate the related credit risks.

Non performing Islamic financing to customers and related specific provisions are as follows:

	2015 KD'000	2014 KD'000
Islamic financing to customers	**19,523**	20,275
Specific provision for impairment	**(8,720)**	(5,380)
	10,803	14,895

At 31 December 2015 management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 7,171 thousand** (31 December 2014: KD 23,800 thousand).

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 **KD'000**	2014 KD'000
Investment in unquoted securities	**2,560**	2,995
Investment in unquoted funds	**12,828**	9,743
	15,388	12,738

14. AVAILABLE FOR SALE INVESTMENTS

	2015 **KD'000**	2014 KD'000
Investment in Sukuk	**96,805**	77,982
Investment in unquoted funds	**18,015**	22,046
Investment in unquoted securities	**10,153**	11,906
Investment in quoted securities	**1,334**	1,918
	126,307	113,852

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	**2015 proportion of ownership interest and voting power %**	2014 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	**67.63**	67.63	Takaful insurance
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	**99.55**	99.55	Islamic investments

16. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	**2015 proportion of ownership interest and voting power %**	2014 proportion of ownership interest and voting power %	Principal activity
United Capital Bank	Republic of Sudan	**21.67**	21.67	Islamic commercial banking
Ijarah Indonesia Finance Company	Indonesia	**33.33**	33.33	Islamic financing services
Saudi Projects Holding Group	Kuwait	**25.00**	25.00	Real Estate
Bank of London and the Middle East ("BLME")	United Kingdom	**25.62**	25.62	Islamic commercial banking
Bank Syariah Muamalat Indonesia Tbk ("BSMI")	Indonesia	**22.00**	22.00	Islamic commercial banking

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarized financial information in respect of BLME is set out below:

	2015	2014
	KD'000	KD'000
Total assets	**634,139**	585,845
Total liabilities	**(518,104)**	(473,602)
Net assets	**116,035**	112,243
Group's share of net assets	**29,728**	28,757

	2015	2014
	KD'000	KD'000
Total revenue	**19,528**	21,918
Net profit	**322**	2,447
Group's share of results	**(440)**	627

Summarized financial information in respect of BSMI is set out below:

	2015	2014
	KD'000	KD'000
Total assets	**1,206,572**	1,444,575
Total liabilities	**(1,122,595)**	(1,351,408)
Net assets	**83,977**	93,167
Group's share of net assets	**18,475**	20,497
Group's share of contingent liabilities	**4,032**	4,955

	2015	2014
	KD'000	KD'000
Total revenue	**46,640**	42,776
Net profit	**2,397**	(6,563)
Group's share of results	**410**	(1,445)

Summarized financial information in respect of the Group's other associates that are individually immaterial, are set out below:

	2015	2014
	KD'000	KD'000
Total assets	**140,669**	123,610
Total liabilities	**(104,166)**	(61,584)
Net assets	**36,503**	62,026
Group's share of net assets	**8,582**	14,036
Group's share of contingent liabilities	**2,434**	15,823

	2015	2014
	KD'000	KD'000
Total revenue	**10,355**	10,045
Net profit	**1,412**	2,737
Group's share of results	**343**	571

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2015	2014
	KD'000	KD'000
Balance at the beginning of the year	**25,637**	30,245
Additions during the year	**1,394**	6,916
Disposals during the year	**(2,447)**	(13,575)
Net unrealized (loss)/gain from change in fair value of investment properties	**(998)**	2,441
Foreign currency translation adjustments	**(189)**	(390)
Balance at the ending of the year	**23,397**	25,637

The fair values were determined based on market approach. There has been no change to the valuation techniques during the year. All of the Group's investment properties are included in Level 2 of fair value hierarchy as at 31 December 2015.

18. OTHER ASSETS

	2015	2014
	KD'000	KD'000
Accrued income	**1,017**	943
Prepayments	**5,406**	4,443
Others	**7,746**	5,558
	14,169	10,944

19. OTHER LIABILITIES

	2015	2014
	KD'000	KD'000
Creditors and accruals	**13,740**	8,518
Accrued staff benefits	**8,902**	7,804
Clearing accounts	**2,731**	6,040
General provision on non-cash facilities	**1,586**	1,495
Others	**3,443**	4,204
	30,402	28,061

20. SHARE CAPITAL

	2015		2014	
	Shares	**KD'000**	Shares	KD'000
Shares authorised, issued and paid up of 100 fils each comprised of **1,965,001,500** shares (2014: 1,661,802,886 shares) fully paid in cash and **98,250,070** shares (2014: 303,198,614 shares) issued as bonus shares	**2,063,251,570**	**206,325**	1,965,001,500	196,500

21. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Companies Law No. 25 of 2012, as amended and its executive regulations

22. PROPOSED DIVIDEND

The board of directors recommended distribution of cash dividends of **5 fils** per share (2014: 5 fils) and bonus shares of **5%** (2014: 5%). The increase in capital was recorded in the commercial register on 10 March 2015) on outstanding shares as at 31 December 2015. The proposed dividends, if approved by the shareholders' general assembly shall be payable to the shareholders registered in the bank's records as of the date of the regulatory approval for distribution of dividends.

23. TREASURY SHARES

The Bank held the following treasury shares as at 31 December:

	2015	2014
Number of treasury shares	**1,790,413**	1,930,589
Treasury shares as a percentage of total issued shares - %	**0.0868%**	0.0983%
Cost of treasury shares – KD thousand	**568**	763
Market value of treasury shares – KD thousand	**790**	792
Weighted average of market value per share (fils)	**0.427**	0.512

An amount equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

24. STATUTORY RESERVE

In accordance with the Companies Law No. 25 of 2012, as amended and the Bank's Memorandum of Incorporation and Articles of Association, 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST, Zakat and Board of directors' remuneration is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

25. VOLUNTARY RESERVE

As required by the Bank's Articles of Association, 10% of profit for the year attributable to the shareholders of the Bank before Board of directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount equivalent to the cost of purchase of the treasury shares (Note 23).

26. SHARED BASED PAYMENT RESERVE

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was **316 fils** (2014: 476 fils). The significant inputs into the model were a share price of **410 fils** (2014: 570 fils) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of **21%** (2014: 19%), option life disclosed above and annual risk free rate of 2%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The weighted average remaining life of the share options was **501 days** (2014: 481 days) and the weighted average fair value of share options granted was **402 fils** (2014: 500 fils).

The following table shows the movement in number of share options during the year:

	2015 Number of share options	2014 Number of share options
Outstanding at 1 January	**2,410,645**	2,369,156
Granted during the year	**1,821,007**	1,259,683
Cancelled during the year	**(340,107)**	(418,814)
Exercised during the year	**(491,980)**	(799,380)
Outstanding at 31 December	**3,399,565**	2,410,645

The expense accrued on account of share based compensation plans for the year amounts to **KD 461 thousand** (31 December 2014: KD 406 thousand) and is included under staff costs in the consolidated statement of profit or loss. During the year certain employees have exercised their stock options of **492 thousand shares** (2014: 799 thousands shares) and these shares have been issued from treasury shares held by the Bank.

27. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the Parent Company including their board members, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

	Number of board member or executive officers		Number of related parties			
	2015	2014	**2015**	2014	**2015**	2014
					KD'000	KD'000
Islamic financing to customers	**8**	10	**3**	1	**3,918**	4,650
Depositors' accounts	**16**	15	**8**	8	**53,059**	32,932
Letters of guarantee and letters of credit	**1**	1	-	-	**43**	18
Revenues					**96**	103
Expenses					**(6)**	(17)
Parent Company						
Due from banks					**72,021**	8,366
Due to banks					**124,310**	42,554
Revenues					**234**	271
Expenses					**(246)**	(290)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 5,713 thousand** as at 31 December 2015 (31 December 2014: KD 4,770 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2015	2014
	KD'000	KD'000
Short-term benefits	**1,790**	1,780
Post-employment benefits	**373**	283
Share based compensation	**398**	279
	2,561	2,342

Senior executive officers also participate in the Group's share based payment programme (see note 26).

28. CONTINGENCIES AND COMMITMENTS

At the financial reporting date there were outstanding contingencies and commitments entered in the ordinary course of business in respect of the following:

	2015	2014
	KD'000	KD'000
Guarantees	**184,644**	172,768
Acceptances and letters of credit	**49,756**	43,120
Other commitments	**3,812**	914
	238,212	216,802

Operating lease commitments:
Future minimum lease payments:

	2015	2014
	KD'000	KD'000
Within one year	**2,400**	1,993
After one year but not more than five years	**5,259**	7,761
Total operating lease expenditure contracted for at the reporting date	**7,659**	9,754

29. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments

For management purposes, the Bank is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional customers. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking: Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking: Principally handling direct investments, investment in associates, local and international real estate investment and asset management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre: Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

2015	**Consumer banking KD'000**	**Corporate banking KD'000**	**Investment banking KD'000**	**Treasury KD'000**	**Group centre KD'000**	**Total KD'000**
Net financing income/(loss)	**47,293**	**27,758**	**(1,837)**	**4,625**	**1,503**	**79,342**
Share of results of associates	**-**	**-**	**313**	**-**	**-**	**313**
Operating income/(loss)	**49,339**	**34,490**	**2,392**	**6,277**	**(1,145)**	**91,353**
Depreciation	**(1,571)**	**(50)**	**(79)**	**(10)**	**(926)**	**(2,636)**
Net profit/ (loss) for the year	**27,232**	**27,357**	**(5,803)**	**5,876**	**(19,477)**	**35,185**
Total assets	**1,004,871**	**1,381,277**	**175,623**	**597,377**	**(26,263)**	**3,132,885**
Total liabilities	**1,034,387**	**258,201**	**20,009**	**1,497,611**	**1,878**	**2,812,086**

2014	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Net financing income/(loss)	36,952	24,572	(1,895)	4,980	1,599	66,208
Share of results of associates	-	-	(247)	-	-	(247)
Operating income/(loss)	38,440	29,476	5,899	6,332	(1,742)	78,405
Depreciation	(1,248)	(57)	(54)	(9)	(810)	(2,178)
Net profit/(loss) for the year	20,548	18,447	118	5,983	(16,591)	28,505
Total assets	791,539	1,176,156	192,601	520,509	(32,875)	2,647,930
Total liabilities	782,442	190,718	19,115	1,344,421	10,132	2,346,828

Geographical segment

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of assets.

	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	**Total KD'000**
2015					
Assets	**2,897,131**	**3,102**	**142,559**	**90,093**	**3,132,885**
Non-current assets (excluding financial instruments)	**52,442**	**-**	**3,906**	**-**	**56,348**
Liabilities and equity	**3,131,880**	**-**	**1,005**	**-**	**3,132,885**
Segment income/(expenses)	**91,678**	**40**	**(1,032)**	**667**	**91,353**

	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
2014					
Assets	2,425,562	3,195	131,830	87,343	2,647,930
Non-current assets (excluding financial instruments)	46,309	-	5,774	-	52,083
Liabilities and equity	2,644,560	-	3,370	-	2,647,930
Segment income/(expenses)	78,736	285	917	(1,533)	78,405

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a Group risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors and Board Risk Committee with the support of the Management Executive Committee and the Group's Risk Management functions.

The Group is exposed to credit risk, market risk, liquidity risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify, manage and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

As part of its overall risk management, the Group uses financial instruments to manage exposures resulting from changes in foreign exchange and equity risks. Collateral is used to reduce the Group's credit risk.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risks.

30.2 Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the respective credit risk functions. Whenever necessary, Islamic facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee, which meets regularly throughout the year, is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

The Group further limits risk through diversification of its assets by industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

30.2.1 Maximum exposure to credit risk (Net exposure after covered collateral)

An analysis of Islamic financing to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements is as follows:

	2015		2014	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000	**KD'000**	KD'000	KD'000
Islamic financing to customers	**2,171,794**	**1,375,208**	1,805,115	1,157,148
Contingent liabilities	**238,212**	**204,459**	216,802	182,624

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units. The Group may also obtain guarantees from parent companies for financing provided to their subsidiaries.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.2 Risk Concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2015 are **19.6%** (2014: 22.1%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	Middle East & North Africa	**North America**	**Europe**	**Asia**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2015					
Cash and cash equivalents (excluding cash on hand)	**389,441**	**2,543**	**47,494**	**183**	**439,661**
Due from banks	**192,276**	**-**	**25,800**	**-**	**218,076**
Islamic financing to customers	**2,167,458**	**-**	**3,351**	**985**	**2,171,794**
Available for sale investments (Sukuk)	**42,897**	**-**	**8,089**	**45,819**	**96,805**
Other assets (excluding accrued income and prepayments)	**7,746**	**-**	**-**	**-**	**7,746**
	2,799,818	**2,543**	**84,734**	**46,987**	**2,934,082**
Contingent liabilities	**226,094**	**-**	**281**	**8,025**	**234,400**
Commitments	**3,812**	**-**	**-**	**-**	**3,812**
Total credit risk exposure	**3,029,724**	**2,543**	**85,015**	**55,012**	**3,172,294**

	Middle East & North Africa	North America	Europe	Asia	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
2014					
Cash and cash equivalents (excluding cash on hand)	265,623	3,164	18,321	3,158	290,266
Due from banks	224,431	-	39,162	-	263,593
Islamic financing to customers	1,797,440	-	4,423	3,252	1,805,115
Available for sale investments (Sukuk)	28,842	-	8,090	41,050	77,982
Other assets (excluding accrued income and prepayments)	5,558	-	-	-	5,558
	2,321,894	3,164	69,996	47,460	2,442,514
Contingent liabilities	208,377	-	371	7,140	215,888
Commitments	914	-	-	-	914
Total credit risk exposure	2,531,185	3,164	70,367	54,600	2,659,316

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.2 Risk Concentration of the maximum exposure to credit risk (Continued)

The Group's financial assets before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2015	2014
	KD'000	KD'000
Trading	**160,991**	145,864
Manufacturing	**83,672**	73,327
Banking and other financial institutions	**669,345**	542,842
Construction	**37,306**	33,503
Real Estate	**648,343**	503,037
Retail	**967,672**	764,658
Government	**165,776**	182,914
Others	**200,977**	196,369
	2,934,082	2,442,514

30.2.3 Credit quality per class of financial assets

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of relevant aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired		**Past due or impaired**	**Total**
	High	**Standard**		
	KD'000	**KD'000**	**KD'000**	**KD'000**
2015				
Cash and cash equivalents (excluding cash on hand)	**439,661**	-	-	**439,661**
Due from banks	**218,076**	-	-	**218,076**
Islamic financing to customers	**2,004,175**	**123,651**	**93,118**	**2,220,944**
Available for sale investments (Sukuk)	**96,805**	-	-	**96,805**
Other assets (excluding accrued income and prepayment)	**7,746**	-	-	**7,746**
	2,766,463	**123,651**	**93,118**	**2,983,232**

	Neither past due nor impaired		Past due or impaired	Total
	High	Standard		
	KD'000	KD'000	KD'000	KD'000
2014				
Cash and cash equivalents (excluding cash on hand)	290,266	-	-	290,266
Due from banks	263,593	-	-	263,593
Islamic financing to customers	1,663,270	138,771	43,163	1,845,204
Available for sale investments (Sukuk)	77,982	-	-	77,982
Other assets (excluding accrued income and prepayment))	5,558	-	-	5,558
	2,300,669	138,771	43,163	2,482,603

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.3 Credit quality per class of financial assets (Continued)

Ageing analysis of past due or impaired financial assets:

	Corporate banking		**Consumer banking**		**Total**	
	Past due and not impaired	**Past due and impaired**	**Past due and not impaired**	**Past due and impaired**	**Past due and not impaired**	**Past due and impaired**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2015						
Up to 30 days	**40,254**	**2,688**	**10,936**	**-**	**51,190**	**2,688**
31 – 60 days	**6,072**	**-**	**3,953**	**-**	**10,025**	**-**
61 – 90 days	**10,597**	**-**	**1,783**	**-**	**12,380**	**-**
91 – 180 days	**-**	**498**	**-**	**3,111**	**-**	**3,609**
More than 180 days	**-**	**11,628**	**-**	**1,598**	**-**	**13,226**
	56,923	**14,814**	**16,672**	**4,709**	**73,595**	**19,523**

	Corporate banking		Consumer banking		Total	
	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
2014						
Up to 30 days	5,883	-	9,132	-	15,015	-
31 – 60 days	779	-	3,587	-	4,366	-
61 – 90 days	1,709	-	1,798	-	3,507	-
91 – 180 days	-	-	-	2,393	-	2,393
More than 180 days	-	16,654	-	1,228	-	17,882
	8,371	16,654	14,517	3,621	22,888	20,275

At 31 December 2015 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to **KD 7,171 thousand** (31 December 2014: KD 24,665 thousand).

30.3 Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of prices such as foreign exchange rates and equity prices.

The Group is not exposed to material risk in terms of the re-pricing of its liabilities since, in accordance with Islamic Sharia'a, the Group does not provide a guaranteed contractual rate of return to its depositors.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis by an independent middle office function.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 Market risk (Continued)

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		2015		2014	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000	**KD'000**	KD'000	KD'000
US Dollar	+5	**131**	-	96	-
Sterling Pound	+5	**4**	-	(1)	-
Euro	+5	**5**	-	-	-
Indonesian Rupiah	+5	-	**1,729**	-	1,994
Sudanese Pound	+5	**58**	**258**	33	251
Japanese Yen	+5	**8**	-	-	-
Others	+5	**7**	-	24	-

A 5 percent decrease of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effect of the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

For such investments classified as available for sale, a five percent increase in stock prices as at 31 December 2015 would have increased equity by **KD 574 thousand** (31 December 2014: an increase of KD 691 thousand). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of **KD 128 thousand** (31 December 2014: an increase of KD 150 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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The Group has established an Asset and Liabilities Management Committee to manage the assets and liabilities of the Group comprehensively and strategically. The committee meets regularly to determine and review policies for managing liquidity risk, as well as to set risk limits.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows, maturity dates or on management's estimate of liquidation. This does not necessarily take account of the effective maturities.

	Up to three months	**3 to 6 months**	**6 to 12 Months**	**Over 1 year**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2015					
Assets					
Cash and cash equivalents	**465,259**	**-**	**-**	**-**	**465,259**
Due from banks	**80,736**	**69,078**	**68,262**	**-**	**218,076**
Islamic financing to customers	**703,406**	**222,738**	**164,901**	**1,080,749**	**2,171,794**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**15,388**	**15,388**
Available for sale investments	**91,336**	**-**	**-**	**34,971**	**126,307**
Investments in associates	**-**	**-**	**-**	**79,713**	**79,713**
Investment properties	**-**	**-**	**-**	**23,397**	**23,397**
Other assets	**7,746**	**-**	**6,423**	**-**	**14,169**
Property and equipment	**-**	**-**	**-**	**18,782**	**18,782**
Total assets	**1,348,483**	**291,816**	**239,586**	**1,253,000**	**3,132,885**
Liabilities and Equity					
Due to banks	**382,749**	**-**	**-**	**-**	**382,749**
Depositors' accounts	**1,371,830**	**504,917**	**506,468**	**15,720**	**2,398,935**
Other liabilities	**6,179**	**-**	**13,741**	**10,482**	**30,402**
Equity	**-**	**-**	**-**	**320,799**	**320,799**
Total liabilities and equity	**1,760,758**	**504,917**	**520,209**	**347,001**	**3,132,885**

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
2014					
Assets					
Cash and cash equivalents	314,821	-	-	-	314,821
Due from banks	186,718	52,085	24,790	-	263,593
Islamic financing to customers	639,047	257,104	101,445	807,519	1,805,115
Financial assets at fair value through profit or loss	-	-	-	12,738	12,738
Available for sale investments	40,016	-	4,354	69,482	113,852
Investments in associates	-	-	-	85,728	85,728
Investment properties	-	-	-	25,637	25,637
Other assets	5,558	-	5,386	-	10,944
Property and equipment	-	-	-	15,502	15,502
Total assets	1,186,160	309,189	135,975	1,016,606	2,647,930
Liabilities and Equity					
Due to banks	201,221	5,006	20,512	-	226,739
Depositors' accounts	1,247,238	493,890	341,715	9,185	2,092,028
Other liabilities	16,915	-	11,018	128	28,061
Equity	-	-	-	301,102	301,102
Total liabilities and equity	1,465,374	498,896	373,245	310,415	2,647,930

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk (Continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the projected cash flows including future profit payments over the life of these financial liabilities based on contractual repayment arrangements.

	Up to three months	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
	KD'000	**KD'000**	**KD'000**	**KD'000**	**KD'000**
2015					
Financial Liabilities					
Due to banks	**383,356**	**-**	**-**	**-**	**383,356**
Depositors' accounts	**1,375,582**	**506,007**	**510,276**	**15,770**	**2,407,635**
	1,758,938	**506,007**	**510,276**	**15,770**	**2,790,991**

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	Total
	KD'000	KD'000	KD'000	KD'000	KD'000
2014					
Financial Liabilities					
Due to banks	201,264	5,031	20,832	-	227,127
Depositors' accounts	1,258,969	498,050	342,907	200	2,100,126
	1,460,233	503,081	363,739	200	2,327,253

30.5 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 lead to legal or regulatory implications, or financial /reputational loss.

The Group has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Group as part of overall risk management activities.

The operational risk of the Group is managed in line with the Central Bank of Kuwait's instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in banks.

30.6 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values at 31 December due to the relatively short-term maturity of the instruments.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

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 re-priced 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 consolidated statement of financial position or consolidated statement of profit or loss.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

Financial assets	Fair value as at **2015**	Fair value as at 2014	Fair value Hierarchy 2015	Sector
Financial assets at fair value through profit or loss - *Unquoted securities*	**2,560**	2,995	Level 3	Real Estate
Financial assets at fair value through profit or loss - *Unquoted funds*	**12,828**	9,743	Level 2	Financial Institutions
Available for sale investments - *Sukuk*	**32,183**	19,802	Level 1	Government
	64,622	58,180	Level 1	Financial Institutions
Available for sale investments - *Unquoted funds*	**7,609**	9,064	Level 2	Financial Institutions
	6,244	6,468	Level 2	Real Estate
	4,162	6,514	Level 2	Services
Available for sale investments - *Unquoted securities*	**1,712**	2,018	Level 3	Financial Institutions
	1,836	3,487	Level 3	Real Estate
	6,605	6,401	Level 3	Services
Available for sale investments - *Quoted securities*	**886**	1,348	Level 1	Real Estate
	448	570	Level 1	Financial Institutions

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data (unobservable inputs).

2015	**Level 1 KD'000**	**Level 2 KD'000**	**Level 3 KD'000**	**Total KD'000**
Financial assets at fair value through profit or loss	-	**12,828**	**2,560**	**15,388**
Available for sale investments	**98,139**	**18,015**	**10,153**	**126,307**
	98,139	**30,843**	**12,713**	**141,695**

2014	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Financial assets at fair value through profit or loss	-	9,743	2,995	12,738
Available for sale investments	79,900	22,046	11,906	113,852
	79,900	31,789	14,901	126,590

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

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

	At 1 January 2015	**Change in fair value**	**Impairment**	**Additions**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2015**
	KD 000's	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**
Financial assets at fair value through profit or loss-							
Unquoted securities	**2,995**	**(435)**	-	-	-	-	**2,560**
Available for sale investments-							
Unquoted securities	**11,906**	**397**	**(1,098)**	**336**	**(1,495)**	**107**	**10,153**
	14,901	**(38)**	**(1,098)**	**336**	**(1,495)**	**107**	**12,713**

	At 1 January 2014	Change in fair value	Impairment	Additions	Sale/ redemption	Exchange rate movements	At 31 December 2014
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Financial assets at fair value through profit or loss							
Unquoted securities	3,932	89	-	-	(1,026)	-	2,995
Available for sale investments-							
Unquoted securities	11,159	995	(662)	929	(634)	119	11,906
	15,091	1,084	(662)	929	(1,660)	119	14,901

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2015 are as shown below:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	**Sensitivity of the input to fair value**
Financial assets at fair value through profit or loss *– unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 25 thousand**.
Available for sale investments *– unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 102 thousand.**

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

In the case of available for sale investments, the impairment charge in the profit or loss would depend on whether the decline is significant or prolonged. An increase in the fair value would only impact equity (through other comprehensive income) and, would not have an effect on profit or loss.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

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 consolidated statement of financial position or consolidated statement of profit or loss.

30.7 Capital management

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

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2015 and 31 December 2014 are calculated in accordance with Central Bank of Kuwait circular number 2/RB, RBA/336/2014 dated 24 June 2014 related to Basel III regulations which are shown below:

	2015	2014
	KD'000	KD'000
Risk weighted assets	**1,631,425**	1,356,592
Capital required	**203,928**	162,791
Capital available		
Tier 1 capital	**259,594**	229,781
Tier 2 capital	**18,332**	15,148
Total capital	**277,926**	244,929
Tier 1 capital adequacy ratio	**15.91%**	16.94%
Total capital adequacy ratio	**17.04%**	18.05%

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

	2015	2014
	KD'000	KD'000
Tier 1 capital	**259,594**	229,781
Total exposures	**3,286,647**	2,773,982
Financial leverage ratio	**7.90%**	8.28%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2015 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve Sharia'a approved derivative financial instruments to mitigate foreign currency risk. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The notional amount, disclosed gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

The positive fair value of forward foreign exchange contracts outstanding as of 31 December 2015 is **KD 1 thousand** (2014: KD 3 thousand) and their notional amounts outstanding as of 31 December 2015 are **KD 1,345 thousand** (2014: KD 43 thousand)

The Group's derivative trading activities mainly related to deals with customers, which are normally matched by entering into reciprocal spot deals with counterparties.

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 95,496 thousand** (31 December 2014: KD 99,804 thousand) and the related income from these assets amounted to **KD 355 thousand** (31 December 2014: KD 307 thousand).

BOUBYAN BANK K.S.C.P. AND SUBSIDIARIES

بنك بوبيان
Boubyan Bank

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014**

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boubyan Bank Kuwait K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

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

Report on Other Legal and Regulatory Requirements

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

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Kuwait
6 January 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2014

	Notes	**2014** **KD'000**	2013 KD'000
Income			
Murabaha and other Islamic financing income		**83,692**	70,969
Distribution to depositors	5	**(15,961)**	(8,527)
Murabaha cost		**(1,523)**	(1,700)
Net financing income		**66,208**	60,742
Net investment income	6	**4,986**	962
Net fees and commission income	7	**5,935**	3,632
Share of results of associates	16	**(247)**	726
Net foreign exchange gain		**1,352**	1,010
Other Income		**171**	-
Operating income		**78,405**	67,072
Staff costs		**(20,833)**	(18,767)
General and administrative expenses		**(12,411)**	(10,062)
Depreciation		**(2,178)**	(1,699)
Operating expenses		**(35,422)**	(30,528)
Operating profit before provision for impairment		**42,983**	36,544
Provision for impairment	8	**(12,952)**	(23,081)
Operating profit before deductions		**30,031**	13,463
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(261)**	(127)
National Labour Support Tax ("NLST")		**(736)**	(348)
Zakat		**(289)**	(133)
Board of directors' remuneration		**(240)**	(135)
Net profit for the year		**28,505**	12,720
Attributable to:			
Equity holders of the Bank		**28,239**	13,408
Non-controlling interests		**266**	(688)
Net profit for the year		**28,505**	12,720
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	9	**14.39**	6.83

The notes from 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014 **KD'000**	2013 KD'000
Net profit for the year	**28,505**	12,720
Other comprehensive income		
Other comprehensive income to be reclassified to consolidated statement of profit or loss in subsequent periods:		
Change in fair value of available for sale investments	**947**	(2,230)
Net gains on available for sale investments transferred to consolidated statement of profit and loss	**(86)**	(449)
Impairment losses on available for sale investments transferred to consolidated statement of profit and loss	**1,364**	2,115
Foreign currency translation adjustments	**1,278**	(2,873)
Other comprehensive income/(loss) for the year	**3,503**	(3,437)
Total comprehensive income for the year	**32,008**	9,283
Attributable to:		
Equity holders of the Bank	**31,742**	9,971
Non-controlling interests	**266**	(688)
Total comprehensive income for the year	**32,008**	9,283

The notes from 1 to 32 form an integral part of these consolidated financial statements.

بـنـك بـوبـيـان
Boubyan Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 KD'000	2013 KD'000
Assets			
Cash and cash equivalents	10	**314,821**	205,622
Due from banks	11	**263,593**	298,871
Islamic financing to customers	12	**1,805,115**	1,478,701
Financial assets at fair value through profit or loss	13	**12,738**	5,866
Available for sale investments	14	**113,852**	63,044
Investments in associates	16	**85,728**	85,691
Investment properties	17	**25,637**	30,245
Other assets	18	**10,944**	11,516
Property and equipment		**15,502**	12,430
Total assets		**2,647,930**	2,191,986
Liabilities and Equity			
Liabilities			
Due to banks		**226,739**	236,018
Depositors' accounts		**2,082,854**	1,657,398
Other liabilities	19	**37,235**	29,083
Total liabilities		**2,346,828**	1,922,499
Equity			
Share capital	20	**196,500**	183,645
Share premium	21	**62,896**	62,896
Proposed bonus shares	22	**9,825**	12,855
Treasury shares	23	**(763)**	(1,100)
Statutory reserve	24	**6,283**	3,306
Voluntary reserve	25	**6,015**	3,167
Share based payment reserve	26	**864**	860
Fair value reserve		**5,082**	2,857
Foreign currency translation reserve		**(6,468)**	(7,746)
Retained earnings		**5,978**	3,204
Proposed cash dividends	22	**9,815**	-
Equity attributable to equity holders of the Bank		**296,027**	263,944
Non-controlling interests		**5,075**	5,543
Total equity		**301,102**	269,487
Total liabilities and equity		**2,647,930**	2,191,986

Mahmoud Yousef Al-Fulaij
Chairman

Adel Abdul Wahab Al Majed
Vice Chairman & Chief Executive Officer

The notes from 1 to 32 form an integral part of these consolidated financial statements.

Boubyan Bank

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	Share capital	Share premium	Proposed bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Share based payment reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Proposed cash dividends	Equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000	KD'000
Balance at 1 January 2014	**183,645**	**62,896**	**12,855**	**(1,100)**	**3,306**	**3,167**	**860**	**2,857**	**(7,746)**	**3,204**	**-**	**263,944**	**5,543**	**269,487**
Total comprehensive income for the year	-	-	-	-	-	-	-	**2,225**	**1,278**	**28,239**	-	**31,742**	**266**	**32,008**
Transfer to reserves	-	-	-	-	**2,977**	**2,848**	-	-	-	**(5,825)**	-	-	-	-
Issue of bonus shares	**12,855**	-	**(12,855)**	-	-	-	-	-	-	-	-	-	-	-
Capital redemption of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	**(734)**	**(734)**
Share based payment (note 26)	-	-	-	-	-	-	**4**	-	-	**257**	-	**261**	-	**261**
Sales of treasury shares	-	-	-	**337**	-	-	-	-	-	**(257)**	-	**80**	-	**80**
Proposed bonus shares (note 22)	-	-	**9,825**	-	-	-	-	-	-	**(9,825)**	-	-	-	-
Proposed cash dividends (note 22)	-	-	-	-	-	-	-	-	-	**(9,815)**	**9,815**	-	-	-
Balance at 31 December 2014	**196,500**	**62,896**	**9,825**	**(763)**	**6,283**	**6,015**	**864**	**5,082**	**(6,468)**	**5,978**	**9,815**	**296,027**	**5,075**	**301,102**
Balance at 1 January 2013	174,824	62,896	8,741	(1,024)	1,891	1,813	537	3,421	(4,873)	5,424	-	253,650	2,514	256,164
Total comprehensive (loss) income for the year	-	-	-	-	-	-	-	(564)	(2,873)	13,408	-	9,971	(688)	9,283
Transfer to reserves	-	-	-	-	1,415	1,354	-	-	-	(2,769)	-	-	-	-
Issue of bonus shares	8,745	-	(8,741)	-	-	-	-	-	-	(4)	-	-	-	-
Proposed bonus shares	-	-	12,855	-	-	-	-	-	-	(12,855)	-	-	-	-
Issue of share capital	76	-	-	(76)	-	-	-	-	-	-	-	-	-	-
Share based payment (note 26)	-	-	-	-	-	-	323	-	-	-	-	323	-	323
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	3,717	3,717
Balance at 31 December 2013	183,645	62,896	12,855	(1,100)	3,306	3,167	860	2,857	(7,746)	3,204	-	263,944	5,543	269,487

The notes from 1 to 32 form an integral part of these consolidated financial statements.

	Notes	**2014** **KD'000**	2013 KD'000
OPERATING ACTIVITIES			
Net profit for the year		**28,505**	12,720
Adjustments for:			
Provision for impairment	8	**12,952**	23,081
Depreciation		**2,178**	1,699
Foreign currency translation adjustments		**(1,487)**	(1,270)
Net loss/(gain) from available for sale investments		**10**	(314)
Net losses from financial assets at fair value through profit or loss		**547**	876
Share of results of associates		**247**	(726)
Dividend income		**(1,112)**	(1,397)
Net unrealized (gain)/loss from change in fair value of investment properties		**(2,441)**	1,712
Net (gain)/loss on sale of investment properties		**(270)**	34
Share based payment reserve		**261**	323
Operating profit before changes in operating assets and liabilities		**39,390**	36,738
Changes in operating assets and liabilities:			
Due from banks		**35,278**	(47,246)
Islamic financing to customers		**(338,678)**	(242,762)
Other assets		**572**	(5,683)
Due to banks		**(9,279)**	28,885
Depositors' accounts		**425,456**	260,609
Other liabilities		**8,001**	4,672
Dividend income received		**1,112**	1,397
Net cash generated from operating activities		**161,852**	36,610
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(8,765)**	(966)
Proceeds from sale of financial assets at fair value through profit or loss		**1,451**	6,453
Purchase of available for sale investments		**(95,211)**	(7,660)
Proceeds from sale of available for sale investments		**48,488**	6,504
Dividends received from associates		**359**	286
Acquisition of associates		**-**	(3,436)
Purchase of investment properties		**(6,916)**	(3,155)
Proceeds from sale of investment properties		**13,845**	5,744
Purchase of property and equipment		**(5,250)**	(4,288)
Net cash used in investing activities		**(51,999)**	(518)
FINANCING ACTIVITES			
Capital redemption of non-controlling interest		**(734)**	-
Proceeds from exercise of share options		**80**	-
Net cash used in financing activities		**(654)**	-
Net increase in cash and cash equivalents		**109,199**	36,092
Cash and cash equivalents at the beginning of the year		**205,622**	169,530
Cash and cash equivalents at the end of the year	10	**314,821**	205,622

The notes from 1 to 32 form an integral part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

Boubyan Bank K.S.C.P ("the Bank") is a Kuwaiti public shareholding company incorporated on 21 September 2004, in accordance with the Commercial Companies Law in the State of Kuwait, by Amiri Decree No. 88 and in accordance with the rules and regulations of the Central Bank of Kuwait ("CBK") (Law No. 30 of 2003).

The Bank's shares were listed on the Kuwait Stock Exchange on 15 May 2006.

The Bank was licensed by the CBK on 28 November 2004. The Bank is principally engaged in providing banking services, in accordance with Codes of the Islamic Sharia'a, as approved by the Bank's Sharia'a Supervisory Board.

The Bank is a subsidiary of National Bank of Kuwait S.A.K.P ("the Parent Company").

The total number of employees in the Group was **1081** employees as at 31 December 2014 (901 employees as at 31 December 2013).

The address of the Bank's registered office is P.O. Box 25507, Safat 13116, State of Kuwait.

The consolidated financial statements were authorised for issue by the Board of Directors on 6 January 2015 and the shareholders have the power to amend these consolidated financial statement at the annual assembly meeting.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRSs except for the IAS 39 requirements for collective impairment provision, which has been replaced by the Central Bank of Kuwait requirements for a minimum general provision as described in accounting policy 3.10.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of investment securities, available for sale investments, financial asset at fair value through profit or loss and investment properties.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Kuwaiti Dinars, which is the Bank's functional currency. All financial information presented in Kuwaiti Dinars ("KD") has been rounded to the nearest thousands, except when otherwise indicated.

2.4 New standards, interpretations and amendments effective from 1 January 2014

The accounting policies applied are consistent with those used in the previous year. The following amendments to IFRSs effective for the annual periods beginning on or after 1 January 2014 did not have any impact on the accounting policies, financial position or performance of the Group.

Investment Entities (Amendment to IFRS 10, IFRS 12 and IAS 27)

Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32)

Novation of Derivatives and Continuation of Hedge Accounting (Amendment to IAS 39)

Recoverable Amount Disclosure for Non-Financial Assets (Amendment to IAS 36)

2. BASIS OF PREPARATION (CONTINUED)

2.5 New standards and interpretations not yet adopted

The following IASB Standards and Interpretations have been issued but are not yet effective and have not been early adopted by the Group consolidated financial statement. The Group intends to adopt them when they become effective.

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 July 2017)

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in this consolidated financial statements, and have been applied consistently by all of the Group's entities.

3.1 Basis of consolidation

The consolidated financial statements comprise the Bank and its principal subsidiaries (collectively "the Group") - Boubyan Takaful Insurance Company K.S.C. and Boubyan Capital Investment Company K.S.C., which are controlled by the Bank as set out in note 15.

3.1.1 *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an investee if and only if the Group has:

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

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

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

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3.1.2 *Non-controlling interests*

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognized amount of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

3.1.3 *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (Continued)

3.1.4 *Loss of control*

On loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in the consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

3.1.5 *Investments in associates (equity-accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting right.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The Group recognises in the consolidated statement of profit or loss its share of the total recognised profit or loss of the associate from the date that influence effectively commences until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investments. Adjustments to the carrying amount may also be necessary for changes in Group's share in the associate arising from changes in the associate's equity and other comprehensive income. The Group's share of those changes is recognised directly in equity or in other comprehensive income as appropriate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill within the carrying amount of the associates.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in the consolidated statement of profit or loss.

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.6 *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3.2 Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

Foreign currency transactions are recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the consolidated statement of profit or loss for the year. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the consolidated statement of profit or loss for the year, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the consolidated statement of profit or loss in the year in which the foreign operation is disposed off.

3.3 Revenue recognition

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

- Income from Murabaha, Wakala, and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.
- Dividend income is recognized when the right to receive payment is established.
- Fees and commission income is recognized at the time the related services are provided.
- Rental income from investment properties is recognised on a straight line basis over the lease period.

3.4 Financial instruments

3.4.1 *Financial assets*

Trade and settlement date accounting

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in the fair value between trade date and settlement date are recognized in the consolidated statement of profit or loss for financial assets at fair value through profit or loss and are recognized in other comprehensive income for available for sale investments. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.1 Financial assets (Continued)

Recognition and derecognition of financial assets

Financial assets are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a liability for the proceeds received.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only if it is so permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

The Group classifies financial assets into the following categories: cash and cash equivalents, due from banks, Islamic financing to customers, financial assets at fair value through profit or loss, available for sale investments and other assets.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, current account with other banks and placements with banks maturing within seven days.

Due from banks and Islamic financing to customers

Due from banks and Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

Murabaha

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Wakala

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and is stated at amortized cost net of provision for impairment.

Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortized cost net of provision for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.1 *Financial assets (Continued)*

Renegotiated finance facilities

In the event of a default, the Group seeks to restructure facilities rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new facility conditions. When the terms and conditions of these finance facilities are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these facilities remain past due. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continues to be subject to an individual or collective impairment assessment.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's strategy or such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Attributable transaction costs are recognised in consolidated statement of profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in consolidated statement of profit or loss.

Available for sale investment

Available for sale investment is non-derivative financial assets that are not classified in any of the above categories of financial assets.

Available for sale investment is recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3.10) and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised or is determined to be impaired, the gain or loss accumulated in equity is reclassified to consolidated statement of profit or loss.

3.4.2 *Financial liabilities*

All financial liabilities are recognised initially on the settlement date at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities comprise due to banks, depositors' accounts and other liabilities.

Due to banks and depositors' accounts

Depositors' accounts are deposits received from customers under current account, saving investment accounts and fixed term investments accounts. The depositors' accounts of the Bank comprise the following:

i) 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 Hassan from depositors to the Bank under Islamic Sharia'a principals. Investing such Qard Hassan is made at the discretion of the Group, the results of which are attributable to the equity shareholders of the Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Financial instruments (Continued)

3.4.2 *Financial liabilities (Continued)*

ii) Investment deposit accounts include savings accounts, fixed term deposit accounts, and open term deposit accounts.

Saving Investment Accounts

These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time.

Fixed-Term Deposit Investment Accounts

These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits mature monthly, quarterly, semi-annually, or annually.

Open –Term Deposit Investment Accounts

These are open-term deposits and are treated as annual deposits renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit.
In all cases, investment accounts receive a proportion of profit, bear a share of loss and are carried at cost plus profit payable.

3.5 Fair values

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 in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing 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.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and also considering the ability to generate economic benefits by using the property in its highest and best use.

3.6 Derivative

Derivative instruments are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

The Group enters into foreign exchange forward contracts. Forward foreign exchange contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and losses from derivatives are included in the consolidated statement of profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.8 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance is expensed as incurred.

Items of property and equipment are depreciated on a straight-line basis in consolidated statement of profit or loss over the estimated useful lives of each component.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

- Furniture and leasehold improvement — 5 years
- Office equipment — 3 - 10 years
- Building on leasehold land — 20 years

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted, if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment

3.9.1 *Financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of profit or loss.

Financial assets measured at amortised cost

The amount of impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective yield. Losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against Islamic financing to customers. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

In addition, in accordance with Central Bank of Kuwait's instructions, a minimum general provision of 1% for the cash facilities and 0.5% for the non-cash facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provisions is made. In March 2007, CBK issued a circular amending the basis of calculating general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 1% to 0.5% for non-cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral, during the reporting period. The general provision in excess of the present 1% for cash facilities and 0.5% for non-cash facilities as of 31 December 2006 would be retained as a general provision until a further directive from the Central Bank of Kuwait is issued.

Available for sale investment

Impairment losses on available for sale investment are recognised by reclassifying the losses accumulated in the fair value reserve in equity to consolidated statement of profit or loss. The cumulative loss that is reclassified from equity to consolidated statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in consolidated statement of profit or loss. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment (Continued)

3.9.2 *Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market rates and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

For non-financial assets excluding goodwill, 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. Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of profit or loss.

3.10 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the obligation at the financial reporting date and are discounted to present value where the effect is material.

3.11 Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes of the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable

3.12 Share based payment

The Bank operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of options or shares is recognized as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3.14 Treasury shares

Treasury shares consist of the Bank's own shares that have been issued, subsequently reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (treasury shares reserve) which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account.

No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

3.15 Post-employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

3.16 Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% in accordance with the calculation based on the Foundation's Board of Directors resolution.

3.17 National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

3.18 Zakat

Effective from 10 December 2007, the Bank has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of profit and loss.

3.19 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its customers. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Critical judgments in applying the Group's accounting policies

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

Classification of investments

Management decides on acquisition of an investment whether to classify it as held to maturity, available for sale or financial asset at fair value through profit or loss.

In designating financial assets at fair value through profit or loss, the Group determines if it meets one of the criteria for this designation set out in the significant accounting policies (see note 3.4.1).

Impairment of investments

The Group treats available for sale equity investments 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 judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Fair value hierarchy

As disclosed in note 30.6, the Group is required to determine and disclose the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS. Differentiating between Level 2 and Level 3 fair value measurements, i.e., assessing whether inputs are observable and whether the unobservable inputs are significant, may require judgement and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment losses on finance facilities

The Group reviews its irregular finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. In particular, considerable judgement 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, and actual results may differ resulting in future changes to such provisions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty (Continued)

Valuation of unquoted equity investments

Valuation of unquoted equity investments is based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that has substantially the same characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

5. DISTRIBUTION TO DEPOSITORS

The Bank determines and distributes the depositors' share of profit based on the Bank's results at the end of each month.

6. NET INVESTMENT INCOME

	2014	2013
	KD'000	KD'000
Sukuk coupon income	**1,487**	1,545
Dividend income	**1,112**	1,397
Net rental income from investment properties	**233**	328
Net losses from financial assets at fair value through profit or loss	**(547)**	(876)
Net (loss)/gains from available for sale investments	**(10)**	314
Net gain /(loss) on sale of investment properties	**270**	(34)
Unrealized gain/(loss) from changes in fair value of investment properties	**2,441**	(1,712)
	4,986	962

7. NET FEES AND COMMISSION INCOME

	2014	2013
	KD'000	KD'000
Gross fees and commission income	**8,385**	5,271
Fees and commission expenses	**(2,450)**	(1,639)
	5,935	3,632

8. PROVISION FOR IMPAIRMENT

	2014	2013
	KD'000	KD'000
Provision for impairment of finance facilities	**11,497**	17,852
Impairment of investments	**1,455**	2,115
Provision for impairment of other assets	**-**	3,114
	12,952	23,081

8. PROVISION FOR IMPAIRMENT (CONTINUED)

The analysis of provision for impairment of finance facilities based on specific and general provision is as follows:

	Specific KD'000	General KD'000	Total KD'000
Balance at 1 January 2013	4,261	28,685	32,946
Provided during the year	13,448	4,404	17,852
Recovery of written off balances	3,779	-	3,779
Written off balances during the year	(17,781)	-	(17,781)
Balance at 31 December 2013	3,707	33,089	36,796
Provided during the year	**8,382**	**3,115**	**11,497**
Recovery of written off balances	**971**	**-**	**971**
Written off balances during the year	**(7,680)**	**-**	**(7,680)**
Balance at 31 December 2014	**5,380**	**36,204**	**41,584**

Further analysis of provision for impairment of finance facilities by category is as follows:

	Islamic finance to customers KD'000	Non-cash facilities KD'000	Total KD'000
Balance at 1 January 2013	31,551	1,395	32,946
Provided during the year	17,903	(51)	17,852
Recovery of written off balances	3,779	-	3,779
Written off balances during the year	(17,781)	-	(17,781)
Balance at 31 December 2013	35,452	1,344	36,796
Provided during the year	**11,346**	**151**	**11,497**
Recovery of written off balances	**971**	**-**	**971**
Written off balances during the year	**(7,680)**	**-**	**(7,680)**
Balance at 31 December 2014	**40,089**	**1,495**	**41,584**

At 31 December 2014, non-performing finance facilities are amounted to **KD 14,895 thousand**, net of provision of **KD 5,380 thousand** (31 December 2013: KD 25,071 thousand, net of provision of KD 3,707 thousand). The analysis of specific and general provision stated above is based on Central Bank of Kuwait's instructions.

9. BASIC AND DILUTED EARNING PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of share that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share option does not result in any change from the reported basic earnings per share.

	2014	2013
Net profit for the year attributable to the equity holders of the Bank (KD'000)	**28,239**	13,408
Weighted average number of shares outstanding during the year (thousands of shares)	**1,962,922**	1,962,232
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	**14.39**	6.83

Earnings per share for the year ended 31 December 2013 was 7.29 fils per share before retroactive adjustment to the number of shares following the bonus issue (see note 22).

10. CASH AND CASH EQUIVALENTS

	2014	2013
	KD'000	KD'000
Cash on hand	**24,555**	19,846
Balances with Central Bank of Kuwait – current account	**-**	682
Balances with banks – current accounts	**9,653**	7,674
Placement with banks maturing within seven days	**280,613**	177,420
	314,821	205,622

The fair values of cash and cash equivalents do not differ from their respective carrying values.

11. DUE FROM BANKS

The geographical distribution of balances due from banks is as follows:

	2014	2013
	KD'000	KD'000
Kuwait & Middle East	**206,816**	266,884
Europe	**56,777**	31,987
	263,593	298,871

12. ISLAMIC FINANCING TO CUSTOMERS

The geographical distribution of Islamic financing to customers is as follows:

	Kuwait & Middle East	Europe	Asia	**Total**
	KD'000	KD'000	KD'000	**KD'000**
2014				
Corporate banking	**1,050,485**	**4,423**	**3,329**	**1,058,237**
Consumer banking	**786,967**	**-**	**-**	**786,967**
	1,837,452	**4,423**	**3,329**	**1,845,204**
Less: provision for impairment	**(38,791)**	**(44)**	**(1,254)**	**(40,089)**
	1,798,661	**4,379**	**2,075**	**1,805,115**

	Kuwait & Middle East	Europe	Asia	Total
2013	KD'000	KD'000	KD'000	KD'000
Corporate banking	930,151	4,550	3,099	937,800
Consumer banking	576,353	-	-	576,353
	1,506,504	4,550	3,099	1,514,153
Less: provision for impairment	(35,376)	(46)	(30)	(35,452)
	1,471,128	4,504	3,069	1,478,701

Provisions for impairment of Islamic financing to customers are as follows:

	Specific		General		Total	
	2014	2013	**2014**	2013	**2014**	2013
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**3,707**	4,261	**31,745**	27,290	**35,452**	31,551
Provided during the year	**8,382**	13,448	**2,964**	4,455	**11,346**	17,903
Recovery of written off balances	**971**	3,779	**-**	-	**971**	3,779
Written off balances during the year	**(7,680)**	(17,781)	**-**	-	**(7,680)**	(17,781)
Balance at end of the year	**5,380**	3,707	**34,709**	31,745	**40,089**	35,452

12. ISLAMIC FINANCING TO CUSTOMERS (CONTINUED)

Further analysis of specific provision based on class of financial assets is given below:

	Corporate banking		Consumer banking		Total	
	2014	2013	**2014**	2013	**2014**	2013
	KD'000	KD'000	**KD'000**	KD'000	**KD'000**	KD'000
Balance at beginning of the year	**2,369**	2,461	**1,338**	1,800	**3,707**	4,261
Provided during the year	**7,581**	12,638	**801**	810	**8,382**	13,448
Recovery of written off balances	**690**	3,619	**281**	160	**971**	3,779
Written off balances	**(6,884)**	(16,349)	**(796)**	(1,432)	**(7,680)**	(17,781)
Balance at end of the year	**3,756**	2,369	**1,624**	1,338	**5,380**	3,707

Whenever necessary, Islamic financing to customers is secured by acceptable forms of collateral to mitigate the related credit risks.

Non performing Islamic financing to customers and related specific provisions are as follows:

	2014	2013
	KD'000	KD'000
Islamic financing to customers	**20,275**	28,778
Specific provision for impairment	**(5,380)**	(3,707)
	14,895	25,071

At 31 December 2014 management estimates the fair value of collaterals held against individually impaired Islamic finance facilities to be **KD 23,800 thousand** (31 December 2013: KD 23,280 thousand).

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	2013
	KD'000	KD'000
Investment in unquoted securities	**2,995**	3,932
Investment in unquoted funds	**9,743**	1,934
	12,738	5,866

14. AVAILABLE FOR SALE INVESTMENTS

	2014	2013
	KD'000	KD'000
Investment in Sukuk	**77,982**	31,289
Investment in unquoted funds	**22,046**	18,383
Investment in unquoted securities	**11,906**	11,159
Investment in quoted securities	**1,918**	2,213
	113,852	63,044

15. SUBSIDIARIES

Principal operating subsidiaries are as follows:

Name of subsidiary	Country of incorporation	**2014 proportion of ownership interest and voting power %**	2013 proportion of ownership interest and voting power %	Principal activity
Boubyan Takaful Insurance Company K.S.C. (Closed)	Kuwait	**67.63**	67.63	Takaful insurance
Boubyan Capital Investment Company K.S.C. (Closed)	Kuwait	**99.55**	99.55	Islamic investments

16. INVESTMENTS IN ASSOCIATES

Name of associate	Country of incorporation	**2014 proportion of ownership interest and voting power %**	2013 proportion of ownership interest and voting power %	Principal activity
United Capital Bank	Republic of Sudan	**21.67**	21.67	Islamic commercial banking
Ijarah Indonesia Finance Company	Indonesia	**33.33**	33.33	Islamic financing services
Saudi Projects Holding Group	Kuwait	**25.00**	25.00	Real Estate
Bank of London and the Middle East ("BLME")	United Kingdom	**25.62**	25.62	Islamic commercial banking
Bank Syariah Muamalat Indonesia Tbk ("BSMI")	Indonesia	**22.00**	22.00	Islamic commercial banking

Summarized financial information in respect of BLME is set out below:

	2014 KD'000	2013 KD'000
Total assets	**585,845**	528,745
Total liabilities	**(473,602)**	(418,620)
Net assets	**112,243**	110,125
Group's share of net assets	**28,757**	28,214

	2014 KD'000	2013 KD'000
Total revenue	**21,918**	11,762
Net profit	**2,447**	461
Group's share of results	**627**	-

16. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarized financial information in respect of BSMI is set out below:

	2014	2013
	KD'000	KD'000
Total assets	**1,444,575**	1,241,918
Total liabilities	**(1,351,408)**	(1,140,734)
Net assets	**93,167**	101,184
Group's share of net assets	**20,497**	22,260
Group's share of contingent liabilities	**5,817**	6,305

	2014	2013
	KD'000	KD'000
Total revenue	**42,776**	56,590
Net profit	**(6,563)**	12,507
Group's share of results	**(1,445)**	-

Summarized financial information in respect of the Group's other associates that are individually immaterial, are set out below:

	2014	2013
	KD'000	KD'000
Total assets	**123,610**	112,440
Total liabilities	**(61,584)**	(77,878)
Net assets	**62,026**	34,562
Group's share of net assets	**14,036**	7,631
Group's share of contingent liabilities	**5,422**	8,136

	2014	2013
	KD'000	KD'000
Total revenue	**10,045**	9,519
Net profit	**2,737**	3,117
Group's share of results	**571**	726

17. INVESTMENT PROPERTIES

The movement in the investment properties is as follows:

	2014	2013
	KD'000	KD'000
Balance at the beginning of the year	**30,245**	17,904
Additions during the year	**6,916**	21,808
Disposals during the year	**(13,575)**	(8,048)
Net unrealized gain/(loss) from change in fair value of investment properties	**2,441**	(1,712)
Foreign currency translation adjustments	**(390)**	293
Balance at the ending of the year	**25,637**	30,245

The fair values were determined based on market approach. There has been no change to the valuation techniques during the year. All of the Group's investment properties are included in Level 2 of fair value hierarchy as at 31 December 2014.

18. OTHER ASSETS

	2014	2013
	KD'000	KD'000
Accrued income	**943**	616
Prepayments	**4,443**	4,394
Others	**5,558**	6,506
	10,944	11,516

19. OTHER LIABILITIES

	2014	2013
	KD'000	KD'000
Creditors and accruals	**8,518**	6,223
Accrued staff benefits	**7,804**	6,434
Clearing accounts	**6,040**	7,642
General provision on non-cash facilities	**1,495**	1,344
Margin accounts	**2,500**	3,085
Others	**10,878**	4,355
	37,235	29,083

20. SHARE CAPITAL

	2014		2013	
	Shares	**KD'000**	Shares	KD'000
Shares authorised, issued and paid up of 100 fils each comprised of 1,661,802,886 shares (2013: 1,661,802,886 shares) fully paid in cash and 303,198,614 shares (2013: 174,647,114 shares) issued as bonus shares	**1,965,001,500**	**196,500**	1,836,450,000	183,645

21. SHARE PREMIUM

The share premium is not distributable except under specific circumstances as provided by the Companies Law.

22. PROPOSED DIVIDEND

The board of directors recommended distribution of a cash dividends of **5 fills** per share (2013: Nil) and bonus shares of **5%** (2013: 7% the increase in capital was mark in commercial register dated on 17 March 2014) on outstanding shares as at 31 December 2014. The proposed dividends, if approved by the shareholders' general assembly shall be payable to the shareholders registered in the bank's records as of the date of the regulatory approval for distribution of dividends.

23. TREASURY SHARES

The Bank held the following treasury shares as at 31 December:

	2014	2013
Number of treasury shares	**1,930,589**	2,603,669
Treasury shares as a percentage of total issued shares - %	**0.0983%**	0.1418%
Cost of treasury shares – KD thousand	**763**	1,100
Market value of treasury shares – KD thousand	**792**	1,458
Weighted average of market value per share (fils)	**0.512**	0.620

An amount equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

24. STATUTORY RESERVE

In accordance with the Companies Law No. 25 of 2012, as amended and the Bank's Memorandum of Incorporation and Articles of Association, 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST, Zakat and Board of directors' remuneration is transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by law and the Bank's Articles of Association.

25. VOLUNTARY RESERVE

As required by the Bank's Articles of Association, 10% of profit for the year attributable to the shareholders of the Bank before Board of directors' remuneration is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount equivalent to the cost of purchase of the treasury shares (Note 23).

26. SHARED BASED PAYMENT RESERVE

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was **476 fils** (2013: 546 fils). The significant inputs into the model were a share price of **570 fils** (2013: 640 fils) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of **19%** (2013: 26%), option life disclosed above and annual risk free rate of 2%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years. The weighted average remaining life of the share options was **481 days** (2013: 575 days) and the weighted average fair value of share options granted was **500 fils** (2013: 530 fils).

The following table shows the movement in number of share options during the year:

	2014 Number of share options	2013 Number of share options
Outstanding at 1 January	**2,369,156**	**1,900,216**
Granted during the year	**1,259,683**	**897,233**
Cancelled during the year	**(418,814)**	**(428,293)**
Exercised during the year	**(799,380)**	**-**
Outstanding at 31 December	**2,410,645**	**2,369,156**

The expense accrued on account of share based compensation plans for the year amounts to **KD 406 thousand** (31 December 2013: KD 323 thousand) and is included under staff costs in the consolidated statement of profit or loss. During the year certain employees have exercised their stock options of **799,380 shares** and these shares have been issued from treasury shares held by the Bank.

27. RELATED PARTY TRANSACTIONS

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members and the Parent Company including their board members, key management personnel, branches, associates and subsidiaries. Balances with related parties arise from commercial transactions in the normal course of business on an arm's length basis and are included within the following financial information captions:

	Number of board member or executive officers		Number of related parties			
	2014	2013	**2014**	2013	**2014**	2013
					KD'000	KD'000
Islamic financing to customers	**10**	7	**1**	2	**4,650**	5,745
Depositors' accounts	**15**	11	**8**	9	**32,932**	29,465
Letters of guarantee and letters of credit	**1**	1	**-**	-	**18**	18
Revenues					**103**	202
Expenses					**(17)**	(173)
Parent Company						
Due from banks					**8,366**	92,401
Due to banks					**42,554**	87,612
Revenues					**271**	279
Expenses					**(290)**	(150)

The Group holds collaterals against Islamic finance facilities to related parties in the form of shares and real estate. An estimate of the fair value of collaterals held against Islamic finance facilities to related parties amounted to **KD 4,770 thousand** as at 31 December 2014 (31 December 2013: KD 1,271 thousand).

Compensation of key management personnel:

Details of compensation for key management comprise the following:

	2014	2013
	KD'000	KD'000
Short-term benefits	**1,780**	1,904
Post-employment benefits	**283**	299
Share based compensation	**279**	226
	2,342	2,429

Senior executive officers also participate in the Group's share based payment programme (see note 26).

28. CONTINGENCIES AND COMMITMENTS

At the financial reporting date there were outstanding contingencies and commitments entered in the ordinary course of business in respect of the following:

	2014	2013
	KD'000	KD'000
Guarantees	**172,768**	166,952
Acceptances and letters of credit	**43,120**	26,872
Capital commitments (projects under construction)	**914**	411
	216,802	194,235

29. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. The operating segments are divided as either business segments or geographical segments.

Business Segments

For management purposes, the Bank is organized into the following four major business segments:

Consumer banking: Provides a diversified range of products and services to individuals and institutional customers. The range includes consumer finance, credit cards, deposits and other branch related services.

Corporate banking: Provides Murabaha, Ijarah, trade service and other related services to business and corporate customers.

Investment banking: Principally handling direct investments, investment in associates, local and international real estate investment and asset management.

Treasury: Principally handling local and international Murabaha and other Islamic financing, primarily with banks, as well as the management of the Bank's funding operations.

Group centre: Includes other group activities and residual in respect of transfer pricing and inter segment allocation.

2014	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	**Total KD'000**
Net financing income/(loss)	**36,952**	**24,572**	**(1,895)**	**4,980**	**1,599**	**66,208**
Share of results of associates	**-**	**-**	**(247)**	**-**	**-**	**(247)**
Operating income/(loss)	**38,440**	**29,476**	**5,899**	**6,332**	**(1,742)**	**78,405**
Depreciation	**(1,248)**	**(57)**	**(54)**	**(9)**	**(810)**	**(2,178)**
Net profit/ (loss) for the year	**20,548**	**18,447**	**118**	**5,983**	**(16,591)**	**28,505**
Total assets	**791,539**	**1,176,156**	**192,601**	**520,509**	**(32,875)**	**2,647,930**
Total liabilities	**782,442**	**190,718**	**19,115**	**1,344,421**	**10,132**	**2,346,828**

2013	Consumer banking KD'000	Corporate banking KD'000	Investment banking KD'000	Treasury KD'000	Group centre KD'000	Total KD'000
Net financing income/(loss)	30,347	23,642	(3,787)	8,076	2,464	60,742
Share of results of associates	-	-	726	-	-	726
Operating income/(loss)	30,799	27,817	(1,585)	9,052	989	67,072
Depreciation	(987)	(44)	(47)	(15)	(606)	(1,699)
Net profit/(loss) for the year	16,365	11,829	(9,341)	8,641	(14,774)	12,720
Total assets	584,980	987,148	183,256	477,174	(40,572)	2,191,986
Total liabilities	650,861	158,846	19,460	1,092,695	637	1,922,499

Geographical segment

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on the geographical location of assets.

2014	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	**Total KD'000**
Assets	**2,425,562**	**3,195**	**131,830**	**87,343**	**2,647,930**
Non-current assets (excluding financial instruments)	**46,309**	**-**	**5,774**	**-**	**52,083**
Liabilities and equity	**2,644,560**	**-**	**3,370**	**-**	**2,647,930**
Segment income/(expenses)	**78,736**	**285**	**917**	**(1,533)**	**78,405**

2013	Middle East & North Africa KD'000	North America KD'000	Europe KD'000	Asia KD'000	Total KD'000
Assets	2,047,169	1,253	100,040	43,524	2,191,986
Non-current assets (excluding financial instruments)	49,730	-	4,461	-	54,191
Liabilities and equity	2,188,007	30	3,803	146	2,191,986
Segment income/(expenses)	69,112	-	(2,157)	117	67,072

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Introduction and overview

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a Group risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors and Board Risk Committee with the support of the Management Executive Committee and the Group's Risk Management functions.

The Group is exposed to credit risk, market risk, liquidity risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify, manage and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

As part of its overall risk management, the Group uses financial instruments to manage exposures resulting from changes in foreign exchange and equity risks. Collateral is used to reduce the Group's credit risk.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risks.

30.2 Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the respective credit risk functions. Whenever necessary, Islamic facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee, which meets regularly throughout the year, is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

The Group further limits risk through diversification of its assets by industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

30.2.1 *Maximum exposure to credit risk (Net exposure after covered collateral)*

An analysis of Islamic financing to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements is as follows:

	2014		2013	
	Gross exposure	**Net exposure**	Gross exposure	Net exposure
	KD'000	**KD'000**	KD'000	KD'000
Islamic financing to customers	**1,805,115**	**1,157,148**	1,478,701	978,066
Contingent liabilities	**216,802**	**182,624**	194,235	186,130

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units. The Group may also obtain guarantees from parent companies for financing provided to their subsidiaries.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.2 *Risk Concentration of the maximum exposure to credit risk*

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest facilities outstanding as a percentage of gross facilities as at 31 December 2014 are **22.1%** (2013: 25.6%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	Middle East & North Africa	North America	Europe	Asia	**Total**
2014	KD'000	KD'000	KD'000	KD'000	**KD'000**
Cash and cash equivalents (excluding cash on hand)	**265,623**	**3,164**	**18,321**	**3,158**	**290,266**
Due from banks	**224,431**	**-**	**39,162**	**-**	**263,593**
Islamic financing to customers	**1,797,440**	**-**	**4,423**	**3,252**	**1,805,115**
Available for sale investments (Sukuk)	**28,842**	**-**	**8,090**	**41,050**	**77,982**
Other assets (excluding accrued income and prepayments)	**5,558**	**-**	**-**	**-**	**5,558**
	2,321,894	**3,164**	**69,996**	**47,460**	**2,442,514**
Contingent liabilities	**208,377**	**-**	**371**	**7,140**	**215,888**
Commitments	**914**	**-**	**-**	**-**	**914**
Total credit risk exposure	**2,531,185**	**3,164**	**70,367**	**54,600**	**2,659,316**

	Middle East & North Africa	North America	Europe	Asia	Total
2013	KD'000	KD'000	KD'000	KD'000	KD'000
Cash and cash equivalents (excluding cash on hand)	176,301	1,206	8,022	247	185,776
Due from banks	266,883	-	31,988	-	298,871
Islamic financing to customers	1,471,227	-	4,446	3,028	1,478,701
Available for sale investments (Sukuk)	29,084	-	2,205	-	31,289
Other assets (excluding accrued income and prepayments)	6,506	-	-	-	6,506
	1,950,001	1,206	46,661	3,275	2,001,143
Contingent liabilities	185,487	-	313	8,024	193,824
Commitments	27,744	-	7,095	-	34,839
Total credit risk exposure	2,163,232	1,206	54,069	11,299	2,229,806

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.2 *Risk Concentration of the maximum exposure to credit risk (Continued)*

The Group's financial assets before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2014	2013
	KD'000	KD'000
Trading	**145,864**	134,362
Manufacturing	**73,327**	76,872
Banking and other financial institutions	**600,315**	520,150
Construction	**33,503**	40,525
Real Estate	**503,037**	394,106
Retail	**764,658**	557,084
Government	**182,914**	106,086
Others	**138,896**	171,958
	2,442,514	2,001,143

30.2.3 *Credit quality per class of financial assets*

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of relevant aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired			
	High	Standard	Past due or impaired	**Total**
	KD'000	KD'000	KD'000	**KD'000**
2014				
Cash and cash equivalents (excluding cash on hand)	**290,266**	**-**	**-**	**290,266**
Due from banks	**263,593**	**-**	**-**	**263,593**
Islamic financing to customers	**1,663,270**	**138,771**	**43,163**	**1,845,204**
Available for sale investments (Sukuk)	**77,982**	**-**	**-**	**77,982**
Other assets (excluding accrued income and prepayment)	**5,558**	**-**	**-**	**5,558**
	2,300,669	**138,771**	**43,163**	**2,482,603**
2013				
Cash and cash equivalents (excluding cash on hand)	185,776	-	-	185,776
Due from banks	298,871	-	-	298,871
Islamic financing to customers	1,290,782	177,514	45,857	1,514,153
Available for sale investments (Sukuk)	31,289	-	-	31,289
Other assets (excluding accrued income and prepayment))	6,506	-	-	6,506
	1,813,224	177,514	45,857	2,036,595

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2 Credit risk (Continued)

30.2.3 *Credit quality per class of financial assets (Continued)*

Ageing analysis of past due or impaired financial assets:

	Corporate banking		Consumer banking		**Total**	
	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired	**Past due and not impaired**	**Past due and impaired**
	KD'000	KD'000	KD'000	KD'000	**KD'000**	**KD'000**
2014						
Up to 30 days	**5,883**	**-**	**9,132**	**-**	**15,015**	**-**
31 – 60 days	**779**	**-**	**3,587**	**-**	**4,366**	**-**
61 – 90 days	**1,709**	**-**	**1,798**	**-**	**3,507**	**-**
91 – 180 days	**-**	**-**	**-**	**2,393**	**-**	**2,393**
More than 180 days	**-**	**16,654**	**-**	**1,228**	**-**	**17,882**
	8,371	**16,654**	**14,517**	**3,621**	**22,888**	**20,275**
2013						
Up to 30 days	5,151	-	8,260	-	13,411	-
31 – 60 days	6	-	2,239	-	2,245	-
61 – 90 days	163	-	1,260	-	1,423	-
91 – 180 days	-	-	-	1,475	-	1,475
More than 180 days	-	26,404	-	899	-	27,303
	5,320	26,404	11,759	2,374	17,079	28,778

At 31 December 2014 management estimates the fair value of collaterals held against individually past due or impaired Islamic finance facilities to **KD 24,665 thousand** (31 December 2013: KD 24,411 thousand).

30.3 Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of prices such as foreign exchange rates and equity prices.

The Group is not exposed to material risk in terms of the re-pricing of its liabilities since, in accordance with Islamic Sharia'a, the Group does not provide a guaranteed contractual rate of return to its depositors.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis by an independent middle office function.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.3 Market risk (Continued)

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		2014		2013	
		Effect on profit	**Effect on equity**	Effect on profit	Effect on equity
		KD'000	**KD'000**	KD'000	KD'000
US Dollar	+5	**96**	**-**	(132)	-
Sterling Pound	+5	**(1)**	**-**	2	-
Euro	+5	**-**	**-**	1	-
Indonesian Rupiah	+5	**-**	**1,994**	-	2,012
Sudanese Pound	+5	**33**	**251**	14	224
Japanese Yen	+5	**-**	**-**	-	-
Others	+5	**24**	**-**	9	-

A 5 percent decrease of the above currencies against the Kuwaiti Dinar would have had equal, but opposite, effect of the amounts shown above, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

For such investments classified as available for sale, a five percent increase in stock prices as at 31 December 2014 would have increased equity by **KD 691 thousand** (31 December 2013: an increase of KD 669 thousand). For such investments classified as at fair value through profit or loss, the impact on profit or loss would have been an increase of **KD 150 thousand** (31 December 2013: an increase of KD 197 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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The Group has established an Asset and Liabilities Management Committee to manage the assets and liabilities of the Group comprehensively and strategically. The committee meets regularly to determine and review policies for managing liquidity risk, as well as to set risk limits.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows, maturity dates or on management's estimate of liquidation. This does not necessarily take account of the effective maturities.

	Up to three months	3 to 6 months	6 to 12 Months	Over 1 year	**Total**
	KD'000	KD'000	KD'000	KD'000	**KD'000**
2014					
Assets					
Cash and cash equivalents	**314,821**	**-**	**-**	**-**	**314,821**
Due from banks	**186,718**	**52,085**	**24,790**	**-**	**263,593**
Islamic financing to customers	**639,047**	**257,104**	**101,445**	**807,519**	**1,805,115**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**12,738**	**12,738**
Available for sale investments	**40,016**	**-**	**4,354**	**69,482**	**113,852**
Investments in associates	**-**	**-**	**-**	**85,728**	**85,728**
Investment properties	**-**	**-**	**-**	**25,637**	**25,637**
Other assets	**5,558**	**-**	**5,386**	**-**	**10,944**
Property and equipment	**-**	**-**	**-**	**15,502**	**15,502**
Total assets	**1,186,160**	**309,189**	**135,975**	**1,016,606**	**2,647,930**
Liabilities and Equity					
Due to banks	**201,221**	**5,006**	**20,512**	**-**	**226,739**
Depositors' accounts	**1,247,238**	**493,890**	**341,715**	**11,061**	**2,082,854**
Other liabilities	**16,915**	**-**	**11,018**	**9,302**	**37,235**
Equity	**-**	**-**	**-**	**301,102**	**301,102**
Total liabilities and equity	**1,465,374**	**498,896**	**373,245**	**310,415**	**2,647,930**

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	**Total**
	KD'000	KD'000	KD'000	KD'000	**KD'000**
2013					
Assets					
Cash and cash equivalents	205,622	-	-	-	205,622
Due from banks	222,492	72,865	3,514	-	298,871
Islamic financing to customers	587,699	236,008	80,650	574,344	1,478,701
Financial assets at fair value through profit or loss	-	-	-	5,866	5,866
Available for sale investments	2,213	5,718	-	55,113	63,044
Investments in associates	-	-	-	85,691	85,691
Investment properties	-	-	-	30,245	30,245
Other assets	6,506	-	5,010	-	11,516
Property and equipment	-	-	-	12,430	12,430
Total assets	1,024,532	314,591	89,174	763,689	2,191,986
Liabilities and Equity					
Due to banks	202,437	7,730	-	25,851	236,018
Depositors' accounts	1,010,366	329,081	293,427	24,524	1,657,398
Other liabilities	11,992	-	9,309	7,782	29,083
Equity	-	-	-	269,487	269,487
Total liabilities and equity	1,224,795	336,811	302,736	327,644	2,191,986

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.4 Liquidity risk (Continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the projected cash flows including future profit payments over the life of these financial liabilities based on contractual repayment arrangements.

	Up to three months	3 to 6 months	6 to 12 months	Over 1 year	**Total**
2014	KD'000	KD'000	KD'000	KD'000	**KD'000**
Financial Liabilities					
Due to banks	**201,264**	**5,031**	**20,832**	**-**	**227,127**
Depositors' accounts	**1,249,795**	**498,050**	**342,907**	**200**	**2,090,952**
	1,451,059	**503,081**	**363,739**	**200**	**2,318,079**
2013					
Financial Liabilities					
Due to banks	202,479	8,634	-	28,024	239,137
Depositors' accounts	1,011,095	329,621	295,428	24,927	1,661,071
	1,213,574	338,255	295,428	52,951	1,900,208

30.5 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 lead to legal or regulatory implications, or financial /reputational loss.

The Group has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Group as part of overall risk management activities.

The operational risk of the Group is managed in line with the Central Bank of Kuwait's instructions concerning the general guidelines for internal controls and best practice for managing and supervising operational risks in banks.

30.6 Fair value of financial instruments

Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. The carrying values of financial instruments are approximate to their fair values at 31 December due to the relatively short-term maturity of the instruments.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

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 re-priced 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 consolidated statement of financial position or consolidated statement of profit or loss.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

Financial assets	Fair value as at 31 December 2014	Fair value as at 31 December 2013	Fair value Hierarchy 2014	Sector
Financial assets at fair value through profit or loss - *Unquoted securities*	**-**	1,026	Level 3	Financial Institutions
	2,995	2,906	Level 3	Real Estate
Financial assets at fair value through profit or loss - *Unquoted funds*	**9,743**	1,934	Level 2	Financial Institutions
Available for sale investments - *Sukuk*	**19,802**	16,967	Level 1	Government
	58,180	14,322	Level 1	Financial Institutions
Available for sale investments - *Unquoted funds*	**9,064**	9,232	Level 2	Financial Institutions
	6,468	3,851	Level 2	Real Estate
	6,514	5,300	Level 2	Services
Available for sale investments - *Unquoted securities*	**2,018**	2,273	Level 3	Financial Institutions
	3,487	3,169	Level 3	Real Estate
	-	346	Level 3	Construction
	6,401	5,371	Level 3	Services
Available for sale investments - *Quoted securities*	**1,348**	1,643	Level 1	Real Estate
	570	570	Level 1	Financial Institutions

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs that are not based on observable market data (unobservable inputs).

2014	**Level 1 KD'000**	**Level 2 KD'000**	**Level 3 KD'000**	**Total KD'000**
Financial assets at fair value through profit or loss	**-**	**9,743**	**2,995**	**12,738**
Available for sale investments	**79,900**	**22,046**	**11,906**	**113,852**
	79,900	**31,789**	**14,901**	**126,590**

2013	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Financial assets at fair value through profit or loss	-	1,934	3,932	5,866
Available for sale investments	33,502	18,383	11,159	63,044
	33,502	20,317	15,091	68,910

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

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

	At 1 January 2014	**Change in fair value**	**Impairment**	**Additions**	**Sale/ redemption**	**Exchange rate movements**	**At 31 December 2014**
	KD 000's	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**
Financial assets at fair value through profit or loss							
Unquoted securities	**3,932**	**89**	**-**	**-**	**(1,026)**	**-**	**2,995**
Available for sale investments							
Unquoted securities	**11,159**	**995**	**(662)**	**929**	**(634)**	**119**	**11,906**
	15,091	**1,084**	**(662)**	**929**	**(1,660)**	**119**	**14,901**

	At 1 January 2013	Change in fair value	Impairment	Additions	Sale/ redemption	Exchange rate movements	At 31 December 2013
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Financial assets at fair value through profit or loss							
Unquoted securities	3,547	-	-	385	-	-	3,932
Available for sale investments							
Unquoted securities	45,396	331	(1,336)	7,501	(40,745)	12	11,159
	48,943	331	(1,336)	7,886	(40,745)	12	15,091

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at 31 December 2014 are as shown below:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**	**Sensitivity of the input to fair value**
Financial assets at fair value through profit or loss – *unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 30 thousand**.
Available for sale investments – *unquoted securities*	Market approach	Discount for lack of liquidity	5%-10%	An increase (decrease) in the Discount rate by 1% would result in an increase (decrease) in fair value by **KD 119 thousand.**

The discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing the investments.

In the case of available for sale investments, the impairment charge in the profit or loss would depend on whether the decline is significant or prolonged. An increase in the fair value would only impact equity (through Other Comprehensive Income) and, would not have an effect on profit or loss.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.6 Fair value of financial instruments (Continued)

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 consolidated statement of financial position or consolidated statement of profit or loss.

30.7 Capital management

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

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2014 are calculated in accordance with Central Bank of Kuwait circular number 2/RB, RBA/336/2014 dated 24 June 2014 related to Basel III regulations which are shown below:

	2014 **KD'000**
Risk weighted assets	**1,356,592**
Capital required	**162,791**
Capital available	
Tier 1 capital	**229,050**
Tier 2 capital	**15,879**
Total capital	**244,929**
Tier 1 capital adequacy ratio	**16.88%**
Total capital adequacy ratio	**18.05%**

For the year ended 31 December 2013, the Group followed Basel II regulations and the Group's regulatory capital and capital adequacy ratios as calculated in accordance with Central Bank of Kuwait circular number 2/RBA/244/2009 dated 15 June 2009 are shown below.

	2013 KD'000
Risk weighted assets	1,149,157
Capital required	137,899
Capital available	
Tier 1 capital	200,264
Tier 2 capital	-
Total capital	200,264
Tier 1 capital adequacy ratio	17.43%
Total capital adequacy ratio	17.43%

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.7 Capital management (Continued)

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

	2014 KD'000
Tier 1 capital	**229,050**
Total exposure	**2,773,982**
Financial leverage ratio	**8.26%**

The Group has disclosed the financial leverage ratio for the first time in the consolidated financial statements for the year ended 31 December 2014.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait's circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in Central Bank of Kuwait's circular number 2/RBA/ 343/2014 dated 21 October 2014 for the year ended 31 December 2014 are included under the 'Risk Management' section of the annual report.

31. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve Sharia'a approved derivative financial instruments to mitigate foreign currency risk. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The notional amount, disclosed gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

The positive fair value of forward foreign exchange contracts outstanding as of 31 December 2014 is **KD 3 thousand** (2013: KD 10 thousand) and their notional amounts outstanding as of 31 December 2014 are **KD 43 thousand** (2013: KD 365 thousand)

The Group's derivative trading activities mainly related to deals with customers, which are normally matched by entering into reciprocal spot deals with counterparties.

32. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group amounted to **KD 99,804 thousand** (31 December 2013: KD 78,905 thousand) and the related income from these assets amounted to **KD 307 thousand** (31 December 2013: KD 294 thousand).

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