PROSPECTUS

Warba Tier 1 Sukuk Limited

(incorporated as a special purpose company with limited liability in the Cayman Islands)

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

The U.S.$250,000,000 Tier 1 Capital Certificates (the "**Certificates**") of Warba Tier 1 Sukuk 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 14 March 2017 (the "**Issue Date**") entered into between the Trustee, Warba 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 cancelled or written-down, as applicable, 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) 14 March 2022 (the "**First Call Date**") at a rate of 6.500 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 4.374 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 14 March and 14 September in each year, commencing 14 September 2017. 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 (which includes the case where sufficient Distributable Funds are not available in order to permit the Bank to make the relevant payment), 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. "**Distributable Funds**" means the aggregate of the Bank's (i) consolidated retained earnings (if greater than zero) and reserves after the transfer of any amounts to non-distributable reserves and (ii) profit after tax, in each case (x) as set out in the most recent annual audited consolidated financial statements of the Bank less any prior distribution of Rab-al-Maal Mudaraba Profit calculated and paid by reference to such annual audited consolidated financial statements and (y) to the extent not restricted from distribution by applicable law or otherwise. See "*Risk Factors – Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*". For further information in relation to the Bank's recent financial performance, including accumulated losses as at 31 December 2015 and as at 31 December 2016, see "*Financial review*".

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 "Baa2" 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) (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 S.A. ("**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 ii 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 Sharia Supervisory Board of the Bank, the Fatwa & Shariah Supervisory Board of KFH Capital Investment Company KSCC, the Fatwa and Shari'a Supervisory Board of Noor Bank PJSC 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.

Global Co-ordinator

Standard Chartered Bank

Joint Lead Managers

Bank ABC	**Emirates NBD Capital**	**KAMCO Investment Company K.S.C. (Public)**
KFH Capital	**Noor Bank PJSC**	**Standard Chartered Bank**

The date of this Prospectus is 9 March 2017

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 Sharia Supervisory Board of the Bank, the Fatwa & Shariah Supervisory Board of KFH Capital Investment Company KSCC, the Fatwa and Shari'a Supervisory Board of Noor Bank PJSC 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, 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 included in this Prospectus are for the years ended 31 December 2016 (the "**2016 Financial Statements**"), 31 December 2015 (the "**2015 Financial Statements**") and 31 December 2014 (the "**2014 Financial Statements**" and, together with the 2016 Financial Statements and the 2015 Financial Statements, the "**Financial Statements**"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**"), as adopted for use by the State of 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 39, '*Financial Instruments: Recognition and Measurement*', requirement for a collective provision, which 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 Financial Statements have been jointly audited in accordance with International Standards on Auditing by Ernst & Young Al Alban, Al Osaimi & Partners ("**Ernst & Young Kuwait**") and KPMG Safi Al-Mutawa & Partners ("**KPMG Kuwait**"), without qualification as stated in their reports appearing herein.

The Bank's financial year ends on 31 December and references in this Prospectus to "**2016**", "**2015**" and "**2014**" 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 Bank 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 Bank'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 Alternative Performance Measure

In this Prospectus, the Bank uses the following metrics in the analysis of its business and financial position, which the Bank considers to constitute Alternative Performance Measures as defined in the European Securities and Markets Authority Guidelines. For further information, see "*Selected Financial Information*".

Metric	Definition and method of calculation	Rationale for inclusion
Return on average assets	Profit divided by the average balance of total assets calculated as a simple average of the opening and closing balances for the relevant period.	Performance measure. The ratio shows how many KD of earnings the Bank derives from each KD of assets it controls.
Return on average equity	Profit divided by the average shareholders' equity	Performance measure. The ratio is a measure of the profitability of the Bank's

Metric	Definition and method of calculation	Rationale for inclusion
	calculated as a simple average of the opening and closing balances for the relevant period.	business in relation to the book value of shareholders equity, also known as net assets or assets minus liabilities. The ratio is a measure of how well the Bank uses shareholders' equity to generate earnings growth.
Cost to income ratio	Total operating expenses divided by total operating income before deducting finance costs and distribution to depositors.	Performance measure. A lower percentage indicates that operating expenses are low relative to operating income.
Non-performing financing receivables ratio	Non-performing financings divided by total gross financing receivables.	Asset quality measure.
Financing receivables loss coverage ratio	Impairment provisions in respect of financing divided by non-performing financing receivables.	Asset quality measure. The ratio shows total provisions which the Bank has built in respect of its impaired financing receivables.
Financing receivables/customer deposits	Total financing receivables divided by deposits from customers and deposits from banks and other financial institutions.	Liquidity measure. The financing receivables to deposit ratio is used to calculate the Bank's ability to make payments to customers withdrawing their deposits. A ratio of less than one implies that the Bank has relied on funds deposited by customers to make financing receivables. A ratio of more than one, implies that the Bank has extended financing receivables from funds borrowed by it in addition to deposits.

These Alternative Performance Measures are not defined by, or presented in accordance with, IFRS. The Alternative Performance Measures are not measurements of the Bank’s operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Bank’s liquidity.

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 Bank's functional currency is the dinar and the Bank 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 Bank market share data included in this Prospectus represents the Bank'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 Bank's actual market shares. Nevertheless, the Bank believes that its estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Bank 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 Bank'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 Bank 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 Bank's own information.

No incorporation of website information

The Bank's website is www.warbabank.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 is not a retail client in the EEA (as defined in the United Kingdom Financial Conduct Authority's Handbook);

(b) it will not sell or offer the Certificates (or any beneficial interest therein) to retail clients in the EEA 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 (or such beneficial interest therein) 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 the Markets in Financial Instruments Directive (2004/39/EC) ("**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

(c) 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 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities ("**CMA Law**") and the implementing regulations thereto (as amended), and the various Resolutions, Instructions and Announcements issued from time to time 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.

VOLCKER RULE

The Trustee may be a "covered fund" for the purposes of Section 13 of the Bank Holding Company Act of 1956, as amended, and any implementing regulations and related guidance (the "**Volcker Rule**"). Further, the Trust Certificates may constitute an "ownership interest" for the purposes of the Volcker Rule. As a result, the Volcker Rule may, subject to certain exemptions, prohibit certain banking institutions from, directly or indirectly, acquiring or retaining the Trust Certificates. This prohibition may adversely affect the liquidity and market price of the Trust Certificates. In addition, any entity that is a "banking entity" under the Volcker Rule and is considering an investment in the Trust Certificates should consider the potential impact of the Volcker Rule in respect of such investment and on its portfolio generally.

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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 Cayman Islands on 25 August 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.

The Certificates shall represent limited recourse obligations of the Trustee and the recourse of the Certificateholders against the Trustee in relation to the Certificates shall be limited to the Trust Assets and the proceeds from the Trust Assets.

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 Bank is affected by regional and global financial markets and economic conditions and could be materially adversely affected by any deterioration in economic conditions in Kuwait and the wider MENA region

There has been significant volatility and disruption in the global capital and credit markets since the onset of the global financial crisis in late 2007. At times since then, there has also been a material reduction in the availability of financing, both for 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 MENA region, have taken actions intended to stabilise financial markets and prevent the failure of financial institutions. See "*Banking industry and regulation in Kuwait*". Despite such measures, international capital and credit markets have continued to experience volatility.

The business growth and results of operations of banks in Kuwait were adversely affected by these conditions and the impact they had in Kuwait and other countries in the MENA region. In particular, many 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 Kuwait's economy, Kuwaiti banks had significant concentrations of these companies as borrowers and, as a result of the difficulties these companies experienced, Kuwaiti banks significantly increased their provisions in 2008 and 2009 compared to prior years, which in turn adversely affected their results of operations.

If significant market disruptions and high levels of volatility recur, the Bank may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, increased credit losses and impairment charges, and lower profitability and cash flows. The Bank's business and financial performance may also be adversely affected by future recovery rates on assets (including real estate and equity securities which it has accepted as security), particularly as the historical assumptions underlying asset recovery rates may prove to be inaccurate.

In addition, although economic conditions are different in each country in the MENA region, investors' reactions to developments in one country may affect the price of securities of issuers in other countries in the MENA region, including Kuwait. Accordingly, the market price of the Certificates may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Bank.

The Bank is exposed to the credit risk of borrowers and other counterparties and anticipated future growth in, or deterioration in the quality of, the Bank's financing portfolio or investment securities portfolio could result in an increase in its credit risk profile

Risks arising from adverse changes in the credit quality and recoverability of financing receivables, securities and amounts due from counterparties are inherent in a wide range of the Bank's businesses, principally in its financing and investment activities. In particular, the Bank is exposed to the risk that customers may not make payments in respect of their financing according to their contractual terms and that the collateral (if any) securing the payment of this financing may be insufficient. The Bank regularly reviews and analyses its customer financing receivables (the "**financing portfolio**") and credit risks, and the Bank's provision for losses on its financing portfolio is based on, among other things, its analysis of current and historical delinquency rates and financing 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 Bank'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 December 2016, the Bank's financing receivables portfolio amounted to KD 827.9 million compared to KD 543.8 million as at 31 December 2015 and KD 388.2 million as at 31 December 2014. The Bank's NPFs (including restructured assets) were KD 5.8 million as at 31 December 2016 compared to KD 5.2 million as at 31 December 2015 and KD 1.03 million as at 31 December 2014 and its provision for credit losses in respect of its customer financing portfolio amounted to 1.5 per cent., 1.5 per cent. and 1.4 per cent. of its gross customer financing portfolio as at 31 December 2016, 31 December 2015 and 31 December 2014, respectively.

As the Bank's customer financing portfolio expands and its credit exposure consequently increases, management of the Bank will need to continually monitor the credit quality of the portfolio. This will be particularly important in the light of current economic conditions in Kuwait. See "*Risk management—Credit risks*", note 15 (b) to the 2016 Financial Statements and "*—The Bank'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 borrowers and counterparties of the Bank, 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 Bank's assets and require an increase in its provisions for the impairment of financing, securities and other credit exposures.

Any failure by the Bank to maintain the quality of its assets through effective risk management policies could lead to higher levels of defaults resulting in higher financing loss provisioning and write-offs, all of which would be likely to reduce the Bank's profitability.

The Bank is exposed to volatility in international oil prices and the significant fall in these prices in the second half of 2014 and sustained lower prices since then could materially adversely affect the Bank

The Bank's operations are focused in Kuwait. In 2016, 81.3 per cent of the Bank's maximum exposure to credit risk (including contingent liabilities) was concentrated in Kuwait, with a further 15.6 per cent. concentrated in the other MENA countries.

Kuwait's economy and the economies of the other countries in the GCC 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.$26.50 in January 2016, although prices have subsequently recovered slowly and the monthly average price of the OPEC reference basket was U.S.$53.30 in December 2016. This deterioration in pricing has adversely affected Kuwait's economy. Real GDP in Kuwait contracted by 1.6 per cent. in 2014, according to CBK data, and the IMF projects Kuwait's real GDP to have increased by only 0.9 per cent in 2015. Should international oil prices fall further or continue to remain at low levels for an extended period, this will be likely to continue to adversely affect Kuwait's economy.

Further, the impact of oil prices on Kuwait's economy could materially adversely affect many of the Bank's borrowers and contractual counterparties. This, in turn, would adversely affect the Bank's business, in particular through increases in the Bank's non-performing financing ("**NPF**") portfolio, increased financing loss provisions which would negatively impact the Bank's profitability and reduced demand for financing and other banking services. See "*—The Bank's financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the GCC*" below.

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

The Bank's business is focused in Kuwait and the Bank intends to continue to focus on growing its business in Kuwait in the near future. Since 2010, there has been political unrest in a range of countries that are located in the same region as Kuwait, including Syria, Iraq, Egypt, Turkey, Bahrain, Algeria, Libya, Iran, Lebanon, Jordan, Palestine, Tunisia, Sudan, Somalia and Yemen. This unrest, which 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 and civil war and armed conflict in Syria, Libya, Iraq and Yemen. It has also 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 international oil and gas prices.

A significant proportion of the Bank's customers are located in Kuwait and the other GCC countries. Wars, acts of terrorism and uncertain political or economic prospects or instability in Kuwait and the other GCC countries may adversely impact regional financial markets and the Bank's business. Renewed protests in the MENA region, including Kuwait or other GCC countries, could lead to significant political uncertainty. Financial market and political uncertainty in the GCC could decrease the Bank's customer deposits or its customers' demand for financing or other products offered by the Bank. Continued instability in the GCC could impact the Bank's operations and investments and could materially impact the financial prospects and condition of its customers. These factors could result in decreased asset values and increased provisions for the Bank. Such instability could also negatively affect the value of the Bank's investments in any affected countries.

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

Although certain Islamic financing structures used by the Bank, such as the ijara structure, permit the registration of the relevant underlying assets, such as real estate, in the Bank's name, other structures require a customer to pledge assets. The practice of pledging assets (such as share portfolios and real estate) to obtain financing 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 enforceable in Kuwaiti courts. Accordingly, the Bank may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third party credit support arrangements when customers default in respect of their financing.

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 uneconomical for the Bank to pursue such proceedings, adversely affecting the Bank's ability to recover its financing losses. As at 31 December 2016, approximately 35.8 per cent. of the Bank's customer financing portfolio was fully or partially secured by collateral, including share pledges governed by Kuwaiti law and pledged real estate collateral. As at 31 December 2016, approximately 87.9 per cent. of the Bank's financing portfolio comprised financing to retail individuals secured by assignment of their salary and/or eligible collateral.

Any decline in the value or liquidity of such collateral, including a failure on the part of the customer to provide such additional collateral, may prevent the Bank 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 Bank's ability to recover the full amounts advanced to the customer.

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

The Bank's credit risk exposures are mainly concentrated, geographically, in Kuwait and the MENA region. Together, the Bank's credit risk portfolios in Kuwait and the MENA region constituted 96.9 per cent. of its total credit risk exposures, or KD 1,091.8 million, as at 31 December 2016, 96.4 per cent. of its total credit risk exposures, or KD 742.0 million, as at 31 December 2015 and 94.8 per cent. of its total credit risk exposures, or KD 544.0 million, as at 31 December 2014. More than 95 per cent. of the Bank's customer financing portfolio as at 31 December 2016 was advanced to borrowers in the GCC, principally in Kuwait.

The Bank's investment securities portfolio principally comprises sukuk, with KD 73.8 million, or 73.9 per cent. of the investment securities portfolio being sukuk as at 31 December 2016. The issuers of these instruments are mainly sovereign or government-related entities and financial institutions.

The Bank's amounts due to banks and other financial institutions, and depositors' accounts constituted 99.3 per cent. of its total liabilities, or KD 1,024.6 million, as at 31 December 2016, 99.1 per cent. of its total liabilities, or KD 677.8 million, as at 31 December 2015 and 99.3 per cent. of its total liabilities, or KD 499.2 million, as at 31 December 2014. As is typical for banks in the GCC, the Bank has a material concentration of deposits from the Kuwaiti government and its related agencies which constituted approximately 71 per cent. of the Bank's total deposits as at 31 December 2016 and 66.0 per cent. as at 31 December 2015.

As a result, any deterioration in general economic conditions in Kuwait and the wider MENA region or any failure by the Bank to manage effectively its geographic risk concentrations could have a more significant adverse effect on the Bank's business than on that of a more diversified bank. See "*—The Bank is affected by regional and global financial markets and economic conditions and could be materially adversely affected by any deterioration in economic conditions in Kuwait and the wider MENA region*" above.

The Bank has material customer and sector concentrations

The Bank's 20 largest financing receivables outstanding as a percentage of its gross customer financing portfolio as at 31 December 2016 was 31.7 per cent. compared to 39.5 per cent. as at 31 December 2015, 67.5 per cent. as at 31 December 2014.

Although diversified by industry sector, the Bank's credit risk exposure with respect to financing receivables is concentrated in the construction and real estate sector, which as at 31 December 2016 accounted for 36.2 per cent. of the Bank's total credit risk exposure compared to 34.5 per cent. as at 31 December 2015 and 31.4 per cent. as at 31 December 2014.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Bank's large financing customers, or any factors which negatively impact either of the sectors to which the Bank has significant exposure, could result in the Bank having to make significant additional loss provisions and experiencing reduced income. Sector specific factors might include:

- a significant decline in real estate values which would weaken the credit quality of the Bank's construction and real estate customers to the extent that the value of their real estate assets declines and could also reduce the value of the real estate collateral which the Bank holds; and

- continued low levels of economic growth or a recession in Kuwait which, particularly if coupled with increased levels of unemployment and falling house prices, could materially adversely impact the liquidity and profitability of the Bank's financial institution customers.

Following a severe downturn associated with the global financial crisis, the Kuwaiti property market has experienced a period of recovery. 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. This could result in an increase in vacancy rates and/or a decrease in market rental rates and sale prices. In addition, demand for properties in Kuwait could decrease as a result of a range of other 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 Kuwait were to decline or to be lower than expected, this could negatively impact the value of the collateral held by the Bank in respect of many of its ijara financings which could lead to an increase in its impairment provisions and reduced profitability. In addition, a large portion of the Bank'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 Bank customers receiving lower rental yields than anticipated and experiencing difficulty selling properties which could impact their ability to make payments on their financing in a timely manner, which could also lead to an increase in the Bank's impairment provisions and reduced profitability.

In terms of liabilities, the Bank's 20 largest deposits as at 31 December 2016 constituted 84.9 per cent. of its total customer deposits compared to 89.5 per cent. and 92.3 per cent. of its total customer deposits as at 31 December 2015 and 31 December 2014, respectively. The withdrawal or non-renewal of its deposits by any one or more of the Bank's large depositors could require the Bank to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive, which would reduce the Bank's net profit margin and adversely impact its operating income and profitability.

The Bank has material credit-related contingent liabilities and commitments that may lead to potential losses

As part of its normal banking business, the Bank issues guarantees, letters of credit ("**LCs**") and acceptances which are accounted for off the Bank's balance sheet until such time as they are actually funded or cancelled. In addition, the Bank makes irrevocable commitments to advance financing to its customers. Although these commitments are contingent, they nonetheless subject the Bank to both credit and liquidity risks. As at 31 December 2016, the Bank had KD 50.0 million in contingent liabilities and commitments outstanding, equal to 5.6 per cent. of its combined customer financing portfolio and contingent liabilities and commitments.

Although the Bank anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Bank 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 Bank needing to obtain additional funding, potentially at relatively short notice, which may not be readily available or may be significantly more expensive, which would reduce the Bank's net profit margin and adversely impact its operating income and profitability.

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

In common with other banks, the Bank is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Bank 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 Bank's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Bank.

The Bank 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 financing market, and given the high level of interdependence between financial institutions that became most evident following the bankruptcy of Lehman Brothers in 2008, the Bank 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 Bank 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 whom the Bank interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Bank's ability to raise new funding and on its business generally.

The Bank 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

Liquidity risk is the risk that the Bank 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 Bank'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 Bank and there is no assurance that the Bank 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 Bank's ability to refinance maturing liabilities with long-term funding or may increase the cost to the Bank of such funding. The Bank's access to any additional financing it may need will depend on a variety of factors, including market conditions, the availability of financing generally and to borrowers in the financial services industry specifically, and the Bank's financial condition, credit ratings and credit capacity.

The Bank relies on both customer and interbank deposits, which are mainly short-term and generally low cost in nature, to meet most of its funding needs. This also ensures that the Bank has a better asset-liability structure in terms of tenor and repricing. The availability of deposits is subject to fluctuation due to factors outside the Bank'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 December 2016, 31 per cent. of the Bank's non-equity funding (which comprises amounts due to banks and other financial institutions and customer deposits) had remaining contractual maturities of up to one month or was payable on demand and a further 99 per cent. had remaining maturities of one year or less or was payable on demand. The Bank may experience outflows of deposits at times when liquidity is constrained generally in Kuwait or when its major depositors experience short- or longer-term liquidity requirements. Particularly if international oil and gas prices remain low, the Bank's large Kuwaiti governmental depositors may start to withdraw part or even all of their deposits with it. In addition, the Bank's deposits are predominantly concentrated in Kuwait and the Bank is reliant on certain large deposits from a limited group of government-related and private sector corporate customers. See "*—The Bank's financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the GCC*" above and "*—The Bank has significant customer and sector concentrations*" above.

If a substantial portion of the Bank's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Bank may need to invoke contingency funding and seek other sources of funding or may have to liquidate its investment securities portfolio. There can be no assurance that the Bank 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 Bank is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Bank 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 generally and could, potentially, result in its insolvency.

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

The Bank 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 Kuwait Capital Markets Authority (the "**CMA**") and Boursa Kuwait (formerly the Kuwait Stock Exchange (the "**KSE**")) and are further described under "*Banking industry and regulation in Kuwait*".

The regulations to which the Bank is subject may limit its ability to carry on certain parts of its business, to increase its 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 compliance costs on the Bank. Furthermore, non-compliance by the Bank 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 Bank 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 Bank is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired.

The Bank 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 other jurisdictions, and applicable anti-corruption laws in the jurisdictions in which it conducts business. To the extent that the Bank 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, which could materially adversely impact its cash flow and profitability.

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

The Bank has a long-term issuer default rating of A+ with a stable outlook from Fitch and a long-term foreign and local currency bank deposits rating of Baa2 with a stable outlook from Moody's. These ratings, which are intended to measure the Bank's ability to meet its obligations as they mature, are an important factor in determining the Bank'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 Bank's credit ratings, or a negative change in their outlook, may:

- limit the Bank's ability to raise funding;
- increase the Bank's cost of funding; and
- limit the Bank's ability to raise capital.

In addition, actual or anticipated changes in the Bank's credit rating may negatively affect the market value of the Certificates.

According to Moody's and Fitch, a significant factor underpinning the Bank's ratings is their assessment that there is an extremely high probability of support for the Bank 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 Bank's rating. See "*—The Kuwaiti government is under no obligation to support the Bank and there is no assurance that the Bank 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 Bank 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 Bank may not be able to raise capital as and when needed on commercially attractive terms

As at 31 December 2016, the Bank's CET1 capital adequacy ratio (calculated according to Basel III standards) was 16.83 per cent. and its total capital adequacy ratio was 18.00 per cent., in each case above the levels required by the CBK at that date of 9.5 per cent. (CET1 capital) and 13.0 per cent. (total capital). The Bank's CET1 capital adequacy ratio was 24.92 per cent. and its total capital adequacy ratio was 26.07 per cent. as at 31 December 2015 compared to 29.76 per cent. and 30.92 per cent., respectively, as at 31 December 2014. The reductions in 2015 and in 2016 principally reflected the strong growth of the Bank's total assets.

A variety of factors may affect the Bank's capital adequacy levels. For example, an increase in lending during 2016 and beyond is likely to reduce the Bank's capital adequacy ratios further and any losses experienced by it in future periods 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 "**Basel Committee**"). The Bank 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 and notwithstanding the issue of the Certificates, the Bank may need to obtain additional capital in the future. Such capital, whether in the form of financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Bank's capital ratios fall close to regulatory minimum levels or the Bank's own internal minimum levels, the Bank may need to adjust its business practices, including reducing the risk and leverage of certain activities or undertaking asset disposals. If the Bank is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase and it may suffer regulatory sanctions. In addition, the Bank's inability to grow capital may limit the Bank's ability to attract large corporate customers, due to regulatory limits on exposures to a single borrower.

The Kuwaiti government is under no obligation to support the Bank and there is no assurance that the Bank 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 plans to support its domestic banks. Although the Kuwaiti government has in the past supported the domestic banking industry, there can be no assurance that it will continue to provide support to the domestic banking industry in the future.

Potential investors in the Certificates should note that the Certificates are not guaranteed by the Kuwaiti government, any of the Bank's shareholders or any other party.

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

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

The Kuwaiti banking sector comprises five locally based conventional commercial banks and branches of 9 other non-Kuwaiti banks. In addition, a specialised bank, five banks operating according to the provisions of Islamic Shari'a and a branch of a Saudi Arabian bank are also licensed to operate in Kuwait. The Bank's relatively small size compared to other banks in Kuwait could constrain its efforts to attract very large corporate customers.

The Bank believes that, in order to compete effectively, it will need to successfully implement its strategy, which is principally to continue to grow its retail and corporate banking businesses, including through the use of information technology ("**IT**") as a strategic tool to gain competitive advantage and improve the Bank's productivity and efficiency. See "*Description of the Bank—Strategy*".

Any failure by the Bank to successfully implement its strategy in the coming years could negatively affect its competitive position in the markets in which it operates which could result in reduced income or a failure to achieve anticipated levels of income.

The Bank could be adversely affected by market risks

The Bank could be adversely affected by market risks that are outside its control, including, without limitation, volatility in prices of securities, currency exchange rates and profit rates.

The Bank maintains a small portfolio of available-for-sale equity 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 Bank's equity. In addition, the Bank's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, profit rate levels, fluctuations in currency exchange rates and general market volatility.

As a financial intermediary, the Bank 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 Bank may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Bank 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 Bank 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 Bank against such risks. See note 15(c) to the 2016 Financial Statements which illustrates the Bank's sensitivity to a 1 per cent. change in the exchange rate of the U.S. dollar against the Kuwaiti dinar as at 31 December 2016 and 31 December 2015.

The Bank does not believe that it is significantly exposed to profit rate risk in respect of its customer financing and deposit portfolios given the Islamic nature of the Bank's assets and liabilities. However, it is exposed to movements in profit rates impacting the fair value of its available-for-sale fixed rate sukuk portfolio. The Bank is also susceptible to profit rate risk as the value of the Bank's fixed income investments and/or return on financing are inversely related to rising rates, particularly where the Bank's liabilities are short in tenor and are subject to market rate conditions. The Bank conducts stress testing and scenario analyses regularly to manage profit rate risk that is inherent in the Bank's balance sheet. Earnings-at-risk analysis is also conducted monthly, to determine the impact of changes in the cost of funds and the yield on assets on profitability, is monitored by the senior management of the Bank through the Assets and Liabilities Management Committee ("**ALCO**") process.

Adverse movements in international interest rates and foreign exchange rates may also adversely impact the revenues and financial condition of the Bank's depositors, borrowers and other counterparties which, in turn, may impact the Bank's deposit base and the quality of its credit exposures to certain borrowers and other counterparties.

Ultimately, there can be no assurance that the Bank will be able to protect itself from any adverse effects of a currency revaluation or future volatility in international interest rate or currency exchange rates or from a significant change in the prices of its securities.

Rising inflation, or deflation, may adversely affect the Bank's profitability

Kuwait has, at times since 1990, experienced both high levels of inflation and short periods of deflation. High inflation could slow the rate of economic growth and consumer spending in Kuwait. A deflationary environment in Kuwait could also adversely affect the Bank's profitability by adversely affecting property values, which could have an adverse effect on the Bank's real estate financing portfolio. There can be no assurance that the Kuwaiti government and the CBK will be able to achieve or maintain price stability, in the real estate market or otherwise and thus control inflation.

The Bank is exposed to a range of operational risks including, in particular, the risk of loss as a result of employee misrepresentation, misconduct and improper practice and through any failure of the Bank's IT systems

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, IT failures), natural disasters or the failure of external systems (for example, those of the Bank's counterparties or vendors). The Bank 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 Bank faces. Losses from the failure of the Bank's system of internal controls could have a material adverse effect on its business generally and its reputation.

The Bank's employees could engage in misrepresentation, misconduct or improper practice that could expose the Bank to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter employee misconduct, and the precautions which the Bank takes to detect and prevent misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat employee misconduct will be successful. Any such actions by employees could expose the Bank to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Bank's reputation.

The Bank 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 Bank's business and operating data. The proper functioning of the Bank'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, are critical to the Bank's business and ability to compete effectively. The Bank's business activities would be materially disrupted if there is 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 Bank's control, including natural disasters, extended power outages, computer viruses and malicious third party intrusions. The proper functioning of the Bank'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 Bank's transaction data could subject it to claims for losses and regulatory fines and penalties. The Bank has implemented business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective at all times or that they will protect the Bank from all losses that could occur, including as a result of factors beyond the control of the Bank.

The Bank'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 Bank'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 Bank's risk management systems. Some of the Bank'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 Bank's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Bank 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 Bank's risk management or other internal control policies or procedures may expose it to significant losses as a result of unidentified credit, liquidity, market or operational risks, should they occur.

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

The Bank'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 Bank 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 Bank 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 Bank could also be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages.

The Bank 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 Bank'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 the Bank could face challenges in recruiting and retaining such personnel to manage its businesses.

The Bank depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Bank from implementing its strategies. The Bank is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel.

The Bank'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 Bank 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 judgments and estimates made by it in note 2.4 to the 2016 Financial Statements. These judgements and estimates include, for example, the determination of when assets may be impaired, the classification of financial instruments, the determination of provisions for non-performing financial receivables and the determination of fair values of assets and liabilities.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Bank 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 Bank's judgements and the estimates pertaining to these matters, the Bank 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 Bank's business 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 possible introduction of value added tax ("**VAT**") among some or all of the GCC countries and the imposition of other taxes in tax-free jurisdictions or the increase of taxes in low-tax jurisdictions;
- potential adverse changes in other laws and regulatory practices;
- government interventions and protectionism;
- difficulties in staffing and managing operations;
- legal systems which could make it difficult for the Bank 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 and other taxes

Although Kuwait does not currently impose 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 Kuwaiti government announced that it was investigating the possibility of introducing a VAT system across Kuwait and that draft VAT laws were in preparation. Although no further details have been provided, the United Arab Emirates has recently announced that it will be introducing VAT in 2018 and Kuwait and other countries in the GCC may follow suit. Any introduction of VAT may increase the pricing of the services provided by the Bank. Furthermore, the introduction of VAT could have a more widespread economic impact, for example, reducing the levels of disposable income of the Bank's customers which could negatively impact demand for the Bank's services.

The Bank 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 Bank (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 Bank's business and prospects.

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

Kuwait and the other GCC countries are in various stages of developing 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 other GCC countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in Kuwait and the other GCC countries may have a material adverse effect on the rights of holders of the Certificates or on the investments that the Bank has made or may make in the future, which may in turn have a material adverse effect on the Bank's business generally.

The statistical data contained in this document should be treated with caution by prospective investors

Statistics contained in this document, including in relation to GDP, inflation and indebtedness of the Kuwaiti government, have been obtained from, among other sources, the CBK and the IMF. Such statistics, and the component data on which they are based, may not have been compiled in the same manner as data provided by other sources and may be different from statistics published by third parties, reflecting the fact that the underlying assumptions and methodology may vary from source to source.

There may also be material variances between preliminary, estimated or projected statistics set forth in this document and actual results, and between statistics set forth in this document and corresponding data previously published by or on behalf of Kuwaiti governmental agencies. Consequently, the statistical data contained in this document should be treated with caution by prospective investors.

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 cancelled or 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 (as defined in the Conditions)) 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 defined in the Conditions). 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 cancelled or 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 (as defined in the Conditions) 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 (any such election, being a "**Non-Payment Election**"), 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 as more particularly provided in Condition 8.2 (*Non-Payment Election*). No such Non-Payment 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 as applicable (the "**Relevant Rab-al-Maal Mudaraba Profit Amount**") 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*).

In particular, Certificateholders should be aware of the Non-Payment Event outlined in Condition 8.1(i). Such Non-Payment Event would be triggered if the amount equal to the then applicable Periodic Distribution Amount to be paid by the Bank (in its capacity as Mudareb) out of 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 (as defined in the Conditions), exceeds, on the relevant date for payment of the Relevant Rab-al-Maal Mudaraba Profit Amount, the Bank's Distributable Funds. "**Distributable Funds**" is defined in the Conditions as the aggregate of the Bank's (i) consolidated retained earnings (if greater than zero) and reserves after the transfer of any amounts to non-distributable reserves and (ii) profit after tax, in each case (x) as set out in the most recent annual audited consolidated financial statements of the Bank less any prior distribution of Rab-al-Maal Mudaraba Profit calculated and paid by reference to such annual audited consolidated financial statements and (y) to the extent not restricted from distribution by applicable law or otherwise. As at, and for the year ended 31 December 2016, the Bank's accumulated losses were KD (4,798 thousand), fair value reserve was KD (430 thousand) and profits after tax were KD 2,575 thousand. Given the absence of retained earnings and reserves as at the date of this Prospectus, Certificateholders should be aware that going forward, the ability of the Bank to have sufficient Distributable Funds in order to pay the Relevant Rab-al-Maal Mudaraba Profit Amount 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 ability of the Trustee to pay Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Date) will depend on the Bank's ability to maintain its profit. This in turn largely depends on the Bank's ability to effectively manage its financing portfolio and generate sufficient financing income therefrom. If the Bank fails to do so for any reason at all, then there is a material risk that the Non-Payment Event outlined in Condition 8.1(i) could occur and that Certificateholders would not receive Periodic Distribution Amounts on their investment in the Certificates. The cancellation of Periodic Distribution Amounts following such Non-Payment Event will be non-cumulative (see paragraph below). Prospective investors are also referred to the section headed - "*Risks relating to the Bank and its ability to fulfil its obligations under the Transaction Documents*."

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 then, from the date of such Non-Payment 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 a Non-Payment Election 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 cancellation of Periodic Distribution Amounts following either a Non-Payment Election or a Non-Payment Event will be non-cumulative. Accordingly, 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. As at the date of this Prospectus, the Bank has not paid any dividends to shareholders.

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 14 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 (as defined in the Conditions) 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 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 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 cancelled or 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 co-mingled with shareholders equity and 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 LCIA 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 Sharia Supervisory Board of the Bank, the Fatwa & Shariah Supervisory Board of KFH Capital Investment Company KSCC, the Fatwa and Shari'a Supervisory Board of Noor Bank PJSC 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 U.S.$1,000, 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 application and enforcement of the Kuwaiti income tax regime is uncertain and holders of the Certificates which are "non-GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances

Article 150 (*bis*) of Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities (which was introduced pursuant to Law No. 22 of 2015) (Article 150 (*bis*)) provides that, without prejudice to the exemptions prescribed on capital gains tax arising from the disposal of securities issued by companies listed on the Kuwait Stock Exchange, the returns from bonds, finance sukuk and other similar securities, regardless of the nature of the issuer, are exempt from Kuwaiti tax.

While the Ministry of Finance has issued Administrative Order No. 2028/2015 which essentially endorses the provisions of Article 150 (*bis*) it has not provided any further guidance regarding the interpretation of both

Article 150 (*bis*) and Administrative Order No. 2028/2015. Similarly, the Kuwaiti courts (who will be the final arbiters on the matter) have not been required to interpret such provisions to date.

Furthermore, the Kuwait Ministry of Finance's Department of Income Tax has to date not always adopted consistent rulings on Kuwaiti tax matters more generally. Accordingly, to the extent that the exemption afforded by Article 150 (*bis*) is held not to apply to the Certificates, or to a particular Certificateholder, such Certificateholder(s), which are non- GCC corporate entities, and/or the Trustee may become subject to income tax in Kuwait (see "*Taxation — Kuwait*" for further details).

In addition, neither Article 150 (*bis*) nor Ministry of Finance Administrative Order No. 2028/2015 endorsing the provisions thereof, address the issue of whether or not there remains an obligation, as described under "*Taxation –Kuwait – Retention*", to make a deduction of five per cent. of the amount of any payments made by the Bank to the Trustee. In the event of any such deduction, the Mudaraba Agreement provides that the Bank will pay such additional amounts in order that the net amounts received by the Trustee shall equal the amount which would have been receivable in the absence of such deduction. See "*Taxation—Kuwait*" for further details.

Kuwait may introduce corporate income tax

The Bank 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 Bank 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 Bank (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 Bank's business, results of operations, cash flows and financial condition.

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 Cayman Islands 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.

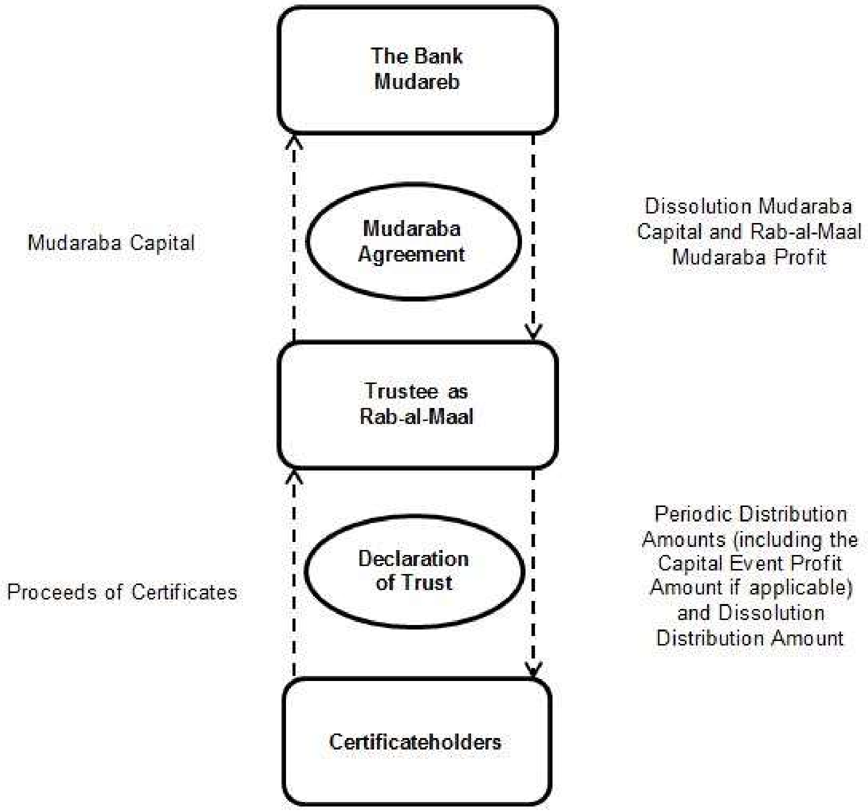
The Trust Certificates may be an ownership interest for the purposes of the Volcker Rule

The Trustee may be a "covered fund" for the purposes of the Volcker Rule. Further, the Trust Certificates may constitute an "ownership interest" for the purposes of the Volcker Rule. As a result, the Volcker Rule may, subject to certain exemptions, prohibit certain banking institutions from, directly or indirectly, acquiring or retaining the Trust Certificates. This prohibition may adversely affect the liquidity and market price of the Trust Certificates. In addition, any entity that is a "banking entity" under the Volcker Rule and is considering an investment in the Trust Certificates should consider the potential impact of the Volcker Rule in respect of such investment and on its portfolio generally.

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 co-mingled with shareholders equity and 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 Rab-al Maal 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 a reserve account (the "**Mudaraba Reserve**") or otherwise). If the Rab-al-Maal Mudaraba Profit payable to the Trustee (as Rab-al-Maal) on any Mudaraba Profit Distribution Date is greater than the then applicable Periodic Distribution Amount due to any Certificateholder on such date, the amount of any excess shall be credited to the Mudaraba Reserve.

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 30 nor more than 60 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/Issuer	Warba Tier 1 Sukuk Limited, a special purpose company incorporated with limited liability on 25 August 2016 under the laws of the Cayman Islands with incorporation number 314524 with its registered office at P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands.
Ownership of the Trustee	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1.00 each, 250 of which are fully-paid and issued. The Trustee's entire issued share capital is held on trust for charitable purposes by MaplesFS Limited as share trustee under the terms of a declaration of trust.
Administration of the Trustee	The affairs of the Trustee are managed by MaplesFS 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 27 February 2017 between the Trustee Administrator and the Trustee (the "**Corporate Services Agreement**"). The Trustee Administrator's registered office is P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands.
Mudareb/Obligor	Warba Bank K.S.C.P.
Rab-al-Maal	Warba Tier 1 Sukuk 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*".
Global Co-ordinator	Standard Chartered Bank.
Joint Lead Managers	Arab Banking Corporation B.S.C., Emirates NBD PJSC, KAMCO Investment Company K.S.C. (Public), KFH Capital Investment Company KSCC, Noor Bank PJSC and Standard Chartered Bank.
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	14 March 2017.
Issue Price	100.000 per cent.
Periodic Distribution Dates	14 March and 14 September every year, commencing on 14 September 2017.
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 6.500 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 4.374 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*).
Cancellation or 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 "Baa2" 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:

Warba Tier 1 Sukuk 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 14 March 2017 (the "**Issue Date**") made between the Trustee, Warba 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:

(iii) **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

(iv) **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

(v) **Analogous Event**: any event occurs which under the laws 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 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 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 aggregate of the Bank's (i) consolidated retained earnings (if greater than zero) and reserves after the transfer of any amounts to non-distributable reserves and (ii) profit after tax, in each case (x) as set out in the most recent annual audited consolidated financial statements of the Bank less any prior distribution of Rab-al-Maal Mudaraba Profit calculated and paid by reference to such annual audited consolidated financial statements and (y) to the extent not restricted from distribution by applicable law or otherwise;

"**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 Kuwait and/or any successor entity having primary bank supervisory authority with respect to the Bank in Kuwait;

"**First Call Date**" means 14 March 2022;

"**First Mudaraba Profit Distribution Date**" means 14 September 2017;

"**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;

"**Kuwait**" means the State of Kuwait;

"**LCIA**" means the London Court of International Arbitration;

"**Margin**" means 4.374 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 14 March and 14 September 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 14 March and 14 September in each year, starting on (and including) 14 September 2017;

"**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 Cayman Islands (in the case of any payment made by the Trustee) and 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 9 March 2017);

"**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 Cayman Islands 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 S.A. ("**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 Warba Tier 1 Sukuk 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 and the Corporate Services Agreement in its capacity as trustee administrator and registered office provider;

(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.$32.50 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 6.500 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, NASDAQ Dubai, 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 the Relevant Rab-al-Maal Mudaraba Profit Amount, the Mudareb's 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 (in its capacity as Rab-al-Maal) on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee (in its capacity as Rab-al-Maal) 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) and (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. 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 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 9 March 2017.

(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 without any further inquiry 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 without any further enquiry 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 it shall have been so requested by an Extraordinary Resolution of the Certificateholders or 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 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 it shall have been so requested by an Extraordinary Resolution of the Certificateholders or 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 and have all the protections 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.

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 or may 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 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 (a "**Notice to Litigate**"). If a Notice to Litigate 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), any of the parties to the terminated arbitration will bear its own costs in relation thereto. Any arbitrator shall remain entitled to his proper fees and disbursements incurred to that date. Any Notice to Litigate shall also be without prejudice to the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

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. 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

The Trustee

Warba Tier 1 Sukuk Limited (the "**Trustee**"), an exempted company incorporated in the Cayman Islands with limited liability, was incorporated on 25 August 2016 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 314524. The registered office of the Trustee is at PO Box 1093, Queensgate House, Grand Cayman, KY1-1102 Cayman Islands and the telephone number is +1 345 945 7099/+971 4511 4200.

The authorised share capital of the Trustee is US$50,000 divided into 50,000 ordinary shares of US$1.00 each, 250 of which have been issued. All of the issued shares (the "**Shares**") are fully-paid and are held by MaplesFS 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 with the approval of the Delegate for so long as there are any Certificates outstanding. 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.

The Business of the Trustee

The Trustee has no prior operating history or prior business and will not have any substantial assets or liabilities other than in connection with the Certificates.

The Trustee has, and will have, no assets other than the sum of US$250 representing the issued and paid-up share capital, such fees (as agreed) payable to it in connection with the issue of the Certificates, the bank account into which such paid-up share capital and fees are deposited, any interest earned thereon and the Trust Assets. Save in respect of fees generated in connection with the issue of the Certificates and any related profits and proceeds of any deposits and investments made from such fees or from amounts representing the Trustee's issued and paid-up share capital, the Trustee does not expect to accumulate any surpluses.

The Certificates are the obligations of the Trustee alone and not the Share Trustee.

Financial Statements

Since the date of incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

Directors of the Trustee

The directors of the Trustee are as follows:

Name	**Principal Occupation**
Andrew Millar	Regional Head of Fiduciary at Maples Fund Services (Middle East) Limited
Cleveland Stewart	Senior Vice President at MaplesFS Limited

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

The business address of Cleveland Stewart is c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands. The Trustee's Articles of Association provide that the board of directors of the Trustee will consist of at least one director. There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Trustee.

The Administrator

MaplesFS Limited will also act as the administrator of the Trustee (in such capacity, the "**Trustee Administrator**"). The office of the Trustee Administrator will serve as the general business office of the Trustee. Through the office, and pursuant to the terms of an Corporate Services Agreement to be entered into between the Trustee and the Trustee Administrator (the "**Corporate Services Agreement**"), the Trustee Administrator will perform in the Cayman Islands or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee Administrator will also provide registered office services to the Trustee in accordance with its standard terms and conditions for the provision of registered office services as published at http://www.maplesfiduciaryservices.com/terms (the "**Registered Office Terms**"). In consideration of the foregoing, the Trustee Administrator will receive various fees payable by the Trustee at rates agreed upon from time to time, plus expenses. The terms of the Corporate Services Agreement and Registered Office Terms provide that either the Trustee or the Trustee Administrator 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 Terms provide that either party shall be entitled to terminate such agreement by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Trustee Administrator will be subject to the overview of the Trustee's Board of Directors. The Corporate Services Agreement may be terminated (other than as stated above) by either the Trustee or the Trustee Administrator giving the other three months written notice.

The Trustee Administrator's principal office is PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands.

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 and should also be read in conjunction with "Financial review".

See also "Presentation of financial and other information" for a discussion of the sources of the numbers contained in this section.

Statement of Financial Position

The table below shows the Bank's statement of financial position as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD thousands)	
Assets			
Cash and balances with banks	5,480	3,845	6,098
Placements with banks	166,940	133,355	122,590
Financing receivables	827,872	543,794	388,159
Available-for-sale investments	99,825	68,661	53,000
Investment properties	14,815	15,127	15,340
Other assets	6,387	4,949	3,083
Property and equipment	5,643	6,376	6,535
Total Assets	**1,126,962**	**776,107**	**594,805**
Liabilities and Equity			
Liabilities			
Due to banks and other financial institutions	274,131	244,333	153,086
Depositors' accounts	750,498	433,465	346,092
Other liabilities	7,561	6,029	3,762
Total Liabilities	**1,032,190**	**638,827**	**502,940**
Equity			
Share capital	100,000	100,000	100,000
Accumulated losses	(4,798)	(7,373)	(8,373)
Fair value reserve	(430)	(347)	238
Total Equity	**94,772**	**92,280**	**91,865**
Total Liabilities and Equity	**1,126,962**	**776,107**	**594,805**

Income Statement

The table below shows the Bank's statement of profit or loss for each of 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
Income		*(KD thousands)*	
Placements and financing income	31,094	20,217	13,858
Finance costs and distribution to depositors	(14,678)	(8,182)	(4,974)
Net financing income	**16,416**	**12,035**	**8,884**
Net investment income	4,339	3,683	4,081
Net fees and commission income	1,583	2,120	419
Other income	185	166	176
Foreign exchange gain/(loss)	261	75	(7)
Operating income	22,784	**18,079**	**13,553**
Staff costs	(9,304)	(9,001)	(7,264)
General and administrative expenses	(4,067)	(3,387)	(2,976)
Depreciation	(1,631)	(1,602)	(1,345)
Operating expenses	(15,002)	**(13,990)**	**(11,585)**
Operating profit before provision for impairment	7,782	**4,089**	**1,968**
Provision for impairment	(5,063)	(3,005)	(1,802)
Profit before deductions	2,719	**1,084**	**166**
National Labor Support Tax (NLST)	(64)	(33)	(9)
Zakat	(20)	(9)	0
Directors' remuneration	(60)	(42)	(42)
Net profit for the year	2,575	**1,000**	**115**
Basic diluted earnings per share	**2.58 fils**	**1.00 fils**	**0.12 fils**

Statement of Profit or Loss and other Comprehensive Income

The table below shows the Bank's statement of profit or loss and other comprehensive income for each of 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
		(KD thousands)	
Net profit for the year	**2,575**	**1,000**	**115**

	As at 31 December		
	2016	2015	2014
		(KD thousands)	
Other comprehensive (loss)/income:			
Other comprehensive (loss)/income to be reclassified to statement of income in subsequent years:			
Change in fair value of available-for-sale investments	(39)	(466)	1,421
Gain on sale of available-for-sale investments realised during the year transferred to statement of income	(44)	(119)	(316)
Other comprehensive income/(loss) for the period	**(83)**	**(585)**	**1,105**
Total comprehensive income for the period	**2,492**	**415**	**1,220**

Statement of Cash Flows

The table below summarises the Bank's statement of cash flows for each of 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
		(KD thousands)	
Net cash generated from operating activities	15,700	58,941	2,304
Net cash (used in)/generated from investing activities......	(26,831)	(12,660)	25,858
Net increase in cash and cash equivalents.....................	**(11,131)**	**46,281**	**28,162**
Cash and cash equivalents at 1 January	127,636	81,355	53,193
Cash and cash equivalents at 31 December	**116,505**	**127,636**	**81,355**

Selected Ratios

The table below shows selected ratios for the Bank as at, and for years ended, 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
		(per cent.)	
Performance measures			
Return on average assets(1)..	0.27	0.15	0.02
Return on average equity(2)	2.75	1.09	0.13
Cost to income ratio(3)...	40	54	63
Financial ratios			

	As at 31 December		
	2016	2015	2014
		(per cent.)	
Performance measures			
Return on average assets[(1)]	0.27	0.15	0.02
Return on average equity[(2)]	2.75	1.09	0.13
Net financing margin[(4)]	2.00	2.01	2.23
Net profit margin[(5)]	6.87	3.81	0.62
Asset quality			
Non performing financing receivables ratio[(6)]	0.69	0.94	0.28
Financing receivables loss coverage ratio[(7)]	220	155	471
Liquidity coverage ratio[(8)]	127	116	—
Financing receivables to deposits ratio[(9)]	97	100	102
Other ratios			
Common equity tier 1 capital adequacy ratio[(10)]	16.83	24.92	29.76
Total tier 1 capital adequacy ratio[(10)]	16.83	24.92	29.76
Total capital adequacy ratio[(10)]	18.00	26.07	30.92
Leverage ratio[(11)]	8.17	11.58	15.15

Notes:

(1) Profit for the period of the Bank divided by average assets for the period, with average assets calculated as the simple average for the period.

(2) Profit for the period of the Bank divided by average shareholders' equity for the period, with average shareholders' equity calculated as the simple average for the period.

(3) Total operating expenses divided by total operating income before deducting finance costs and distribution to depositors.

(4) Net financing income divided by average profit earning assets for the period, with average profit earning assets calculated as the weighted average for the period. Profit earning assets comprise financing receivables, placements with the CBK and placements with other banks.

(5) Profit for the period of the Bank divided by total operating income for the period.

(6) Non performing financing receivables as a percentage of total gross financing receivables.

(7) Impairment provisions in respect of financing receivables as a percentage of non performing financing receivables.

(8) Reporting of the LCR was introduced from 1 January 2015. The LCR is calculated as stipulated in CBK Circular number 2/IBS/346/2014 dated 23 December 2014 and CBK Circular number 2/IBS/363/2016.

(9) Total financing receivables (including placements with banks) divided by the sum of deposits from customers and deposits from banks and other financial institutions.

(10) For all periods calculated in accordance with Basel III, as implemented in Kuwait.

(11) The leverage ratio was introduced in 2014 and is calculated in accordance with CBK Circular number 2/IBS/343/2014 dated 21 October 2014.

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 Bank'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 Bank'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 "Cautionary statement regarding 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 Bank provides a range of corporate banking, retail banking, investment and treasury services to customers in Kuwait through its network of 10 branches. As at 31 December 2016, the Bank's total assets were KD 1,127 million compared to KD 776.1 million as at 31 December 2015 and its total equity was KD 94.8 million compared to KD 92.3 million as at 31 December 2015.

The Bank's core business is corporate and retail banking, which generates financing income as well as credit-related fee and commission income. The Bank also undertakes treasury and investment banking activities (which generate financing income, fee and commission income and investment gains or losses). The Bank's services are provided through its branch network in Kuwait, its network of automated teller machines ("**ATMs**") and point of sale ("**POS**") terminals and electronic channels such as tele-banking, internet banking and mobile banking.

As at 31 December 2016, the Bank's portfolio of financing receivables was KD 827.9 million and its deposits from customers were KD 750.5 million, compared to KD 543.8 million and KD 433.5 million respectively as at 31 December 2015. In 2015, the Bank's net profit was KD 1.0 million compared to KD 115 thousand in 2014. The Bank's net profit in 2016 was KD 2.6 million.

As at 31 December 2016, the Bank's total and tier 1 capital adequacy ratios, calculated in accordance with the Basel III methodology adopted by the CBK, were 18.00 per cent. and 16.83 per cent., respectively, and its leverage ratio, calculated in accordance with CBK Circular number 2/BS/343/2014 dated 21 October 2014, was 8.17 per cent.

Principal factors affecting results of operations

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

Economic conditions

The Bank is a Kuwaiti bank focused on lending to, and accepting deposits from, institutions, companies and residents in Kuwait. As a result, its revenue and results of operations are principally affected by economic and market conditions in Kuwait.

According to the CBK and the Central Statistical Bureau, Kuwait's real GDP increased by 0.1 per cent. in 2014 compared to 2013, with most sectors of the economy remaining relatively flat. Based on the IMF's April 2016 World Economic Database, Kuwait's real GDP is projected to have grown by 0.9 per cent. in 2015 and to grow by 2.4 per cent. in 2016. According to the IMF's December 2015 Staff Report on its Article IV Consultation with Kuwait, Kuwait's medium-term economic outlook is favourable. Non-oil GDP growth in Kuwait is expected to increase to between 3.5 per cent. and 4.0 per cent. in the medium term, supported by government investment in infrastructure (based on Kuwait's Development Plan for 2015 to 2019) and private investment. The main downside risks to the medium term outlook identified by the IMF are lower global oil demand and prices, slow implementation of the Development Plan and regional geopolitical uncertainty.

The Bank 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 financing income

The Bank's net financing income is the major contributor to its total operating income, comprising 72.1 per cent. of its total operating income in the year ended 31 December 2016 compared to 66.6 per cent. of its total operating income in 2015 and 65.6 per cent. in 2014. The Bank's financing income is primarily determined by the volume of profit-earning assets and the rates earned on those profit-earning assets. The Bank's profit-earning assets principally comprise its portfolio of customer financing receivables, although it also generates limited financing income from the placements it makes with other banks and the sukuk investment securities held by it.

The Bank's financing expense comprises finance costs and distribution made to depositors. In each of 2016, 2015 and 2014 respectively, finance costs and distribution to depositors comprised 47.2 per cent., 40.5 per cent. and 35.9 per cent. of the Bank's total financing income for the relevant year.

The Bank's placements and financing income in 2016 was KD 31.1 million, an increase of KD 10.9 million or 53.8 per cent. compared to KD 20.2 million in 2015. This increase in placements and financing income principally reflected a 52.2 per cent. increase in the Bank's portfolio of financing receivables in the same period to KD 827.9 million as at 31 December 2016 from KD 543.8 million as at 31 December 2015.

The Bank's placements and financing income was KD 20.2 million in 2015, compared to KD 13.9 million in 2014, an increase of KD 6.4 million, or 45.9 per cent., reflecting a 40.1 per cent. increase in the financing portfolio of financing receivables in the same period to KD 543.8 million as at 31 December 2015 from KD 388.2 million as at 31 December 2014.

The Bank's finance costs and distribution to depositors was KD 14.7 million in 2016 compared to KD 8.2 million in 2015, an increase of KD 6.5 million, or 79.4 per cent., primarily reflecting a 51.2 per cent. growth in total deposits over the same period to KD 1,024.6 million as at 31 December 2016 from KD 677.8 million as at 31 December 2015. The Bank's finance costs and distribution to depositors was KD 8.2 million in 2015 compared to KD 5.0 million in 2014, an increase of KD 3.2 million, or 64.5 per cent., primarily reflecting a 35.8 per cent. growth in total deposits over the same period to KD 677.8 million as at 31 December 2015 from KD 499.2 million as at 31 December 2014.

The CBK's discount rate was 2.0 per cent. in 2014, was increased to 2.25 per cent. in December 2015 and to 2.5 per cent. in December 2016. The CBK's discount rate directly impacts the profit rates chargeable by the Bank on its Kuwaiti dinar-denominated customer financing, as these rates are capped at prescribed percentages above the CBK discount rate. See "*Banking industry and regulation in Kuwait—Certain banking regulations—Interest/profit rate cap regulations*".

Principally reflecting the factors affecting the Bank's financing income and finance costs and distribution to depositors described above, the Bank's net financing margin (being its net financing income divided by its weighted average profit-earning assets for the period) remained stable in 2016 at 2.0 per cent., same as in 2015. The Bank's net financing margin was 2.2 per cent. in 2014.

Movements in provision charge for impairments

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 Bank assesses its financial assets for objective evidence of impairment. In particular:

- all individually significant customer financing receivables are assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortised cost (including the Bank's customer financing receivables) 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 (in the case of fixed profit rate receivables) or its current effective interest rate (in the case of receivables with variable rates);
- a minimum general provision is made on all financing receivables 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 "*Impairment of financial assets*" in note 2.4 to the 2016 Financial Statements.

The provision for impairment charged to the Bank's income statement in each year was:

- KD 5.1 million in 2016 (comprising KD 1.6 million in specific provisions and KD 3.5 million in general provisions).
- KD 3.0 million in 2015 (comprising KD 1.1 million in specific provisions and KD 1.9 million in general provisions).
- KD 1.8 million in 2014 (comprising KD 0.1 million in specific provisions and KD 1.7 million in general provisions).

The provision for impairment charged to the Bank's income statement increased to KD 3.0 million in 2015 primarily due to an increase in the Bank's precautionary provision, at the request of the CBK, in addition to an increase in specific provisions during the period. In 2016, the CBK requested additional precautionary provisions.

Significant Accounting Policies

The Financial Statements have been prepared in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK. For a discussion of the accounting policies applied by the Bank generally, see note 2 to the 2016 Financial Statements.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In preparing the Bank's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Bank's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenue and expenses during the years 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 such estimates and assumptions are evaluated by management 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, judgments and assumptions made in the preparation of the Bank's financial statements, see note 2.4 to the 2016 Financial Statements.

Results of Operations in 2016 vs 2015

Net financing income

Net financing income is the Bank's principal source of income. Net financing income is calculated by adding placements and financing income and deducting financing costs and distribution to depositors. The Bank earns financing income on its portfolio of financing receivables, and on its placements with central banks and other banks. The Bank makes distributions to depositors based on the Bank's results at the end of each quarter. Financing income is recognised in the income statement using the effective profit rate, as explained in note 2 to the 2016 Financial Statements.

The Bank's net financing income amounted to KD 16.4 million in 2016 and KD 12.0 million in 2015, an increase of KD 4.4 million, or 36.7 per cent.

See "*—Principal factors affecting results of operations— Factors affecting net financing income*" above for a more detailed discussion of the trends in the Bank's net financing income.

Net fees and commission income

Net fees and commissions income is calculated by deducting fees and commissions paid by the Bank from fees and commissions income earned by the Bank. The Bank's fees and commissions income is comprised of credit-related fees and commissions, investment management fees and brokerage fees. Credit-related fees and commissions relate to customer financing advanced by it, other financing facilities made available by it (such as LCs and guarantees issued by it), and other fees such as account servicing, syndication and card-related fees. The Bank pays fees and commissions principally in respect of cards. The Bank's net fees and commission income amounted to KD 1.6 million in 2016 and KD 2.1 million in 2015 The decrease reflected the high fee income realised in 2015 from a significant syndication deal which the Bank concluded successfully, Excluding the impact of that particular deal from the comparison, the fee and commission income in 2016 increased by 155.3 per cent.

Net investment income

Net investment income is calculated by adding gains on sales of available-for-sale investments, gains on sales of investment property, dividend income, sukuk income, net rental income from investment properties and other income. In calculating net rental income from investment properties, the fair values of properties are based on valuations performed by accredited independent valuers, who are specialists in valuing these types of investments.

The Bank's net investment income remained relatively stable at KD 4.3 million in 2016 compared to KD 3.7 million in 2015.

Other sources of operating income

The Bank's other sources of operating income include the net foreign exchange gains or losses recorded on customer transactions and other income.

The Bank's other sources of operating income amounted to KD 0.4 million in 2016 and KD 0.2 million in 2015. The increase of KD 205 thousand, or 85.0 per cent. was principally due to the increase in the volume of customer transactions in foreign currencies.

Operating expenses

The Bank's operating expenses comprise staff costs, depreciation and other operating expenses. The Bank's total operating expenses amounted to KD 15.0 million in 2016 and KD 14.0 million in 2015. The increase of KD 1.0 million, or 7.1 per cent. was principally due to an increase in staff costs of KD 0.3 million, or 3.3 per cent., in addition to an increase in general and administrative expenses of KD 0.7 million, or 20.6 per cent. The Bank's cost to income ratio was 40 per cent. in 2016.

Operating profit before deductions

Reflecting the above factors, the Bank's operating profit before deductions in 2016 was KD 2.7 million compared to KD 1.1 million in 2015, an increase of KD 1.6 million, or 145.5 per cent.

Directors' remuneration

The Bank paid directors' remuneration of KD 60 thousand in 2016 compared to KD 42 thousand in 2015.

Taxation

The Bank's taxation charge comprises national labour support tax charged in Kuwait and its zakat charge. Together, these charges amounted to KD 84 thousand in 2016 and KD 42 thousand in 2015.

Net profit for the year

Reflecting the above factors, the Bank's net profit in 2016 was KD 2.6 million compared to KD 1.0 million in 2015, an increase of KD 1.6 million, or 160 per cent.

Other comprehensive loss or income

The Bank's other comprehensive income/(loss) principally comprises changes in the fair value of its available-for-sale investments. The Bank recorded comprehensive income on changes in fair values of its available-for-sale investments of KD 0.08 million in 2016 and a comprehensive loss of KD 0.6 million in 2015.

Total comprehensive income for the period

The Bank's total comprehensive income, including net profit, was KD 2.5 million in 2016 compared to KD 0.4 million in 2015, an increase of KD 2.1 million, or 425 per cent.

Segmental Analysis

The Bank reporting segments are as follows:

- **Corporate** which comprises a range of banking services and investment products to corporate customers, in addition to providing commodity and real estate murabaha finance and ijara facilties;

- **Retail** which comprises a diversified range of products and services to individual customers. The products and services include consumer finance, credit cards, deposits and other branch-related services;
- **Treasury** which comprises the Bank's funding operations management, local and international murabaha and other Islamic financing primarily with banks and financial institutions;
- **Investment** which comprises investment in direct equity, real estate investment and other investments; and
- **Other** which comprises cost centre assets and expenses.

The table below shows segment revenue and result for each of 2016 and 2015 as well as segment assets as at 31 December in each of 2016 and 2015.

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

Corporate banking

Corporate banking recorded operating income of KD 13.5 million in 2016 compared to KD 9.8 million in 2015. The increase of KD 3.7 million, or 37.8 per cent., principally reflected growth in the Bank's corporate business activities. Corporate banking's segment result was KD 8.4 million in 2016 compared to KD 6.7 million in 2015, an increase of KD 1.7 million, or 25.4 per cent. This increase was principally due to an increase in the Bank's financing portfolio, which resulted in an increase in financing income.

Retail banking

Retail banking recorded operating income of KD 4.4 million in 2016 compared to KD 3.4 million in 2015. The increase of KD 1.0 million, or 29.4 per cent., principally reflected growth in the Bank's retail business activities. Retail banking's segment result was a loss of KD 1.6 million in 2016 compared to a loss of KD 1.9 million in 2015, a decrease in loss of KD 213 thousand, or 11.4 per cent. This decrease was principally due to an increase in the Bank's retail financing portfolio, which resulted in an increase in retail banking financing income.

Treasury

Treasury recorded operating income of KD 801 thousand in 2016 compared to KD 586 thousand in 2015. The increase of KD 215 thousand, or 36.7 per cent., principally reflected an increase in placements with banks which resulted in an increase in placements income. Treasury's segment result was KD 622 thousand in 2016 compared to KD 440 thousand in 2015, an increase of KD 182 thousand, or 41.4 per cent. This increase was principally due to increased Treasury foreign exchange and money market activity commensurate with the growth of the Bank.

Investment

Investment banking recorded operating income of KD 4.1 million in 2016 compared to KD 4.3 million in 2015. Investment banking's segment result was KD 3.7 million in 2016 compared to KD 4.0 million in 2015. In 2015, significant fee income was realised from a large and unique syndication deal.

Results of Operations in 2015 vs 2014

Net financing income

The Bank's net financing income amounted to KD 12.0 million in 2015 and KD 8.9 million in 2014, an increase of KD 3.1 million, or 34.8 per cent. The increase reflected a KD 6.4 million, or 45.9 per cent., increase in placements and financing income, offset by a KD 3.2 million, or 64.5 per cent., increase in finance costs and distribution to depositors.

See "*—Principal factors affecting results of operations— Factors affecting net financing income*" above for a more detailed discussion of the trends in the Bank's net financing income.

Net fees and commission income

The Bank's net fees and commission income amounted to KD 2.1 million in 2015 and KD 0.4 million in 2014. The increase principally reflected fees earned on the successful completion of two syndication deals by the Bank.

Net investment income

The Bank's net investment income amounted to KD 3.7 million in 2015 and KD 4.1 million in 2014. The decrease principally reflected a decrease in gains on the sale of available-for-sale investments in addition to a decrease in rental income resulting from the sale of investment property during 2014.

Other sources of operating income

The Bank's other sources of operating income amounted to KD 241 thousand in 2015 and KD 171 thousand in 2014.

The increase of KD 70 thousand, or 40.9 per cent., principally reflected an increase in volume of customers' foreign currency transactions.

Operating expenses

The Bank's total operating expenses amounted to KD 14.0 million in 2015 and KD 11.6 million in 2014. The increase of KD 2.4 million, or 20.8 per cent., principally reflected an increase of KD 1.7 million in staff costs and was principally driven by an increase in the number of staff during the year and higher salaries during the year. The Bank's headcount increased to 356 during 2015, comprising a mix of Kuwaiti and expatriate staff. The Bank's cost to income ratio in 2015 was 54.0 per cent. compared to 63.0 per cent. in 2014.

Operating profit before deductions

Reflecting the above factors, the Bank's operating profit before deductions for the year was KD 1.1 million in 2015 and KD 0.2 million in 2014, an increase of KD 0.9 million, or 553.0 per cent.

Directors' remuneration

The Bank paid directors' remuneration of KD 42 thousand in 2015 and 2014.

Taxation

The Bank's taxation charge amounted to KD 42 thousand in 2015 and KD 9 thousand in 2014. The higher taxation charge in 2015 principally reflected the Bank's higher net profit in that year.

Net profit for the year

Reflecting the above factors, the Bank's net profit for the year was KD 1.0 million in 2015 compared to KD 0.1 million in 2014, an increase of KD 0.9 million, or 770.0 per cent..

Other comprehensive loss or income

The Bank recorded a comprehensive loss of KD 0.6 million in 2015 and comprehensive income of KD 1.1 million in 2014, primarily due to a change in fair value of its available-for-sale investments.

Total comprehensive income for the year

Reflecting the above factors and the Bank's profit for the year, the Bank's total comprehensive income was KD 0.4 million in 2015 and KD 1.2 million in 2014, a decrease of KD 0.8 million, or 66.0 per cent..

Segmental Analysis

The table below shows segment revenue and result for each of 2015 and 2014 as well as segment assets as at 31 December in each of 2015, and 2014.

	Corporate	Retail	Treasury	Investment	Other	Total
			KD'000			
2015						
Segment operating income	9,773	3,426	586	4,294	—	18,079
Segment result	6,705	(1,862)	440	4,038	(8,321)	1,000
Segment assets	416,355	127,458	133,355	83,789	15,170	776,107

	Corporate	Retail	Treasury	Investment	Other	Total
			KD'000			
2014						
Segment operating income	7,771	2,164	494	3,124	—	13,553
Segment result	6,102	(2,206)	373	2,702	(6,856)	115
Segment assets	318,783	69,376	142,805	48,124	15,717	594,805

Corporate banking

Corporate banking recorded operating income of KD 9.8 million in 2015 compared to KD 7.8 million in 2014. The increase of KD 2.0 million, or 25.6 per cent., principally reflected growth in the Bank's corporate business activities. Corporate banking's segment result was KD 6.7 million in 2015 compared to KD 6.1 million in 2014. The increase of KD 0.6 million, or 9.8 per cent., principally reflected an increase in financing income due to the increase in corporate segmental assets by 30.6 per cent., which was offset by an increase in provisions charged during 2015 compared to 2014.

Retail banking

Retail banking recorded operating income of KD 3.4 million in 2015 compared to KD 2.2 million in 2014. The increase of KD 1.2 million, or 54.5 per cent. principally reflected growth in the Bank's retail business activities. Retail banking's segment result was a loss of KD 1.9 million in 2015 compared to a loss of KD 2.2 million in 2014. The decrease in loss of KD 344 thousand, or 15.6 per cent. in 2015 principally reflected an increase in financing income due to the increase in the Bank's retail financing portfolio.

Treasury

Treasury recorded operating income of KD 586 thousand in 2015 compared to KD 494 thousand in 2014. Treasury's segment result was KD 440 thousand in 2015 compared to KD 0.4 million in 2014 due to an increase in placements income.

Investment

Investment banking recorded operating income of KD 4.3 million in 2015 compared to KD 3.1 million in 2014. Investment banking's segment result was KD 4.0 million in 2015 compared to KD 2.7 million in 2014 due to a gain on the sale of investment property in addition to an increase in dividend income during the period.

Liquidity and Funding

Overview

The Bank's liquidity needs arise primarily from advancing financing to customers, the payment of expenses and investments in sukuk and equity securities. To date, the Bank's liquidity needs have been funded principally through deposits and operating cash flow, including profit income received on its portfolio of receivables financing and its portfolio of sukuk investment securities. See "*—Funding*" below.

Liquidity

The table below shows the Bank's cash flow from operating activities and investing activities for each of 2016, 2015 and 2014.

	2016	**2015**	**2014**
		(KD thousands)	
Net cash generated from operating activities	15,700	58,941	2,304
Net cash (used in)/generated from investing activities	(26,831)	(12,660)	25,858
Net increase in cash and cash equivalents	**(11,131)**	**46,281**	**28,162**
Cash and cash equivalents at 1 January	127,636	81,355	53,193
Cash and cash equivalents at 31 December	**116,505**	**127,636**	**81,355**

Operating activities

The Bank's net cash from operating activities in 2016 was KD 15.7 million compared to KD 58.9 million in 2015 and KD 2.3 million in 2014. The decrease in 2016 was principally due to an increase in placements with banks, amounting to KD 46.4 million during the period.

Investing activities

The Bank's net cash used in investing activities in 2016 was KD 26.8 million compared to KD 12.7 million in 2015 and net cash from investing activities was KD 25.9 million in 2014. In 2016 and 2015, the Bank purchased significantly more available-for-sale investments, and in 2014 the Bank received proceeds from sale of investment property of KD 9.7 million.

Non-performing financings

The Bank continued to achieve low levels of non-performing financings in 2016. Total non-performing financings as at 31 December 2016 amounted to KD 5.8 million (which represented 0.69 per cent. of gross financings for that year), compared to KD 5.2 million as at 31 December 2015 (representing 0.94 per cent. of gross financings for the year) and KD 1.03 million as at 31 December 2014 (representing 0.26 per cent. of gross financings for the year).

Funding

The Bank's principal sources of funding are its customer deposits and, to a lesser extent, interbank deposits. The Bank also has access to a pool of unencumbered and liquid securities in the form of sukuk as well as quoted available-for-sale investments and equity securities that it can access to meet liquidity needs, in addition to its cash balances and deposits with the CBK and other banks.

The Bank's depositors' accounts were KD 750.5 million or 72.7 per cent. of its total liabilities, as at 31 December 2016, KD 433.5 million, or 63.4 per cent. of its total liabilities, as at 31 December 2015 and KD 346.1 million, or 68.8 per cent. of its total liabilities, as at 31 December 2014. The Bank enjoys significant support from the Kuwaiti government and its related agencies which constituted approximately 71 per cent. of the Bank's total funding as at 31 December 2016 and 66.0 per cent. of the Bank's total funding as at 31 December 2015, see "*Risk factors—Factors that may affect the Bank's ability to fulfil its obligations under the Transaction Documents—The Bank's financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait*".

The Bank currently has no outstanding financing or sukuk securities in issue

The tables below show the Bank's funding in the form of customer deposits and amounts due to banks and other financial institutions as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December					
	2016		**2015**		**2014**	
	(KD '000s)	*(% of total)*	*(KD '000s)*	*(% of total)*	*(KD '000s)*	*(% of total)*
Due to banks and other financial institutions	274,131	26.6	244,333	35.7	153,086	30.4
Depositors' accounts	750,498	72.7	433,465	63.4	346,092	68.8
Other liabilities	7,561	0.7	6,029	0.9	3,762	0.8
Total liabilities	**1,032,190**	**100.0**	**683,827**	**100.0**	**502,940**	**100.0**

The Bank's depositors' accounts comprise both investment deposits and non-investment deposits in the form of current accounts. Current accounts are not entitled to any profit and amounts may be withdrawn from these accounts at any time without notice.

The Bank's investment deposits include savings accounts, fixed term deposit accounts and open term deposit accounts. Customers are entitled to withdraw their funds from savings accounts and open term deposit accounts at any time, although open term deposit accounts are treated as fixed-term deposits renewed automatically at each term date unless the customer has notified the Bank of his intention not to renew the deposit. Fixed term deposit accounts generally have maturities of one, three, six, nine or 12 months. Funds utilised in investments for each investment deposit are computed using ratios specified in each deposit contract. Any idle amounts are repaid in full at maturity whilst repayment of the invested amount depends on the performance of the investment concerned. In any case where there is a loss on the investment, the depositor may be compensated using the investment risk reserve maintained by the Bank.

The Bank believes that its customer deposits are diversified and sticky in nature, and constitute a stable and secure source of low cost funding.

Maturity profile

The table below shows the maturity profile of the Bank's total deposits as at 31 December in each of 2016, 2015 and 2014. This analysis is based on contractual cash flows and maturity dates.

	Within 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
			(KD '000s)		
31 December 2016					
Due to banks and other financial institutions	116,569	60,404	89,085	10,429	276,487
Depositors' accounts	492,019	137,398	124,828	—	754,245
Other liabilities	6,603	—	—	958	7,561
Total	**615,191**	**197,802**	**213,913**	**11,387**	**1,038,293**
31 December 2015					
Due to banks and other financial institutions	156,714	45,556	21,851	21,480	245,601
Depositors' accounts	241,613	122,055	71,115	—	434,783
Other liabilities	5,158	—	—	871	6,029
Total	**403,485**	**167,611**	**92,966**	**22,351**	**686,413**
31 December 2014					
Due to banks and other financial institutions	45,726	36,685	20,310	50,365	153,086
Depositors' accounts	107,124	194,239	44,729	—	346,092
Other liabilities	3,146	—	—	616	3,762
Total	**155,996**	**230,924**	**65,039**	**50,981**	**502,940**

A significant proportion of the Bank's funding disclosed in the table above as at 31 December 2016 is short term in nature, with 31 per cent. of such funding being repayable within one month and 99 per cent. being repayable within one year. See "*Risk Factors—Factors that may affect the Bank's ability to fulfil its obligations under the Transaction Documents—The Bank 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*". The issue of the Certificates is intended to help the Bank diversify its sources of funding and to extend the average maturity of its funding base in addition to improving the Bank's capital base.

Given the state-run and oil-driven nature of the domestic economy, the Bank'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 Bank's share capital and reserves at 31 December in each of 2016, 2015 and 2014, see note 12 in each of the Financial Statements.

Financing

Customer financing receivables portfolio

The Bank's customer financing receivables portfolio (net of provisions) was KD 827.9 million as at 31 December 2016. The table below shows the breakdown of the Bank's customer financing receivables portfolio as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s)	
Corporate	479,597	294,641	248,718
Individuals	360,969	257,600	144,954
Financing receivables before provision for impairment	840,566	552,241	393,672
Less: provision for impairment	(12,694)	(8,447)	(5,513)
Total customer financing	827,872	543,794	388,159

The table below shows the Bank's total gross and net customer financing receivables portfolio and customer financing to deposit ratios as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s, except percentages)	
Financing receivables before provision for impairment	840,556	552,241	393,672
Less: provision for impairment	(12,694)	(8,447)	(5,513)
Net financing	827,872	543,794	388,159
Net customer financing/customer deposits	110.3	125.5	112.2
Net customer financing/total deposits[1]	80.8	80.2	77.8

Note:

(1) Total deposits comprise customer deposits and deposits from banks and other financial institutions.

The Bank's 20 largest customer financings amounted to 31.7 per cent. of its total gross customer financings as at 31 December 2016 compared to 39.5 per cent. as at 31 December 2015 and 67.5 per cent. as at 31 December 2014.

The Bank's customer financing receivables portfolio is principally denominated in Kuwaiti dinar, although financing is also made in U.S. dollars, British pound sterling and euros. The Bank believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms.

The majority of the financing within the Bank's corporate customer financing receivables portfolio contains terms permitting the Bank to adjust the profit rate payable by the corporate customer upon any change in the CBK discount rate or the relevant interbank benchmark. The Bank believes that there is only limited structural exposure to profit rate movements as the majority of its assets and liabilities re-price within one year. However, the Bank's experience is that, whilst its assets generally re-price shortly after a change in the CBK discount rate, there is typically a longer time lag on deposit re-pricing which means that its net profit margin generally improves in an increasing market profit rate environment.

Distribution of customer financing receivables by maturity

The table below shows the distribution of the Bank's customer financing receivables portfolio by maturity (based on contractual cash flows and maturity dates) as at 31 December in each of 2016, 2015 and 2014.

	Within 3 months	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
			(KD '000s)		
31 December 2016					
Customer financing receivables	483,123	140,640	31,069	173,040	827,872
31 December 2015					
Customer financing receivables	237,165	112,988	66,151	127,490	**543,794**
31 December 2014					
Customer financing receivables	225,558	78,101	26,139	58,361	**388,159**

Gross maximum exposure to credit risk

The table below shows the Bank's maximum credit risk exposure for the components of the statement of financial position. The maximum exposure is shown gross (net of impairment), before the effect of mitigation through the use of master netting and collateral agreements, as at 31 December 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s)	
Credit risk exposures relating to on-statement of financial position items:			
Balances with banks	3,864	2,840	4,282
Placements with banks	166,940	133,355	122,590
Financing receivables	827,872	543,794	388,159
Available-for-sale investments (investment in sukuk)	73,820	51,283	41,926
Other assets	4,380	3,708	1,791
Total	**1,076,876**	**734,980**	**558,748**

As at 31 December 2016, the Bank's gross maximum exposure to credit risk was KD 1,076.9 million, of which its portfolio of financing receivables comprised 76.9 per cent. As at 31 December 2015, the Bank's gross maximum exposure to credit risk was KD 735.0 million, of which its portfolio of financing receivables comprised 74.0 per cent. As at 31 December 2014, the Bank's gross maximum exposure to credit risk was KD 558.7 million, of which its portfolio of financing receivables comprised 69.5 per cent.

Distribution of the Bank's gross maximum exposure to credit risk by geography and by sector

The Bank does not disclose the geographical or sectoral split of its portfolio of financing receivables in the Financial Statements, although it does disclose the geographical and sectoral split of its gross maximum exposure to credit risk. The table below shows the breakdown by geography and by industry sector of the Bank's maximum exposure to credit risk as at 31 December in each of 2016, 2015 and 2014.

	2016		**2015**		**2014**	
	Financial assets	**Off-statement of financial position items**	**Financial assets**	**Off-statement of financial position items**	**Financial assets**	**Off-statement of financial position items**
			(KD '000s)			
Geographic region						
Kuwait	870,756	45,357	594,384	34,693	448,662	14,717
Other Middle East	175,673	—	112,944	—	80,550	—
Rest of the world	30,447	4,688	27,652	—	29,536	—
	1,076,876	**50,045**	**734,980**	**34,693**	**558,748**	**14,717**
Industry sector						
Banks and financial institutions	288,819	4,688	161,414	—	147,938	—
Construction and real estate	375,412	32,898	252,249	13,509	170,098	10,159
Trading and manufacturing	150,463	8,962	92,519	5,301	91,329	613
Other	262,182	3,497	228,798	15,883	149,383	3,945
	1,076,876	**50,045**	**734,980**	**34,693**	**558,748**	**14,717**

The Bank seeks to limit its credit risk through diversification of its assets by geography and industry sector. The Bank's major sectors of credit concentration are to:

- construction and real estate which, as at 31 December 2016, accounted for 34.9 per cent. of its total gross maximum credit exposure compared to 34.3 per cent. as at 31 December 2015, and 31.4 per cent. as at 31 December 2014; and
- banks and other financial institutions which, as at 31 December 2016, accounted for 26.8 per cent. of its total gross maximum credit exposure compared to 22.0 per cent. as at 31 December 2015 and 25.8 per cent. as at 31 December 2014.

As per CBK regulations, the construction and real estate segment includes not only credit facilities granted to companies engaged in real estate business but also to borrowers where the purpose of the specific facility concerned is to finance real estate development and acquisition. The Bank's exposure to this sector is primarily in Kuwait and the vast majority of the exposure is secured by real estate and other tangible collateral.

See "*Risk management—Credit risks*" for a discussion of the Bank's financing origination and monitoring procedures, its financing receivables classification system, collateral policy and an analysis of its non-performing financing receivables and provisioning and write-off policies.

Investment Securities Portfolio

The Bank's investment securities portfolio principally comprises fixed rate sukuk (with maturities ranging from short-term to in excess of one year) and a small portfolio of quoted and unquoted equity securities and funds. All of these securities are held on an available-for-sale basis. The Bank invests in these securities both to generate returns and to provide an additional source of liquidity when needed.

The table below summarises the Bank's investment securities portfolio as at 31 December 2016 and as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s)	
Quoted sukuk	71,820	51,283	41,926
Unquoted sukuk	2,000	0	0
Quoted equity security	837	896	131
Unquoted equity security	4,098	4,098	4,098
Unquoted funds and portfolio	21,070	12,384	6,845
	99,825	**68,661**	**53,000**

The Bank's investment policy requires all investments in sukuk securities to have an investment grade rating as determined by rating agencies, except for sovereign securities.

The Bank's available-for-sale investment securities are measured at fair value. For further information on the manner in which the fair value of these securities is determined, see note 5 to the 2016 Financial Statements.

Capital Adequacy

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Bank's management and are also governed by guidelines of 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 strengthened the quality of capital and introduced 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.

The Bank's principal capital management objectives are to ensure that it complies with externally imposed capital requirements and maintains strong and healthy capital ratios in order to support its business and maximise shareholder value. The Bank aims to ensure adherence to the CBK's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures that pro-active 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 from 12.0 per cent. to 12.5 per cent. at 31 December 2015 and further increased to 13.0 per cent. from 31 December 2016.

The table below shows the composition of the Bank's regulatory capital and its capital ratios as at 31 December in each of 2016, 2015 and 2014 (determined in accordance with Basel III as implemented in Kuwait). In each case, the ratios are calculated on a post-dividend basis.

	As at 31 December		
	2016	**2015**	**2014**
	(KD'000s, except percentages)		
Risk weighted assets	563,240	370,321	308,712
Capital required	72,221	46,290	37,045
Total Tier 1 capital	94,772	92,280	91,865
Total Tier 2 capital	6,591	4,273	3,578
Total capital	**101,363**	**96,553**	**95,443**
CETI capital adequacy ratio	16.83%	24.92%	29.76%
Total Tier 1 capital adequacy ratio	16.83%	24.92%	29.76%
Total capital adequacy ratio	18.00%	26.07%	30.92%

The Bank is also subject to a CBK Basel III minimum leverage ratio requirement of 3 per cent. The Bank's leverage ratio was 8.17 per cent. as at 31 December 2016, 11.58 per cent. as at 31 December 2015 and 15.15 per cent. as at 31 December 2014.

Commitments and Contingent Liabilities

The Bank has irrevocable financing commitments as well as contingent liabilities in relation to acceptances, letters of credit and letters of guarantees issued by it. The table below shows these contingent liabilities as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD'000s)	
Acceptances and letters of credit......................................	9,140	11,040	2,035
Letter of guarantees..	41,156	23,827	12,756
Capital commitments	238	575	461
	50,534	**35,442**	**15,252**

Related Party Transactions

The Bank's principal related party transactions are with its major shareholders, directors and executive officers, their close family members and companies controlled by them or their close family members. IFRS requires the disclosure of shareholder related parties only in cases where those related parties exercise significant influence. Certain related parties are customers of the Bank in the ordinary course of business. Transactions with related parties are made on substantially the same terms, including profit rates and 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.

The Bank adheres to CBK guidelines on lending to related parties. Credit facilities to members of the Board 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 of 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 Bank's related party transactions in 2016, 2015 and 2014 is set out in note 13 to the 2016 Financial Statements and note 13 to the 2015 Financial Statements.

DESCRIPTION OF THE BANK

Overview

History, core businesses and financial performance

The Bank is a Kuwaiti public shareholding company that was incorporated on 17 February 2010 in Kuwait by virtue of the Amiri Decree No. 289/2009, and was officially enrolled in the Central Bank of Kuwait's Register of Islamic Banks on 7 April 2010. The State of Kuwait, represented by the Kuwait Investment Authority ("**KIA**"), owns 25.23 per cent. of the Bank's total shares, the Public Institution for Social Security ("**PIFSS**") owns 6.83 per cent. and Al Sayer Holding Company owns 7.13 per cent. as of 31 December 2016. The Bank offers a range of banking and investment services in compliance with the principles of Islamic Sharia. As at 31 December 2016 and based on published interim financial statements, the Bank was the smallest, newest but fastest growing Islamic bank in Kuwait in terms of assets, deposits and customer financing products.

The Bank's core businesses are corporate banking, retail banking, treasury and investment banking. The Bank offers its customers a range of banking and financial services, principally in Kuwait, through its network of 10 branches, 23 automated teller machines ("**ATM**s") and 654 point of sale ("**POS"**) terminals and other electronic channels such as telebanking, internet banking and mobile banking.

As at 31 December 2016, the Bank's total assets were KD 1,127.0 million compared to KD 776.1 million as at 31 December 2015 and its total equity was KD 94.8 million as at 31 December 2016 compared to KD 92.3 million as at 31 December 2015. As at 31 December 2016, the Bank's portfolio of financing receivables was KD 827.9 million compared to KD 543.8 million as at 31 December 2015 and its aggregate customer deposits and deposits from banks and other financial institutions were KD 1,024.6 million compared to KD 677.8 million as at 31 December 2015. For the year ended 31 December 2016, the Bank's net profit was KD 2.6 million compared to KD 1.0 million for the year ended 31 December 2015 and KD 115 thousand for the year ended 31 December 2014.

As at 31 December 2016, the Bank's total and tier 1 capital adequacy ratios, calculated in accordance with the Basel III methodology adopted by the CBK, were 18.00 per cent. and 16.83 per cent., respectively, and its leverage ratio, calculated in accordance with CBK Circular number 2/BS/343/2014 dated 21 October 2014, was 8.17 per cent.

The Bank has been listed on the Boursa Kuwait (formerly Kuwait Stock Exchange) since September 2013. It was listed as part of the Kuwaiti government's strategy to distribute funds to Kuwaiti citizens through the promotion of the Bank by virtue of Amiri Decree No. 289/2009. Its total market capitalisation as at 31 December 2016 was KD 222 million.

The Bank's registered office is at Sanabil Tower, 26th-28th Floor, Abdullah Al Ahmed Street, P.O. Box 1220, Safat 13013, Kuwait and its telephone number is +965 1825 555. Its commercial registration number with the Kuwaiti Ministry of Commerce is 334402.

The Bank became profitable in the year ended 31 December 2014, which was its third full year of operation.

Awards and recognition

The Bank has won several awards including 'Fastest Growing Bank in GCC and MENA' in 2016, 'Fastest Growing Bank in Kuwait' in 2016 and 'Best Corporate Bank in Kuwait' in 2015 from the *Banker Middle East* magazine. In addition, the Bank has won:

- 'Best Investment Bank in Kuwait for 2016' – *Banker Middle East*;

- 'Best Corporate Advisory for 2016' – *Banker Middle East*;
- 'Fastest Growing Bank in Kuwait for 2016' – *International Finance Magazine*;
- 'Fastest Growing Bank in Kuwait Award' from *Banker Middle East* in 2015;
- 'Best Deal in Kuwait in 2015' from the *Islamic Finance News* magazine;
- 'Best Structured Finance in 2015' from the *Islamic Finance News* magazine;
- 'Best New Bank in the Middle East Award' from the *Banker Middle East* in 2014; and
- 'Best Call Centre Award' at the *Banker Middle East Kuwait Product Awards* in 2014.

Strategy

Vision, Mission and Objectives of the Bank

The Bank's vision is to become a leading corporate investment bank in Kuwait's Islamic banking industry supported by an effective digital retail banking business.

This vision is underpinned by its mission to:

- help customers fulfil their life ambitions and grow their businesses by providing innovative financial solutions and high quality service;
- provide staff with rewarding growth opportunities and a healthy work environment; and
- deliver steady, growing returns to shareholders.

In line with this vision and mission, the Bank's Board approved a five-year strategic business plan (the "**Strategic Plan**") on 31 January 2017, covering the period 2017 to 2021 inclusive. The Strategic Plan is supported by the following core objectives:

- restoring profitability and repositioning the Bank's retail banking business;
- accelerating the Bank's income growth and deepening market penetration in its corporate banking business;
- building out and growing its investment banking business;
- building digital capabilities within a short timeframe;
- effectively managing capital;
- acquiring strong capabilities to compete successfully in the markets in which it operates, whilst at the same time managing risk effectively; and
- improving organisational health.

The corporate banking group will re-align its product mix based on types of customer and the industries in which they operate, putting together a range of segment-driven offerings. Systematic focus will be given to cross-selling additional fee-based products such as cash management and treasury products to its customers in order to enhance income. The retail banking group plans to support these goals by launching a breadth of unique customer-centric products and services, while leveraging on end-to-end digital capabilities to drive innovation and enrichment of customer experience, with smart expansion of its distribution network supported by efficient physical infrastructure, direct distribution and digital self-service channels. The Investment Banking Group shall continue to pursue investment and financing opportunities in various asset classes in accordance with the Bank's risk and return objectives. It will also focus on the development of an originate-to-distribute model in order to grow and support its business. A core focus of all of the Group's key business segments will continue to be customer experience and speed of service, together with competitive pricing to deliver an expansive value proposition for corporates of various sizes and industries. The treasury group's focus is on maintaining an optimal funding strategy for the bank to ensure cost efficiency while being compliant with applicable regulatory and statutory requirements. The treasury group will also continue to grow its revenue generation activities and focus on expanding its clientele base. To support these initiatives and provide more depth to the banking services offered by the Bank, treasury is developing and will roll out innovative products that suit the increasingly sophisticated needs of the Bank's customers and market in general.

The Bank is also aiming to increase both retail and corporate deposits in order to diversify its funding sources and (i) to reduce the concentration risks associated with its KIA and PIFSS deposits; and (ii) to reduce the cost of funding associated with deposits by rebalancing the Bank's deposits away from long-term funding towards increased short-term funding.

The Bank will also focus on more cross-functional collaboration between its business units and its support functions.

Corporate Banking Group (CBG)

Within its corporate banking business, the Bank's strategic focus is on:

Achieving diversification of customers and products and increasing its asset portfolio by

- raising capital to allow CBG to target large new top-tier corporate borrowers and to provide enhanced facilities to existing top-tier clients;
- continuing to target both the large commercial segment as well as medium-sized and selected small-sized businesses across a number of industry sectors, such as oil and gas, services, trading and contracting, which will enable it to effectively manage concentration risk and, maximise profitability;
- strengthening the current product mix of cash and non-cash credit facilities such as murabaha, ijara, letters of guarantee and letters of credit, and its products, such as its current, call and wakala deposits, in order to meet the requirements of various classes of customers to a greater extent; and
- targeting short-term temporary financing requirements through an Islamic overdraft product, which is currently in the final stage of development.

Enhancing its distribution network by

- improving accessibility to its corporate customers in key areas in conjunction with and facilitated by the RBG's strategy of increasing the number of branches and ATMs (See also "*Retail Banking Group (RBG) - Developing its distribution channels*" below); and
- developing online banking for CBG customers, in line with the current market demand for better access to electronic facilities.

Increasing customer satisfaction by

- offering competitive pricing, subject to CBK instructions, on its products and services, aided by lower provisioning compared to its peers;
- ensuring faster decision making and approvals by further streamlining existing processes, automation of credit applications and appraisals; and

- increasing staff strength by hiring more experienced staff , in addition to improving and developing existing staff through appropriate internal and external training and workshops.

Enhancing profitability by

- cross-selling in coordination with other departments, such as retail and treasury, to promote the Bank's products, such as call and deposit accounts, consumer financing and credit cards; and
- expanding the Bank's network of wholesale correspondent banking arrangements in major financial centres to support client needs in trade finance and money transfer segments.

Retail Banking Group (RBG)

Within its retail banking business, the Bank's strategic focus is on:

Developing its distribution channels by

- expanding its branch network from 10 branches as at 31 December 2016 to 15 branches by the end of 2017. The Bank plans to aggressively expand its branch network at a rate of between three to five new branches per year up to an optimum of 35 branches and to introduce "micro" or "virtual" branches, see "*Business — Reporting Segments — Retail Banking Group — Virtual Branches*";
- implementing technology such as virtual branch machines which will enable customers to conduct all branch transactions through video links to the call centre. This is expected to reduce headcount in branches resulting in smaller branches focussing on sales and service; and
- enhancing its mobile and internet channels, including functionality to enable clients to achieve most of their requirements through either mobile or internet services including account opening. This strategy is key to helping the Bank expand its distribution capacity whilst managing the cost of expanding its branch network. The Bank's call centre is currently in the process of developing outbound calling teams in addition, to support sales campaigns and cross-selling activity. This will add another channel to the Bank's sales capability, increasing its sales and marketing reach.

Continuing to develop its customer segmentation strategy by

- prioritising the attraction of salaried customers, see "— *Retail banking group – Financing*"; and
- focusing on key existing segments whilst prudently creating new ones. The Bank currently has defined segments for affluent customers ('Al Safwa'), Kuwaiti women, Kuwaiti government employees and students ('Shabab Warba' for students aged 15-21 and 'Tala' for students aged 14 and under).The Bank is focusing these segments on due to their potential for future business. The Bank is currently defining offerings for a high net worth segment and plans to additionally target the youth segment and a professional expatriate segment in the future. As a relatively new player in the market, RBG focusses on servicing the targeted segments well rather than being "all things to all persons". The Bank's call centre also has dedicated agents to serve the 'Al Safwa' segment customers.
- The Bank is considering offering residential financing under either its retail or corporate banking division during the year 2017.

Enhancing the RBG brand by

- strengthening its reputation as an aggressive competitor, which will be supported by the strong growth in the retail asset book as well as the deposit portfolio. Competitive pricing and innovative products will continue to be an integral part of the Bank's retail strategy;

- providing a level of service to its customers that will distinguish the Bank from its competitors. The Bank plans to achieve this through focussing on the training of its sales and service staff, monitoring customer satisfaction levels on a continuous basis and implementing feedback received from its customers and third party independent appraisers; and
- continuing to focus on enhancing operating efficiency by reducing the cost to income ratio from 40 per cent. as at 31 December 2016 to 30.0 per cent.

Investment Banking Group (IBG)

IBG team has a strong combination of investment, financing and portfolio management skills with a proven ability to source, execute and manage financing and investment transactions locally in Kuwait, as well as regionally in the GCC and globally. Building on its past success and in view of diversifying the Bank's asset base and income sources, IBG will continue to focus on growing the Bank's proprietary investment book through investments across multiple asset classes, sectors and geographic jurisdictions, and provide the Bank's corporate clients with comprehensive financing solutions and access to the international syndicated financing and debt capital markets products. The Bank is also seeking to increase its fees and commission income through the provision of non-cash products such as letters of credit and letters of guarantee as well as through its participation in syndicated financings.

Strengths

The Bank benefits from a number of business strengths, in particular:

Growing market position and strong growth record

The Bank's rapid growth is evident from the awards received by the Bank, such as the 'Fastest Growing Bank in Kuwait for 2014' and the 'Fastest Growing Bank in the Middle East for 2015' from the *Banker Middle East*. The Bank's total assets grew by 45.2 per cent. in 2016 compared to 2015 and its market share in terms of total Islamic financings increased to 5.3 per cent. in 2016, compared to 3.7 per cent. as at 31 December 2015. Since the Bank is a new entrant, the potential for growth in all of its core businesses is significant, which has been realised as demonstrated by the Bank's growth in total assets by 45.2 per cent. in 2016 compared to 2015.

Robust quality of financing assets

Despite the rapid growth of its overall financing portfolio, the Bank has also successfully maintained the very high quality of its financing assets. The overall non-performing financings receivables ratio as at 31 December 2016 was 0.69 per cent.. The Bank's non-performing financing receivables ratio as at 31 December 2015 was 0.94 per cent.

Sound and consistent financial performance

The Bank has a history of profitability and has remained profitable since the year ended 31 December 2014, growing its total assets at 18.9 times the rate of the market between 2014 and 2016. Between 2014 and 2016, 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 38 per cent., its total assets grew at a CAGR of 38.0 per cent. and equity attributable to shareholders of the Bank grew at a CAGR of 2.0 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 ratio of non-performing financings, amounting to 0.69 per cent. as at 31 December 2016. As at 31 December 2016, the Bank's regulatory liquid assets ratio was 21 per cent. (compared to 23.0 per cent. and 34.0 per cent. as at 31 December 2015 and 31 December 2014, respectively).

Shareholders' support/stable shareholder base

KIA, which has a direct ownership of 24 per cent., and indirect ownership of 1.2 per cent. of the Bank, is the fifth largest sovereign wealth fund in the world. Subject to KIA discretion and endorsement, the Bank can leverage its relationship with KIA in terms of both ongoing funding support as well as opportunities to participate in transactions in which KIA is also involved in the future. KIA's ownership in the Bank is similar to its ownership in the share capital of the Bank's competitors.

Experienced Board of Directors and strong management

The Bank is steered by an experienced management team comprising of strong banking professionals in their respective fields. The Bank's Board brings several years of professional experience to the Bank. The management team's collective domestic, regional and international experiences both in the conventional and Islamic banking space have proven instrumental in the successful establishment, positioning and continuous improvement in the operations of the Bank. The fact that the Bank could leverage their experiences in establishing the right set-up and also fostering an internal culture which is vital for the rapid but sustainable growth and evolution of the Bank is a significant strength of the Bank. See "*Management and Employees*" for further information on the Bank's Board of Directors and management.

Smart distribution network

The Bank has built a robust and efficient distribution network which is a combination of strategically located retail branches, digital self-service channels, and its direct sales platforms. Identification of suitable branch locations is achieved through analysis of the demographics of the resident population and matching this to the Bank's targeted segments. A relatively small, but cost effective, branch network is then complemented by a growing direct sales force which effectively "takes the Bank to the customer". This is already being supplemented by the Bank's enhancement of its mobile and internet distribution network, which is intended to enable clients to achieve most of their requirements through such channels.

Customer satisfaction

The Bank currently employs third parties to independently monitor service levels, which provide mystery shoppers and conduct customer surveys to provide an overall quality score for the retail division of the Bank and individual scores for each customer-facing employee. Service quality is an integral part of employees' balanced scorecard, based on which they are incentivised and rewarded. The Bank currently achieves service quality scores exceeding 95 per cent. (as independently assessed by the third party marketing research company), Ipsos, which management believes positions the retail division of the Bank well relative to its competition. The Bank's corporate division also offers high quality products and services to its clients, due to its ability to provide boutique services because of its size and its ability to quickly adapt to market needs and to structure and shape available products to fit client needs.

Reputable Shari'a Board

The Shari'a Board comprises well-regarded Shari'a scholars who have significant experience in Islamic finance and serve on the Shari'a advisory boards of many other Islamic financial institutions. The Shari'a Board has played a key role in assisting the Bank in developing Shari'a-compliant banking products and services which are innovative as well as suitable for the particular customer segments to which they are addressed.

Shareholders

The table below shows the Bank's shareholders and their shareholdings as at 31 December 2016.

Shareholder	Number of shares	Percentage of issued share capital
KIA	252,350,000	25.235
PIFSS	68,360,000	6.836
Al Sayer Holding Group	71,320,000	7.132
Other shareholders (free float).	607,970,000	60.797
Total (net of treasury shares)	**1,000,000,000**	**100.00**

The Al Sayer Group has received CBK approval to increase its shareholding in the Bank up to 15.0 per cent by 18 April 2017. The Al Sayer Group is expected to increase its shareholding by purchasing shares in the market from other shareholders.

Business

Reporting segments

The Bank currently operates through five segments for financial reporting purposes:

- **Corporate** which comprises a range of banking services and investment products to corporate customers, in addition to providing commodity and real estate murabaha finance and ijara facilties;
- **Retail** which comprises a diversified range of products and services to individual customers. The products and services include consumer finance, credit cards, deposits and other branch-related services;
- **Treasury** which comprises the Bank's funding operations management, local and international murabaha and other Islamic financing primarily with banks and financial institutions;
- **Investment** which comprises investment in direct equity, real estate investment and other investments; and
- **Other** which comprises cost centre assets and expenses.

The table below is derived from note 16 to the 2016 Financial Statements and note 16 to the 2015 Financial Statements and shows certain information in relation to each reporting segment for each of the years ended 31 December 2016, 31 December 2015 and 31 December 2014.

	Corporate	Retail	Treasury	Investment	Other	Total
				KD'000		
2016						
Segment operating income	13,467	4,436	801	4,080	—	22,784
Segment result	8,358	(1,649)	622	3,716	(8,472)	2,575
Segment assets	655,687	172,185	166,940	114,640	17,510	1,126,962

	Corporate	Retail	Treasury	Investment	Other	Total
			KD'000			

	Corporate	Retail	Treasury	Investment	Other	Total
			KD'000			

2015						
Segment operating income	9,773	3,426	586	4,294	—	18,079
Segment result	6,705	(1,862)	440	4,038	(8,321)	1,000
Segment assets	416,335	127,458	133,355	83,789	15,170	776,107

	Corporate	Retail	Treasury	Investment	Other	Total
			KD'000			
2014						
Segment operating income	7,771	2,164	494	3,124	—	13,553
Segment result	6,102	(2,206)	373	2,702	(6,856)	115
Segment assets	318,783	69,376	142,805	48,124	15,717	594,805

Each of the corporate, retail, treasury and investment divisions is described separately below.

Corporate Banking Group

The Bank seeks to achieve its objectives as a banking institution by contributing to the growth and stability of the domestic economy in Kuwait while achieving profit. Despite the economic challenges experienced in the past years, management believes that CBG has succeeded in overcoming the challenges and achieving positive results in 2015 and 2016. CBG managed to grow its financing receivables portfolio by 57.5 per cent. in 2016 while maintaining high asset quality standards, mitigating and diversifying risks by allocating CBG business across key economic sectors, which provide safer and more profitable operational revenues for the Bank. CBG is also reducing its current exposure to real estate following the introduction of CBK regulations that revise the risk weighting on collateralised real estate exposure and would subject the Bank to greater restrictions if the Bank were to maintain its real estate exposures at their current levels. CBG also succeeded in expanding its customer base in the domestic market from 144 customers in 2015 to 219 customers as at 31 December 2016 and enhanced relations with existing customers. A key feature of that success was the arrangement of syndicated finance of KD 105 million for National Industries Company by CBG in cooperation with the Investment Banking Group, which had a positive impact on the Bank's market profile. CBG has also been awarded the 'Best Corporate Bank – Kuwait' award by the *Islamic Business & Finance* magazine in 2015.

CBG offers its customers a variety of services and banking solutions based on Islamic Shari'a, including cash and non-cash trade financing services (such as working capital and long-term murabaha, real estate ijara, letters of credit and letters of guarantees). The Bank provides complete banking services that serve corporate customers including point of sale machines, foreign exchange transactions, credit cards, online corporate cash management services, a range of current, call and wakala deposit accounts and other products and services. The Bank offers its products and services to large, medium and small-sized corporate customers as well as governmental institutions and individuals.

The industry sectors served by CBG include real estate, financial institutions, oil and gas, industry and manufacturing, retail and wholesale trade and civil construction and engineering, procurement and construction contractors. The Bank's credit risk exposure is concentrated in the construction and real estate sector, which as at 31 December 2016 accounted for 34.9 per cent. of the Bank's total exposure compared to 34.5 per cent. as at 31 December 2015 and 31.4 per cent. as at 31 December 2014. The Bank seeks to reduce such credit risk exposure by establishing internal risk appetite limits approved by the Board in relation to sector concentration and by monitoring such concentration. In the real estate segment specifically, the Bank finances asset acquisition and development for high net worth clients and corporates engaged in real estate management, development and investment. The commercial segment comprises large business groups, including family-run businesses, and local or regional conglomerates and medium-sized players, thus enabling the Bank to mitigate asset concentration risks.

The Bank's corporate internet banking tool "Warba Online Corporate", which was previously limited to enquiries only, is extending its services. As at 31 December 2016, the Bank had 246 active corporate online banking customers.

CBG's customers utilise trade financing facilities made available by the trade finance division. This division uses its extensive knowledge of international trade mechanisms to help corporate clients enhance their global competitiveness and reduce risk. The trade finance division offers the Bank's customers a wide range of services, including:

- letters of credit, including the extension of cash financing under LC (Murabaha);
- letters of guarantee, including bid bonds, performance, advance payment, retention, purchase and counter guarantees; and bills for collections, both documentary and clean with payment at sight/acceptance, settlement and remittance proceeds.

Retail banking group

The provision of services by RBG commenced in 2012, prior to which the Bank was only a corporate and investment bank. Through RBG, the Bank continues to provide innovative products and services across its targeted segments in terms of new account types and credit card services, which have been well received by the market, with 20,500 registered account holders as at 31 December 2016. This has resulted in the strong growth of the Bank's retail customer base, with a 80 per cent. growth in new accounts acquired in 2016 alone. The Bank currently has defined segments for high-salaried customers ('Al Safwa'), Kuwaiti women, Kuwaiti government employees and students ('Shabab Warba' for students aged 15-21 and 'Tala' for students aged 14 and under). The Bank is focusing on these segments due to their potential for future business. The Bank is also focusing on additional business which has resulted from retail customer refinancings following the CBK's instruction on consumer financings issued in July 2015 that provides that any consumer financings granted to a bank's customers can be utilised for the purpose of paying an existing financing with another bank in Kuwait. In order to qualify for such financing, a customer is required to repay at least 30 per cent. of the original financing. These initiatives are supported by a strong customer service ethic which is achieved through continuous training and assessment programs.

The Bank offers a wide range of retail banking products and related services in Kuwait through its integrated distribution network, comprising branches, ATMs and other remote banking platforms. In addition, the Bank has a direct sales force, including sales staff at car dealerships, which markets its retail products and services to new and existing customers. The Bank's retail customers principally comprise Kuwaiti residents of various nationalities.

The Bank's retail banking products principally include a range of deposits, financing products and cards.

- *Deposits*: The Bank has a range of retail deposit products, including demand, savings and deposit accounts. The Bank's saving accounts include profit-bearing investment accounts offered to Kuwaitis and expatriates and a savings account that offers both an annual profit distribution and an opportunity to participate in monthly prize draws. The Bank's deposit accounts are profit-bearing, can be denominated in Kuwaiti dinars, U.S. dollars, British pound sterling or euros and have terms of one, three, six, nine or 12 months, depending on the account. The opening balances required for the Bank's savings and deposit accounts vary based on the type of account.

- *Financing*: The Bank's retail financing products include construction, consumer and auto financing products based on a range of Shari'a-compliant structures. The Bank's construction financing is available to customers who seek to purchase building or construction materials to build or renovate a home. The financing is advanced for a maximum term of 15 years and in a maximum amount of KD 70,000. The financing is available to Kuwaiti, GCC and other expatriates. In accordance with CBK regulations, these financings cannot exceed 15 years in tenor or KD 70,000 in amount (on a per customer basis across all banks), which requirements apply to both Kuwaiti nationals and expatriates. Consumer and auto financing is advanced for a maximum term of five years and up to KD 15,000 (which requirements apply to both Kuwaiti nationals and expatriates) in accordance with CBK regulations. Personal financing can be only be used for the purpose of paying medical and education expenses, purchasing furniture and cars or paying other personal expenses. All financing customers must provide proof of debt in accordance with CBK requirements. The Bank's retail financing is only offered in Kuwaiti dinar. The Bank's retail financing products are provided against the assignment of salaries. In order to attract salaried customers, the Bank offers an incentive to potential clients by allowing them to choose from a range of rewards including cash gifts, discounted financing rates, preferential deposit rates on amounts above KD 30,000, interest free financing up to KD 10,000, free upgrades to the Bank's Safwa segment and free credit cards.

- *Virtual branches*: The Bank is also introducing virtual branches, through which it intends to provide express bank services to customers, by turning such branches into sales engines which will result in the provision of services beyond ordinary transactional services. The Bank also aims to make express bank machines available in malls and in primary locations in order to expand its reach in a cost effective manner.

- *Cards:* The Bank provides Visa credit cards up to and including the platinum card, and pre-paid Visa cards which can be reloaded via money transfer from a personal account. Different card types are focussed on different customer segments with a range of services and benefits attached to each card. Various relationships with merchants in the Kuwait market provide a range of discounted shopping offers for the Bank's cardholders. For platinum card holders additional benefits are provided including the very popular priority pass card which allows access to hundreds of airport lounges around the world. In the near future the Bank plans to issue high end cards of both Visa and Master Card to address the needs of the Bank's more affluent customers. Amounts outstanding on the Bank's credit cards may be repaid in full or in part at the end of every monthly credit period based on the option selected by the cardholder. As at 31 December in each of 2016, 2015 and 2014, the total outstanding balance on the Bank's credit cards was KD 1.13 million, KD 607.8 thousand and KD 442.7 thousand, respectively. As at the same dates, the Bank had 5700, 2892 and 1879 active cards in issue, respectively.

Applications for both financing and credit cards can be made through the Bank's branch network, direct sales force, telebanking or through the Bank's internet banking platform. Consistent with its credit risk management strategy, the Bank prioritises attracting financing and credit card customers with a good credit standing. 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 history of the customer, while ensuring strict adherence to relevant CBK regulations.

The Bank's principal distribution channels in Kuwait comprise:

- *Branch network*: The Bank currently has a network of 10 strategically located branches in Kuwait that cater to all demographics and customer needs, including residential and commercial branches with afternoon shifts, and an ATM and customer deposit-machine network of 22 machines.

- *Telebanking*: The Bank provides automated banking services by telephone to its customers and also operates a call centre on a 24/7 basis. These services can be used by customers in Kuwait to conduct a variety of transactions, including making enquiries about financing, deposits and credit cards, requesting balances and statements, reporting lost or stolen cards, instructing bill and credit card payments and making other enquiries or complaints. In 2015, the Bank's call centre in Kuwait handled 67,188 calls, and in 2016 it handled 97,000 calls. Sales leads generated from the call centre's activities are routed through the Bank's leads management system to sales channels depending on customer preference. In addition, the call centre plays an active role in the Bank's customer on-boarding and customer retention processes. The call centre also has dedicated agents to serve the higher-salaried 'Al Safwa' segment customers. The call centre is currently in the process of developing outbound calling teams in addition, to support sales campaigns and cross-selling activity. This will add another channel to the Bank's sales capability, increasing its sales and marketing reach. The Bank's call centre was recently awarded the 'Best Contact Centre in Kuwait', reflecting the broad range and quality of services provided.

- *Internet banking*: The Bank's internet banking platform had 7,000 registered online banking customers as at 31 December 2016 with 71,000 transactions executed in 2016, constituting a 114 per cent. year on year growth rate. The services provided to accountholders through the platform include the provision of account balances, history and transaction details, funds transfers, bill payments and a secure channel for customer to request other products and services.

- *SMS and mobile banking*: The Bank's customers may use its SMS banking services to receive regular account updates and SMS alerts. The Bank also offers a mobile banking application that, among other things, allows account balance checking, local and international fund transfers and credit card payments. The Bank had 19,700 registered SMS and mobile application banking subscribers as at 31 December 2016.

- *Direct sales force*: The Bank's direct sales force brings the Bank's products and services to the homes or offices of its clients throughout Kuwait. The Bank has a direct sales force comprising 40 members as at 31 December 2016, including 15 members who are located within car dealerships. The direct sale force focuses on customer acquisition and makes a significant contribution to the retail business. The strategic relationships with major auto showrooms have significantly contributed to the Bank's strong growth in consumer finance which grew at rates exceeding 60 per cent. per annum in 2016.

The Bank's retail strategy is rigorously managed through the application of a balanced scorecard which is cascaded down to each member of staff in the Bank. This enables each individual to monitor their performance against targets on a monthly basis. The balanced scorecard approach is supported by a performance-related incentive scheme which encourages the required behavior to meet the Bank's strategic goals.

Treasury group

The Bank's Treasury group manages the Bank's assets and liabilities and liquidity requirements under the supervision of the Assets and Liabilities Committee, which meets periodically to review and approve strategies relating to the management of assets and liabilities, including liquidity, profit rate, foreign exchange, cost of funds, cost allocation, deposit pricing matrix and strategic trading positions.

In addition, the Bank:

- monitors and maintains its regulatory ratios in line with CBK guidelines and requirements;
- undertakes a range of foreign exchange business, across both spot and forward markets, largely on behalf of the Bank's customer base, and conduct a limited amount of proprietary foreign exchange trading within the constraints of what the Bank considers to be prudent risk guidelines;
- manages foreign exchange risk on the Bank's overall currency positions and its strategic foreign exchange exposures;
- identify counterparties for executing Islamic contracts to deploy excess liquidity; and
- update private banking clients and senior management on market fundamentals.

Treasury's core clientele comprises government and semi-government institutions and corporate customers. Treasury also plays an active role in supporting other business units within the Bank and the branch network.

The Bank's Treasury continued to build on its momentum through 2015 and into 2016, acquiring new customers (including corporate customers, state-owned enterprises and government entities), building depth to better service its existing clientele and growing its revenue. Treasury assets grew by 25.2 per cent. while liabilities grew by 33.7 per cent. Foreign exchange volume grew by 34 per cent., driven by increased customer demand and interbank activity.

The Bank successfully achieved ratings of A+ and Baa2 by Fitch and Moody's respectively, which were affirmed in October 2016, which helped the establishment of more relationships with both domestic and international financial institutions, as well as an increase in counterparty limits by existing customers.

Investment banking group

In 2015, IBG witnessed significant growth and achievements through its various business activities in: (i) structured finance and syndications; and (ii) fixed income securities, funds, and international real estate.

Financing

The Bank made a concerted effort to lead transactions regionally and globally and was successful in securing multiple mandated lead arranger and bookrunner roles in notable transactions.

A significant strategy of the Bank is to form alliances with other smaller Kuwaiti banks to offer large ticket products that are competitive with the larger banks.

As at 30 June 2016, the Bank possessed a market share of 0.5 per cent. of the syndicated finance market and was ranked 26 out of 27 underwriters by Bloomberg's EMEA Islamic Finance Bookrunner League Tables.

Among the transactions successfully arranged by the Bank in 2015 was the National Industries Group K.S.C.P. KD 105 million equivalent, dual currency syndicated financing facility, where the Bank lead a consortium of local and regional banks in its capacity as the sole mandated lead arranger and bookrunner. The rapidly developing local and regional economic landscape has driven IBG focus on understanding its client needs and providing innovative and bespoke structured corporate financing solutions. The structured finance infrastructure established in 2015 paved the way for the successful execution of a landmark transaction , the first receivables securitization financing for a Kuwaiti corporate, Al Mulla Group, by an Islamic bank in Kuwait.

Furthermore, IBG's structured finance and syndications books have grown by 43.4 per cent. in value during 2016 as compared to 2015, from KD 82.2 million to KD 117.9 million respectively. Through this period, IBG successfully arranged along with a consortium of regional and international banks a debut Sukuk of USD 300 million for the Islamic Corporation for the Development of the Private Sector, and a debut dual currency syndicated facility for Ziraat Participation Bank, Turkey's first state-owned participation bank.

Investments

IBG invests globally across multiple asset classes and diversified sectors. The Bank's investment activities were able to enhance the quality of its assets whilst maintaining a healthy risk adjusted return from its investment portfolio despite turbulent global market conditions and regional economic volatility.

With a strong focus on expanding investment and its real estate investments, IBG focused its real estate investments on real assets across diversified property sectors and geographies, with established property managers and developers in the United States and Europe.

In addition, the Bank:

- acquires sukuk in the primary and secondary markets both on an own-account basis to manage liquidity and for clients; and
- manages the Bank's investment securities portfolio, with the objective of realising income while minimising the risk of default. The teams combine a bottom-up fundamental credit research-driven investment process with a top-down macro-economic analysis. The portfolio is diversified, investing in sukuk issued by emerging and developed markets' corporates and sovereigns. The sukuk are denominated in selected leading currencies and carry investment-grade ratings. The investment unit is also responsible for the management and administration of securities acquired in the process of debt settlement;

By adopting an expansionary but cautious approach, IBG has been able to grow the Bank's fixed income portfolio (comprised of sukuk investments) by 22.3 per cent. in 2015 compared to 2014, and by 43.9 per cent. in 2016 compared to 2015, through its trading activity in both primary and secondary sukuk markets. In addition, the Bank successfully arranged, in concert with other established international banks, the first sukuk issued by an Indonesian corporate, a U.S.$ 500 million inaugural sukuk for Indonesia's national flag carrier PT Garuda.

Despite challenging market conditions regionally with the decline in oil prices and volatility in the global financial markets, IBG has achieved continued growth in the Bank's proprietary investment portfolio, which must comply with the Bank's risk framework subject to internal approvals and applicable CBK guidelines, and enhanced returns midway through 2016 whereby, as at 31 December 2016, IBG's sukuk portfolio has grown by 40.6 per cent. in value as compared to 2015, from KD 51.2 million to KD 72 million, respectively, through its participation in primary sukuk issuances and active trading in the secondary markets.

Competition

The Bank is the smallest, newest and fastest growing Islamic bank in Kuwait in terms of total assets, customer deposits and financing assets according to annual reports for the year ended 31 December 2016 published by Kuwaiti banks.

The Kuwaiti commercial banking sector (excluding foreign banks that operate in Kuwait) comprises five banks operating according to the requirements of Islamic Shari'a (Kuwait Finance House, the Bank, Boubyan Bank, Kuwait International Bank and Ahli United Bank) and five banks with a conventional banking licence.

The tables below show rankings for these 10 banks by total assets, by customer deposits and by customer loans and advances as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
		(KD million)	
Ranking by total assets[1]			
National Bank of Kuwait	24,204	23,598	21,784
Kuwait Finance House	16,499	16,527	17,182
Burgan Bank	7,269	6,825	7,751
Gulf Bank	5,467	5,438	5,331
Al-Ahli Bank of Kuwait	4,285	4,359	3,499
Commercial Bank of Kuwait	4,125	4,037	4,213
Ahli United Bank	3,692	3,904	3,597
Boubyan Bank	3,482	3,133	2,648
Kuwait International Bank	1,846	1,790	1,663
The Bank	**1,127**	**776**	**595**

Note:

(1) Total assets are based on consolidated figures and include international assets.

Source: 31 December 2016 and 31 December 2015 annual financial statements for each bank.

As at 31 December 2016, the Bank's total assets represented 4.2 per cent. of the total assets of the Kuwaiti Islamic commercial banking sector and 1.6 per cent. of the Kuwaiti total commercial banking sector.

	At 31 December		
	2016	2015	2014
		(KD million)	
Ranking by customer deposits[1]			
National Bank of Kuwait	12,608	12,059	11,260
Kuwait Finance House	10,622	10,839	10,881
Burgan Bank	3,737	3,874	4,708
Gulf Bank	3,395	3,837	3,662
Ahli United Bank	2,492	2,661	2,454
Commercial Bank of Kuwait	2,222	2,546	2,554
Al-Ahli Bank of Kuwait	2,900	2,496	1,938
Boubyan Bank	2,945	2,399	2,092
Kuwait International Bank	1,125	1,018	989
The Bank	**750**	**433**	**346**

Note:

(1) Customer deposits are based on consolidated figures and include international customer deposits.

Source: 31 December 2016 and 31 December 2015 annual financial statements for each bank.

As at 31 December 2016, the Bank's customer deposits represented 4.2 per cent. of the total customer deposits of the Kuwaiti Islamic commercial banking sector and 1.8 per cent. of the Kuwaiti total commercial banking sector.

	At 31 December		
	2016	**2015**	**2014**
		(KD million)	
Ranking by customer financings and advances[(1)]			
National Bank of Kuwait	13,611	13,551	11,909
Kuwait Finance House	8,176	8,127	8,119
Burgan Bank	4,276	4,012	4,386
Gulf Bank	3,446	3,634	3,583
Al-Ahli Bank of Kuwait	3,029	3,047	2,422
Ahli United Bank	2,706	2,680	2,480
Commercial Bank of Kuwait	2,250	2,298	2,320
Boubyan Bank	2,517	2,172	1,805
Kuwait International Bank	1,268	1,173	1,073
The Bank	828	544	388

Note:

(1) Customer loans and advances are based on consolidated figures and include international customer deposits. Figures for National Bank of Kuwait include Islamic financing.

Source: 31 December 2016 and 31 December 2015 annual financial statements for each bank.

As at 31 December 2016, the Bank's customer financings and advances represented 5.3 per cent. of the total customer financings and advances of the Kuwaiti Islamic commercial banking sector and 2.0 per cent. of the Kuwaiti total commercial banking sector.

The Islamic banking sector in Kuwait is attracting a growing customer base, in particular among local cooperative and other similar bodies. The principal competitive advantage enjoyed by Islamic banks is their ability to offer residential property financing, (which the Bank is currently considering expanding on) and which conventional banks are not permitted to engage in. Regulatory restrictions relating to profit rates and ratios for personal lending typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are subject to caps, Islamic banks in Kuwait are able to earn higher margins than conventional banks on their financing portfolios, as the CBK permits Islamic banks, subject to CBK limits, to charge customers higher margins to compensate for the fixed nature of profit on financings.

Information Technology

The Bank’s information technology group (“**ITG**”) is working on both development and business continuity. In relation to development, and in line with the ongoing implementation of the Strategic Plan, ITG is focussing on three key factors: governance, business transformation and infrastructure. In relation to governance, several projects have been implemented and enhancements made to various systems in line with instructions and regulations issued by regulatory authorities. In relation to business transformation, ITG has managed to implement key projects which contribute in providing better service for both the Bank’s customers as well as concerned departments through several systems and electronic channels. ITG increased the efficiency of operational services in terms of infrastructure and technical support, in addition to information systems management and providing concerned departments with periodic reports and data. ITG has also achieved high standards of business continuity and availability of technical systems and services.

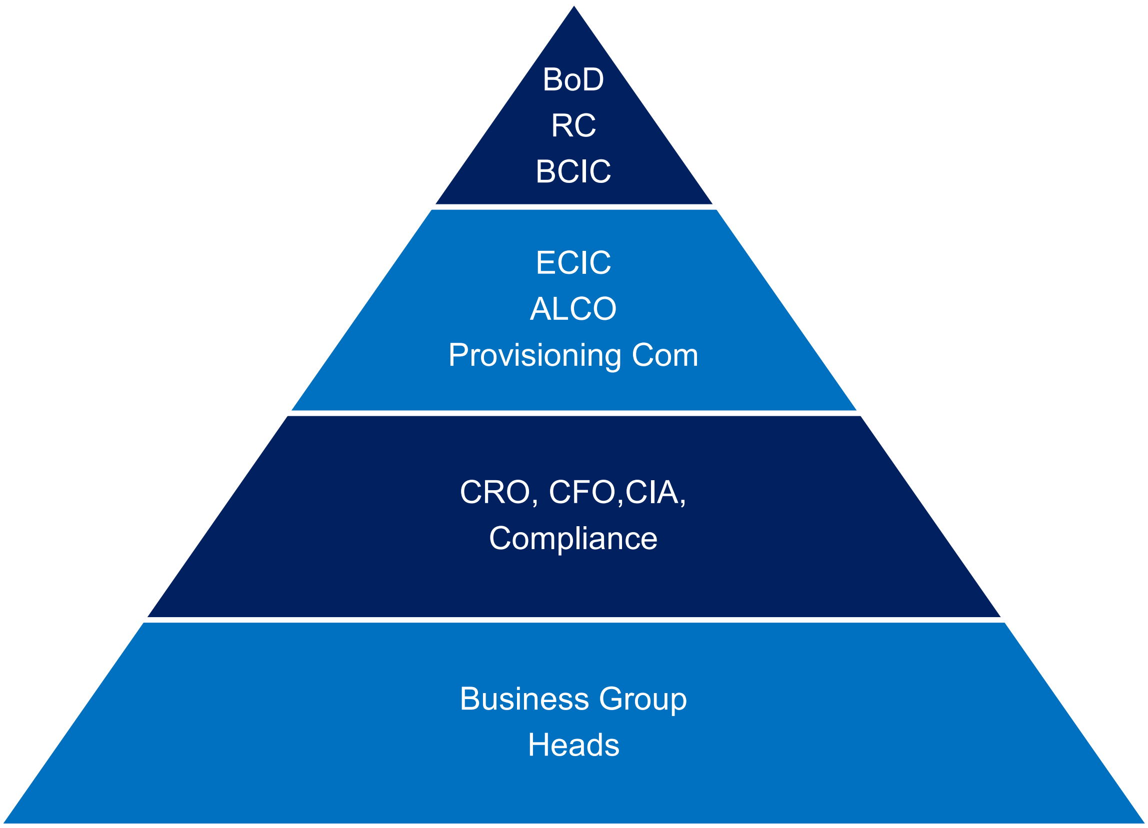
RISK MANAGEMENT

Overview

Risk is inherent in all activities of the Bank and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's financial health and continuing profitability. The Bank's business generates exposure to the following broad risk types from its financial transactions, use of financial instruments and its operations: credit risk, market risk, liquidity risk and operational risk. In addition, there are other risk areas that need to be monitored and controlled. The following presents information about the Bank's exposure to each of the risks, the Bank's objectives, framework of policies, models and quantification techniques, and processes for identifying, measuring, mitigating and managing risks, and the management of Bank's capital.

Risk Management Structure

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management function.



Board committees

At the board level, the Board has established a Board Risk Committee (the "**BRC**") comprising four members from the Board. The BRC sets the framework and monitors the Bank's risks and control-related requirements. For specific types of risk such as credit, market and liquidity risks, the Board has further set up a Board Credit and Investment Committee (the "**BCIC**"), which comprises four members from the Board, see "*Management and Employees — Board Committees*".

Management Committees

At the management level, the following committees are set up to assist it in fulfilling its responsibilities: the Executive Credit and Investment Committee (the "**ECIC**"); the Assets and Liabilities Management Committee (the "**ALCO**"); and the Provisioning Committee, which met seven times in 2016, see "*Management and Employees — Management Committees*". An independent Risk Management Group (the "**RMG**") headed by the Chief Risk Officer (the "**CRO**") reports to the BRC, responsible for enterprise-wide risk to assist the Board and BRC in carrying out the oversight responsibility.

Risk Management Framework

The BRC sets the framework and monitors the risks and control functions of the Bank. The Board has also established a Board Audit Committee (the "**BAC**"), as required by the CBK, which amongst other functions is also required to monitor adherence with the Bank's risk management principles, policies and procedures, and for reviewing the adequacy of the risk management framework.

The ECIC is the executive level decision making body which is empowered to consider all financing and investment proposals for approval within its delegated authorities and/or recommendations to the BCIC for final approval. The Provisioning Committee is responsible for reviewing the financing and investment portfolio of the Bank on a periodic basis, to assess against actual delinquency or potential impairment and recommend the required level of provisioning in accordance with CBK regulations and financial/accounting standards.

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

Risk Appetite

The Bank's risk appetite defines the maximum limit of risk that the Bank is willing to accept in relevant business categories to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives and is approved at the Board level. Any risk which breaches the Bank'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 BRC to the Board of Directors for approval and periodic updates. This ensures the risk appetite statements are consistent with the Bank's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Bank, determined in a manner which meets the objectives of shareholders, depositors and regulators. RMG aims to identify early warning signs of risk limit and risk appetite breaches, and is responsible for notifying them to the BRC and the Board.

Risk Management Systems

In order to manage risks in a holistic manner and to measure risks on a consolidated basis, the Bank has a formal Risk Governance Framework, which provides detailed guidelines for a sound framework for enterprise-wide risk Management. The objectives of risk management are supported by various risk policies that are reviewed and updated regularly. The risk policies, in general, cater to detailed planning for various risks based on business strategies, past performance, future expectations, economic conditions, and internal as well as external events. The policies also require comprehensive analysis of a set of pre-determined parameters prior to introduction of new products or instruments. The policies have put in place internal limits (nominal as well as risk based) for continuous monitoring and ensuring that risks are maintained within the Bank's risk appetite. Periodical reporting of risks to various authorities including the ALCO, ECIC, BCIC and the BRC ensures that the Board and the executive management are continuously kept aware of positions thereby enabling informed decision-making. The risk management policies are established to identify, quantify, control, mitigate, and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and ensure adherence to the risk appetite limits. Risk management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Bank.

The Bank performs semi-annual stress tests under three scenarios: mild, medium and severe. These tests are 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) on top of those prescribed by the CBK. These parameters cover stress scenarios for profitability parameters, assets and liabilities structures, financing exposures, capital adequacy, profit income, fee income, foreign exchange income, falls in collateral value and stock market declines resulting in additional impairment losses etc. The Bank conducts these stress tests semi-annually, as stipulated by the CBK, and also undertakes scenario testing at periodic intervals to quantify potential and inherent risks that the Bank faces.

Categories of Risks

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

Credit Risks

Credit risk is the risk of financial loss to the Bank if any counterparty to a financial obligation or instrument fails to or delays in meeting its contractual obligations, and arises principally from the Bank's receivables from Islamic financing activities, ijara and investments, etc. For risk management control purposes, the Bank considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about riskiness of an exposure, based on models and inter-play of matrices.

Credit Risk Framework

The Bank's Board has approved financing and investment policies for various business groups and investment asset types. The Board has also approved the ECIC charter which is empowered for initial screening of proposals and approvals within its delegated authorities. The Board has also established the BCIC which by virtue of its charter is the Board level of authority which provides guiding principles and approve the various financing and investment proposals on behalf of the Board of the Bank. RMG provides independent opinion and assessment of risk for every financing and investment that is proposed and presented to the approving authorities for decision making. In addition, the Bank endeavours to manage credit exposures by obtaining security where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Bank's credit risk exposure.

Applicable Risk Mitigation Methods

The credit policy of the Bank lays down guidelines for collateral valuation and management which includes, haircuts, minimum coverage requirement for different categories of collateral, revaluation, frequency and basis of revaluation, documentation, takaful, custodial requirements etc. According to the credit policy, the frequency of revaluation of the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also where the collateral is in a different currency than the exposure. This process is handled by a department independent of the business groups to ensure objectivity. Acceptable collateral includes cash, bank guarantees, shares, real estate etc. subject to specific conditions on eligibility, margin requirements etc., laid down in the credit policy. The credit risk mitigation used for capital adequacy computation includes collateral in the form of cash and shares as well as guarantees in accordance with the CBK's rules and regulations on capital adequacy standards.

Irregular and past due credit facilities

Irregular and past due credit facilities, and impaired exposures are defined in accordance with the relevant CBK regulations. Specific and general provisions are computed in accordance with CBK regulations on provisioning as well as the applicable accounting standards. The CBK regulations pertaining to specific provisioning differentiate between facilities for corporate, retail and sovereign and specific rules and principles are accordingly applied for performing and non-performing facilities. In addition, minimum general provision has to be carried at 1 per cent. of all funded credit exposures and 0.5 per cent. of non-funded credit exposures, where no specific provision has been taken, in accordance with these regulations.

Market Risks

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates because of changes in market prices. Market risk may arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market or prices such as profit rates, credit spreads, foreign exchange rates and equity prices. The Risk Management Group is responsible for development of detailed market risk management policies and for the periodic review of their implementation, while it is the responsibility of IBG and Treasury to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

Market Risk Frameworks

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

- Limits for all market risk parameters and regular limits monitoring to ensure that the Bank does not exceed aggregate risk and concentration parameters set by CBK limits and internal limits.
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions.

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

Profit Rate Risk

Profit rate risk arises from the changes in profit rates affecting future cash flows and/or the fair value of the underlying financial exposure or instrument. The Bank is susceptible to profit rate risk as the value of the Bank's fixed income investments and/or return on financing are inversely related to rising rates, particularly where the Bank's liabilities are short in tenor and are subject to market rate conditions. The major source of profit rate risk is inherent in Bank's financing to retail customers as this financing is completed on a fixed rate basis and can extend from 10 to 15 years in tenor. The weighted average life of this portfolio is 9.43 years, which improves as the tenor of the portfolio decreases and the portfolio matures. Opportunities to manage profit rate risk on these portfolios are limited as long-term deposits are not typical in Kuwait and Shariah-compliant hedging in the KD swap market is non-existent. The Bank manages profit rate risk by placing limits on long tenor portions of the portfolio (which are greater than 10 years) as a percentage of the total retail personal financing portfolio and with in-built hedge resulting from the lower profit rate risk as older financings mature. The Bank conducts stress testing and scenario analyses regularly to manage profit rate risk that is inherent in the Bank's balance sheet. Earnings-at-risk analysis is also conducted monthly, to determine the impact of changes in the cost of funds, and the yield on assets on profitability is monitored by the senior management of the Bank through the ALCO process.

Equity Risk in the Banking Book

In accordance with International Financial Reporting Standards, equity positions in the banking book are classified as available-for-sale securities. These investments are held for the purpose of generating income through dividends as well as capital gains that may arise due to improving valuations. These investments are fair valued periodically and revaluation gains/losses are accounted as cumulative changes in fair value in equity. For equity investments quoted in organised financial markets, fair value is determined by reference to quoted bid prices. Fair values of unquoted equity investments are determined by reference to the market value of a similar investment, or the expected discounted cash flows, or other appropriate valuation models. Equity investments whose fair value cannot be estimated accurately are carried at cost less impairment, if any.

Liquidity Risks

Liquidity Risk is the risk of the Bank being unable to meet its financial liabilities when they fall due. Liquidity risk management is one of the vital components of the management of day-to-day banking business. In order to meet any eventuality, the Bank's liquidity strategy is to maintain a healthy level of liquid assets in the form of cash, cash equivalents and readily marketable securities. The Bank continuously monitors liquidity risk by measuring the maturity profile of its assets and liabilities on a daily basis and the liquidity gaps position is reviewed by ALCO on a monthly basis. Furthermore, the liquidity coverage ratio, liquidity reserve position and the ratio of financing facilities to eligible deposits are monitored on a daily basis.

Operational Risks

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, systems failure, human error or from external events including losses resulting from failure to comply with Islamic Shari'a regulations. When controls fail to perform, it can have legal or regulatory implications, or lead to financial or reputational loss.

Operational Risk Framework

The Bank has a set of policies approved by the Board of Directors that are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Bank. Operational risk is managed under the RMG. The RMG ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk in accordance with the Bank's Risk Management Framework.

The Bank manages operational risks in line with CBK instructions regarding 'General Guidelines for Internal Control Systems' and directives regarding 'Sound Practices for the Management and Control of Operational Risks'. The Bank pays special attention to operational risks that may arise from non-compliance to Islamic Shari'a principles and any possible failure in fiduciary responsibilities.

The Bank has established its business continuity management policy to meet any internal or external failures and eventualities enabling smooth functioning of the Bank's operations. The Bank has established a disaster recovery site for its IT infrastructure, to ensure that operational risks do not adversely impact the Bank's business.

Legal and Compliance

Overview

Legal risks represent the possibility of incurring a monetary loss as a result of an inability to enforce contracts signed by the Bank due to faulty documentation or improper drafting. As a general rule, the Bank aims to ensure that its counterparties and customers are authorised to engage in contracts with the Bank and that the obligations arising from these contracts are enforceable.

The Bank's compliance function is responsible for overseeing and managing compliance aspects through a robust compliance framework. It also ensures the Bank's compliance with applicable laws and regulations and CBK and CMA guidelines and internal instructions. The compliance framework consists of compliance policies and procedures and compliance is monitored through timely reports.

The Bank's compliance programme is built on a foundation of a sound understanding of the appropriate regulatory requirements, communicating internally compliance requirements and advising deviations through effective monitoring and review mechanisms, and escalating breaches for remedial action.

In line with the regulatory bodies' instructions in respect of the fundamental principles of compliance, the Bank has given due care for the independency and required staffing, skills and experience of the compliance department. The Bank has in place comprehensive policies and procedures to ensure full compliance with CBK's instructions and other regulatory authorities. The compliance department applies international standards and sound practices to enhance compliance culture at the Bank, improve compliance control over the banking systems and maintain full compliance with instructions from regulatory authorities.

Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF)

The Bank is fully committed to its responsibility as a financial institution in mitigating and controlling risk of money laundering and other financial crimes including financing of terrorism. The Bank is in compliance with all guidelines and regulations of the CBK on anti-money laundering and combatting the financing of terrorism. The related guidelines and requirements under the AML/CFT Law 106/2013 and its Executive Regulation 37/2013 of the State of Kuwait and CBK Instructions 308/2013 and related ministerial resolutions for UN Sanctions have been incorporated in the Bank's policies and procedures, ensuring compliance with all regulatory requirements.

The Bank undertakes risk assessment of its customers and their transactions with respect to possible money laundering and/or financing of terrorism. Additionally, Know-Your-Customer (KYC) measures are adopted throughout all stages of the customer relationship. The Bank also endeavours to conform to other international guidelines (e.g. FATF) and processes on AML/CFT to monitor and control financial risks to the Bank and thereby also protecting the interests of its customers and shareholders. In order to effectively implement related policies and procedures the Bank ensures that its personnel and systems operate effectively in identifying possible irregular or suspicious transactions. To support this, all staff members of the Bank are provided with annual awareness training and also provided with tools and guides for handling any such situation. The Bank has put in place all necessary measures for compliance with US FATCA guidelines and is ready to report through the Kuwait Ministry of Finance under an Inter-Governmental Agreement signed between US Internal Revenue Service and the State of Kuwait.

MANAGEMENT AND EMPLOYEES

Management

Corporate governance framework

The Bank's corporate governance framework is based on principles and standards defined by leading professional bodies and regulatory authorities and is embedded into the business and practices of the Bank. The framework is designed to secure effective oversight of the Bank's strategy and business operations with a robust risk management approach, transparency and accountability.

The Board reviews and updates the corporate governance framework on an annual basis, senior management ensures that it is implemented through policies and procedures, and employees follow the corporate governance requirements in their day-to-day business.

The Bank 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 Bank operates under the direction of the Board, which has recently increased from seven non-executive members and currently comprises of ten non-executive members, none of which are independent. Each member of the Board is elected during a shareholders' general assembly meeting for a period of three years and each member can be re-elected for an unlimited number of additional three-year terms. The Board meets as often as it deems necessary, subject to a minimum of six times a year. In line with CBK requirements, the Board must convene at least once each quarter. The Board convened 16 times in 2016, twelve times in 2015 and fourteen times in 2014.

The Board has overall responsibility for the Bank, including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values. The Board is also responsible for providing oversight of the Bank's Senior Management, including the Chief Executive Officer (the "**CEO**"). The Board assumes ultimate responsibility for the Bank's business and its financial soundness, the fulfilment of CBK requirements, the protection of the legitimate interests of shareholders, depositors, creditors, staff and stakeholders and ensuring that the Bank is managed in a prudent manner and within the applicable laws and regulations and internal policies and procedures.

The Board appoints the CEO and approves the appointment of most senior management positions reporting to the CEO.

The roles of the Board Chairman and the CEO are separate and independent of each another and there is a clear segregation of duties and responsibilities. The Chairman's responsibilities include ensuring the proper functioning of the Board and maintaining a relationship of trust with the other Board members. The Chairman ensures that Board decisions are taken on a sound and well-informed basis through proper discussion ensuring that dissenting views can be expressed and discussed within the decision-making process. The Chairman is also responsible for establishing a constructive relationship between the Board and senior management and ensuring that the Bank has sound corporate governance standards in place.

The table below shows the names of the members of the Board as at the date of this Prospectus.

Name	Position
Abdulwahab Abdullah Al Houti	Chairman (elected)
Bassel Ahmed AlHaroun	Vice Chairman (elected)
Ahmed AbdulAziz Al-Ghannam	Board Member (elected)
Sami Fahed Al-Rasheed	Board Member (elected)
Abdul Aziz Abdullah Al-Jaber.........................	Board Member (elected)
Mohammed Riad Al Mutawa	Board Member (elected)
Mohammed Abdul Redha Salim	Board Member (elected)
Dr Mahmoud Ahmed Abdulrahman	Board Member (representing KIA)
Hani Abdulaziz Al Turkait..............................	Board Member (elected)
Hisham Abdulrazaq Al Razzuqi	Board Member (elected)

Detailed below is brief biographical information about each member of the Board

Abdulwahab Abdullah Al Houti

Mr. Al Houti has been the Chairman of the Board since March 2016, and a Board Member at the Bank since 2013.

Qualification: Mr Al Houti holds a Bachelor of Arts degree in Business Administration from Kuwait University, and a Master of Business Administration degree from the University of New Haven, USA.

Experience: He has also been the advisor to the chairman of the International Islamic Charity Organization since 2009. He commenced his career as a teacher of commercial subjects at the Ministry of Education from 1979 to 1983, then assumed the position of Department Director and Assistant Undersecretary in the Ministry of Awqaf and Islamic Affairs from 1983 to 1994. Mr. Al Houti then became the deputy secretary-general of Waqfi Channels at the General Secretariat of Awqaf from 1994 until 2004. He has been a board member in a number of companies and banks, namely Boubyan Bank, Islamic Bank of Bangladesh, Capivest Investment Bank and Real Estate Asset Management Company ("**REEM**").

Bassel Ahmed Al Haroun

Mr. Al Haroun has been the Vice Chairman of the Bank since March 2016.

Qualification: Mr. Al Haroun holds a Bachelor of Science in Business Administration from St. Augustine University in the United States of America and an Executive Master's degree in Business Administration from the American University of Beirut.

Experience: He is currently working in the field of management consultancy through the Village Consultants Company in the United Arab Emirates. He has vast banking experience, gained from his career extending over 23 years at the Central Bank of Kuwait where he held several leading positions such as the director of the Off-Site Supervision Department, Director of the Foreign Operations Department and finally the Executive Director of the Operations and Research Sectors. In 2012, a Decree was issued for his appointment as a member of the Kuwait Capital Markets Authority's Board of Commissioners and he continued in this position until 2014.

Ahmed AbdulAziz Al-Ghannam

Mr Al-Ghannam has been a member of the Bank's Board since March 2016.

Qualification: Mr Al-Ghannam holds a Bachelor's degree in Business Administration from the Grand View University in the United States of America.

Experience: He began his career in the Commercial Bank of Kuwait in the Trading Room and Credit Operations from 1987 to 1991. He then moved to the AlGhanam Group of Companies where he served as the deputy executive director from 1992 to 1999 then as the Chief Executive Officer of the Bank from 1999 to date. He has been a chairman and board member of many companies operating in the educational, medical services, investment and trade sectors such as the KIPCO Group Holding Company, Murabahat Investment Company, Gulf Land Holding Company, Sama Medical Services Company, Excellence Education Company for Educational Services and Dar Al-Arqam Educational Services Company.

Sami Fahed Al-Rasheed

Mr Al-Rasheed has been a member of the Bank's Board since March 2016.

Qualification: Al-Rasheed holds a Bachelor of Industrial Engineering degree from Miami University in the United States of America.

Experience: He is currently working in the field of petroleum consultancy with experience in the oil sector gained throughout his career at the Kuwait National Petroleum Company from 1995 to 2007, where he held several positions such as the board chairman and managing director (which he held in the last three years of his tenure at the company). He then took over as a board chairman and Managing Director of the Kuwait Oil Company from 2007 to 2013. He has been a board chairman and member of the board of directors in a number of companies operating in the oil sector such as the Kuwait Oil Company, Kuwait Petroleum Corporation and Kuwait National Petroleum Company.

Abdul Aziz Abdullah Al-Jaber

Mr Al-Jaber has been a member of the Bank's Board since March 2016.

Qualification: Al-Jaber holds a Bachelor of Science degree in Electrical Engineering from Washington University in the United States of America.

Experience: He began his career with the Kuwait Oil Company from 1979 to 2004, where he held several positions including executive assistant to the Managing Director for Administration Affairs. He then moved to the Kuwait Petroleum Corporation as executive assistant for Privatisation Affairs from 2004 to 2005. He then joined the Kuwait Finance House in 2005 as Assistant General Manager of the Support Services Sector, after which he was appointed General Manager of the Human Resources and General Services Sector, and finally he became a consultant until 2014. He has been a board chairman and a member of the board of directors in a number of companies such as the Petrochemical Company, Gulf Oil Company and Human Investment Corporation.

Mohammed Riad Al Mutawa

Mr. Al Mutawa has been a member of the Bank's Board since March 2016.

Qualifications: Al Mutawa holds a Bachelor's degree in Finance from Kuwait University.

Experience: He currently holds the position of Investment Manager at the Kuwait Investment Authority and has done so since 2001. He has been a board chairman and a member of the board of directors in a number of companies such as the Pakistani Investment Company, Kuwaiti-Moroccan Development Group and Arabian

Sea Enterprises Limited. He has participated in several training courses, programs and seminars in various fields.

Mohammed Abdul Redha Salim

Mr Salim has been a member of the Bank's Board since March 2016.

Qualification: He holds a Bachelor of Business Administration degree in Finance from Kuwait University.

Experience: He has gained professional experience from his service of over 30 years at the Kuwait Investment Authority, where he has held various positions including the Treasury Department Manager from 2006 to date. He has been a board chairman and a member of the board of directors in a number of companies such as the Egyptian-Kuwaiti Company for Real Estate Development, Kuwait Flour Mills Company, Kuwait Investment Company and Generations Investment Fund Holding Company in Morocco. He has also participated in many theoretical and practical courses with leading banks and global financial institutions in the areas of portfolios management, investment and capital markets.

Dr Mahmoud Ahmed Abdulrahman

Mr Abdulrahman has been a member of the Bank's Board since 2013.

Qualification: Mr Abdulrahman holds a Bachelor's Degree in Law from Kuwait University obtained in 1988, and a PH.D. in Commercial Law from the University of Exeter – United Kingdom, obtained in 1994.

Experience: Currently, he is the manager of the Legal Affairs Department of the Kuwait Investment Authority and has occupied this position since 2005. He commenced his career in 1989 as a Delegation Member Lecturer in the Faculty of Law of Kuwait University, then became a Lecturer, Assistant Professor and finally Assistant Dean for Students Affairs in the Faculty of Law in 2003. He is currently the board chairman of VIVA Telecommunication Company and has been a board member in Medical Insurance Hospitals Company from 2015 to date.

Hani Abdulaziz AlTurkait

Mr Al-Turkait has been a member of the Bank's Board since March 2016.

Qualification: Mr AlTurkait holds a Bachelor's degree in Chemical Engineering from the University of Tulsa in the United States of America obtained in 1971.

Experience: He has vast experience in the oil sector gained through his career of over 35 years in the Kuwait Petroleum Corporation ("**KPC**"). He joined KPC in 1972 where he served in Kuwait National Petroleum Company, a KPC subsidiary, then moved in 1980 to Kuwait Petroleum Corporation until 2007 where he held several leading positions such as the Vice Chairman of the Board, and was Chief Executive Officer for the last three years of his tenure in KPC. He was appointed Oil Minister in the Kuwaiti government by virtue of an Amiri Decree in February 2012 and continued holding this position until 2013. He has been a board chairman and a member of the board of directors in a number of local and international companies such as the Petrochemical Industries Company, Kuwait National Petroleum Company, the Public Authority for Industry, Hoechst Company in Germany and the Kuwait Foundation for the Advancement of Science.

Hisham Abdulrazaq Al Razzuqi

Mr. Al Razzuqi has been a member of the Bank's Board since 2013.

Qualification: Mr. Al Razzuqi holds a Bachelor's degree in Public Administration from the American University of Beirut, obtained in 1973, and has participated in a Senior Management Program organized by Harvard University in 1988.

Experience: He commenced his career in the Kuwait Foreign Trading and Contracting Investment Company ("**KFTCIC**") from 1974 to 1984, assuming several positions, the last of which was the Deputy General Manager. He then joined the Gulf Investment Corporation as Deputy CEO from 1984 to 1995, was promoted to General Manager from 1995 to 2001, and then to CEO from 2001 to 2012. He has worked as a consultant to the International Business Conference Board, and as a faculty member of the Solaiman Alolayan School of Business Administration - American University of Beirut. He has served as a board member and chairman in more than 19 local and regional companies, banks and financial institutions, including the Bahrain Steel Company, National Industrialization Company, KSA, Burgan Bank, Kuwait Investment Company, Tawasul Telecom Company, Kuwait Reinsurance Company and Global Investment House.

Board committees

The Board have established five Board committees which are described below. The roles and authority of the Board committees are defined and delegated by the Board and are described in each committee's charter. The Board committees submit reports to the Board depending on the nature of the tasks assigned to them.

Board Credit and Investment Committee

The Board Credit and Investment Committee (the "**BCIC**") reviews, evaluates, develops and recommends for the Board's approval all issues related to financing and investment proposals, fees and commissions, financing portfolio performance, investments and legal action taken against defaulting customers. The committee has certain delegated approval authority for credit financing and investment decisions. The BCIC met 28 times in 2016.

The members of the BCIC are Mr. Al Ghannam (Chairman), Mr. Al Rasheed, Mr. Al Razzuqi and Mr. Al Jaber.

Board Audit Committee

The Board Audit Committee (the "**BAC**") reviews and monitors the Bank's financial performance, external auditors' reports on periodic financial disclosures, internal auditor reports and the adequacy of internal control systems, evaluates the performance of the Chief Internal Auditor, considers recommendations from the executive management relating to the appointment and termination of external auditors and determines their fees. The BAC met seven times in 2016.

The members of the BAC are Mr Salim (Chairman), Mr. Abdulrahman and Mr. Al Mutawa.

Board Governance Committee

The Board Governance Committee (the "**BGC**") assists the Board to fulfill its governance responsibilities. In addition, it prepares and updates the Bank's governance list and ensures compliance of the Bank's related parties with implementing governance requirements and rules. The Committee submits reports to the Board on the same and reviews the contents to be published in the annual report in respect of corporate governance. The BGC met six times in 2016.

The members of the BGC are Mr. Al Haroun (Chairman), Mr. Salim, Mr. Al Houti and Mr. Al Turkait.

Board Risk Committee

The Board Risk Committee (the "**BRC**") assists the Board in discharging its oversight responsibilities relating to present and emerging risk issues, strategies and the risk appetite associated with the Bank's banking and financing activities, including the investment portfolio. The BRC recommends to the Board the risk management policies, risk appetite and framework, ensures adherence to the risk appetite policy and provides oversight on major risk categories and the adequacy of provisions and reserves. The BRC met six times in 2016.

The members of the BRC are Mr. Al Turkait (Chairman), Mr. Al Mutawa, Mr. Al Haroun and Mr. Al Ghannam.

Board Nomination and Remuneration Committee

The Board Nomination and Remuneration Committee (the "**BNRC**") assists the Board in discharging its oversight responsibilities relating to managing the Bank's compensation arrangements, including short- and long-term performance-related remuneration and recommending to the Board the remuneration of Directors in line with Islamic Shari'a principles and international best practice. In addition, the BNRC identifies individuals qualified to become members of the Board and the Bank's senior management; recommends which Board members should serve on each Board committee and assesses the performance of the Board, its members and its committees. The BNRC met three times in 2016.

The members of the BNRC are Mr. Abdulrahman (Chairman), Mr. Al Rasheed and Mr. Al Jaber.

Executive Management

The Bank's executive management team is responsible for day-to-day supervision and control of the Bank's business, particularly with respect to ensuring functionality of compliance and risk control, independence of functions and separation of duties. Business policies, accounting policies and operations procedures and controls are documented and communicated through policies and standard operating procedures manuals which cover all areas and activities of the Bank. All significant policies are reviewed and approved by the Board.

The Bank's executive management team as of the date of this Prospectus comprises:

Name and Position	Brief CV
Shaheen Hamad Al Ghanem *Chief Executive Officer*	Mr. Al Ghanem has broad experience in banking and investment. He began his career in the oil sector from 1988 to 1999, then moved to the financial and investment services sector where he served as Assistant Chief Financial Officer at the International Investor Company in 1999. He then moved to the Kuwait Finance House in 2001 where he held several positions in various departments, the last of which were as General Manager of the International Banks Department in 2012 and Acting Chief Investment Officer in 2013. He has held the positions of chairman and board member in a number of banks and companies inside and outside of the State of Kuwait. Mr. Al Ghanem moved to the Bank in March 2014 as Deputy CEO for Investment and Treasury and has held the position of Chief Executive Officer from May 2016 to date. He holds a Master's degree in Business Administration from Maastricht University, a Bachelor's degree in Accounting from Kuwait University and is a Certified Management Accountant from the Institute of Management Accountants United States. He has also completed a course on executive management from Harvard University.

Basel Jasem Al Obeid
Chief Corporate Banking Officer

Mr. Al Obeid has more than 29 years of experience in the banking and finance sector. He commenced his career in 1987 at Ahli United Bank (previously known as the Bank of Kuwait and the Middle East) where he assumed several posts, the last of which was Head of the Corporate Banking, Commercial and International Operations Division in 1998. He then moved in 2002 to the Securities House Company where he assumed several posts, the last of which was Assistant Managing Director for Credit and Treasury. In January 2012, he joined the Bank as Chief Corporate Banking Officer. He has also been a board member in several institutions and a member of the Kuwaiti Defaulters' Remedial Fund.

Mr. Al Obeid holds a Bachelor's degree in Finance from the Faculty of Commerce and Political Sciences – Kuwait University.

Khaled Hasan Hafez
Chief Financial Officer

Mr. Hafez is a fellow member of the American Institute of Certified Public Accountants in USA and a Certified Public Accountant from the California Board of Accountancy. He also holds a Diploma in Islamic Economy from the Faculty of Sharia, Kuwait University. Hafez has over 20 years of experience in Islamic Banking and financial institutions and auditing. He has previously worked with Ernst and Young and PricewaterhouseCoopers and has held an executive position at the Kuwait Finance House. He has worked as a lecturer for a number of professional and academic certificates, and participated in several conferences and forums on banking business and Islamic economy. He has also worked as a consultant, offering advisory services on restructuring, acquisitions and asset assessment. After he joined the Bank he incorporated and contributed to the setting up of the Bank's infrastructure and structure.

Mr. Hafez holds a Bachelor's degree in Accounting from Cairo University, Egypt.

Mahmoud Mohamed Yousef
Chief Internal Auditor

Mr. Yousef is certified in Risk and Information Systems Control (CRISC) from the Information Systems Audit and Control Association (ISACA), USA. He is also a voting member of the Chartered Institute of Internal Auditors (IIA) in the UK and Ireland and certified as a Chartered Internal Auditor holding the designation (CMIIA) from the same organization, and earned the highest Qualification in Internal Audit Leadership (QIAL) from the Institute of Internal Auditors Global (IIA Global) in the USA.

He joined the Bank as a Chief Internal Auditor, holding this position from the end of 2011 to date, during which time he has managed to set up a strong and effective Internal Audit function by applying best practice audit methodology and creating a risk-based audit approach covering all operational areas within the Bank, including Banking Operations, Information Technology and Operational Assurance (Branches network). He participated in an advisory capacity by providing advice and recommendations to Executive Management in respect of the Bank's internal controls as well as the Bank's initiatives which include amongst other regulatory aspects, the implementation of the CBK Instruction concerning "Rules and Instructions of Corporate Governance in Banks and Financial Institutions" in addition to the FATCA (Foreign Account Tax Compliance Act) regulations.

He worked at the National Bank of Kuwait ("**NBK**") from 1983 for 28 years in the positions of Assistant General Manager and Deputy Chief Internal Auditor. During this period, he was able to provide independent, objective assurance and consulting services designed to add value and improve the NBK's operations. In addition, he participated in various projects' steering committees in the head office and conducted on-site audit reviews of all of NBK's international branches and subsidiaries.

Mr. Yousef graduated from Brooklands Technical College, Weybridge, Surrey, England and holds a HNC in Computer Studies in addition to an 'A' Level in Computer Science.

Feroz Noorani
Chief Risk Officer

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

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

Prior to joining the Bank, he was the group chief risk officer of an Islamic bank in Abu Dhabi. Previously, as head of Group Risk and Capital Strategy at a major regional bank in Saudi Arabia, he was instrumental in implementing and rolling-out the MENA region's first Basel-IRB Approach compliant institution.

Mr. Noorani holds Master's degrees in Business Strategy and Financial Management, as well as Bachelors' degrees in Laws and Accounting and Auditing from the University of Bombay (Mumbai, India) and several professional certifications in bank management, compliance, risk and corporate governance including an accreditation from INSEAD, France and in the field of risk management within banks.

Haytham Abdulazeez Al Terkait

Chief Information Technology Officer

Mr. Terkait has over 26 years of experience in technology. He previously worked for the Kuwait Finance House and the Kuwait Institute for Scientific Research. He joined the Bank as Chief Information Technology Officer in August 2012.

Mr. Terkait holds a Bachelor's of Science degree in Mechanical Engineering from Metro State University, Denver, Colorado, USA.

Simon Larby Clements

Chief Retail Banking Officer and Acting Chief Operations Officer

Mr. Clements has previously held senior executive positions at a number of leading banks where he headed the operations and technology group. He has in-depth experience of the operations and support functions in banks. He has also successfully managed the retail business of two mid–sized Kuwaiti banks in recent years. As a senior executive, Clements has developed and implemented strategies at several institutions with significant success. He joined the Bank in July 2014 as Chief Operations Officer and has recently also assumed responsibility for the Retail Banking Group.

Mr. Clements holds a Business Studies degree from the United Kingdom, and has over 39 years of experience in financial services in Europe, Asia and the Middle East.

Management Committees

The board of directors has formed executive level committees for performing specified tasks and responsibilities to assist the CEO in the efficient administration of the Bank. All committees are chaired by the Chief Executive Officer, Mr. Shaheen Hamad Al Ghannam.

Executive Credit and Investment Committee (ECIC)

ECIC is authorised to consider all credit financing and investment proposals. The committee is delegated with appropriate authority to approve such proposals or refer them to the Board Credit and Investment Committee. The ECIC is responsible for monitoring the Bank's financing and investment portfolio, reviewing the portfolio and taking appropriate action to ensure performance of the financing and investment assets of the Bank.

Assets and Liability Management Committee (ALCO)

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

Provisioning Committee

The Provisioning Committee is responsible for analysing and evaluating all outstanding exposures under approved financing facilities and investments, for determining whether an exposure is impaired or has any signs of irregularity, warranting provisions in accordance with internationally accepted financial reporting standards and the Central Bank of Kuwait regulatory requirements. In addition, the committee has delegated authority for reviewing debt write-offs and providing relevant recommendations to the Board.

Management Committee

The Management Committee is responsible for developing and implementing the Bank's vision and strategy. It convenes regularly to ensure information flow as well as consensus with the views of the Executive Management on decisions affecting the organisation of the Bank. The committee's scope of work includes, but is not limited to matters relating to the Bank's business plans, policies, processes and procedures, new products and services programs, special projects, human resources, and information technology. it also manages all other issues which do not fall within the remit of any specific committee.

Business address and conflicts

The business address of each member of the Board and each member of the executive management is Sanabil Tower, 26-28 Floor, Abdullah Al Ahmed Street, P.O. Box 1220, Safat 13013, Kuwait. No member of the Board or executive management has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties.

Shari'a Board

The Shari'a Board is a group of scholars with comprehensive knowledge of Islamic laws, economics and banking. In accordance with Kuwaiti law, an independent Shari'a board must be established in each Islamic bank to supervise its business. The number of members of the Shari'a board must not be less than three, and shall be appointed by the Bank's General Assembly.

The Shari'a Board reviews all products, contracts, transactions, investments, accounts, policies and manuals and periodically reviews financial accounts to ensure their compliance with Shari'a rules and principles.

The table below shows the names and positions of the current members of the Shari'a Board:

Name	Position
Sheikh Dr Issa Zaki Issa	Chairman
Sheikh Dr Abdulaziz K. Al-Qassar..................	Member
Sheikh Dr Essam K. Al Enezi..........................	Member

Detailed below is brief biographical information on the members of the Shari'a Board:

Sheikh Dr Issa Zaki Issa

Dr. Issa holds a Ph.D. in Fiqh major from the Islamic University, Al Madina Al Monawar, KSA. He is assistant professor at the Shari'a and Islamic Studies College of Kuwait University.

He is a member of the Fatwa and Shari'a Supervision body in many Islamic banks and financial institutions, both in Kuwait and abroad. He is the author of many research studies in Islamic Fiqh.

Sheikh Dr Abdulaziz K. Al-Qassar

Mr. Al-Qassar holds a Ph.D. in Shari'a and Law from Al Azhar University, Cairo. He is Professor of Comparative Fiqh at the Shari'a and Islamic Studies College of Kuwait University and was previously the Assistant Dean for Scientific and Higher Studies and Research Affairs at the same institution.

He is a member of the Fatwa and Shari'a Supervision body in many Islamic banks and financial institutions, both in Kuwait and abroad, and is a lecturer in Islamic Financial Transactions. He is the author of many studies in research in Islamic Fiqh and Contemporary Financial Transactions.

Sheikh Dr Essam K. Al Enezi

Mr. Al Enezi holds a Ph.D. in Shari'a from the Jordanian University (Fiqh Major). He is a faculty member at Kuwait University, Comparative Fiqh Section - Shari'a and Islamic Studies College. He is a member of the Shari'a Council at the Accounting and Audit Board for Islamic Financial Institutions and a member of the Fatwa and Shari'a Supervision body in a number of Islamic banks and financial institutions. He is the author of several studies and research works.

Employees

The Bank's human resources policies are designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Bank provides its employees with a transparent working environment; employee talent-management schemes; a transparent remuneration and compensation structure; and access to a whistle blowing policy (which enables employees to raise concerns in good faith and confidence directly up to the level of the Chairman).

As at 31 December 2016, the Bank employed 346 full-time staff compared to 356 full-time staff at 31 December 2015 and 288 full-time staff at 31 December 2014.

The Bank is committed to identifying, attracting and developing Kuwaiti nationals in its workforce. The Kuwaiti government's required policy is that not less than 64 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2016 was 68.41 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 2016). 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 which is primarily dependent on its oil industry and is dominated by the government sector. Based on information from the Public Authority for Civil Information, Kuwait's population was approximately 4.2 million as of June 2015 (of which Kuwaiti nationals accounted for 30.9 per cent.).

Political Overview

Kuwait is a constitutional monarchy. The head of state, the Amir, 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 National Assembly. The membership of the cabinet is subject to the approval of the Amir. The current National Assembly was elected on 26 November 2016.

The current Amir is His Highness Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, with the current Crown Prince being His Highness Sheikh Nawaf Al-Ahmed 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 United Arab Emirates, 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 0.03 per cent. in 2014, 0.9 per cent. in 2015, and is projected to increase by 2.4 per cent. in 2016 and 2.6 per cent. in 2017. Kuwait has posted a budget surplus for each of the last 15 fiscal years through to 31 March 2015, but recorded a deficit of KD 4.6 billion for the fiscal year ended 31 March 2016 due to lower oil prices.

The IMF's data indicates that inflation in Kuwait, 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 estimates that inflation in Kuwait will remain stable at 3.4 per cent in 2016 and 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, 56.6 per cent. of nominal GDP in 2014 and was 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 2015 (OPEC Annual Statistical Bulletin 2016).

The IMF estimates that Kuwait's non-oil GDP grew by 3.2 per cent. in 2014 and 3.0 per cent. in 2015 and estimates that such growth will remain at 3.0 per cent. in 2016 and be between 3.5 to 4.0 per cent. in the medium term, supported by consumption and government investments in infrastructure and the oil sector.

Kuwait is estimated to have held reserves of foreign exchange and gold worth U.S.$31.4 billion 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.$592 billion of assets under management as at December 2015 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 April 2015 and is scheduled to end in March 2020. The Kuwait Development Plan is the second of a series of plans based on a strategic vision for 2035 that emphasises 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 private sector employment.

OVERVIEW OF BANKING AND FINANCE REGULATIONS IN KUWAIT

Central Bank of Kuwait

The Central Bank of Kuwait ("**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. The membership of the board, in addition to the Governor, comprises the Deputy Governor, a representative from each of the Ministry of Finance and the Ministry of Commerce and Industry (the "**MOCI**") and four additional members, each of whom must be a Kuwaiti national and must be nominated by the Minister of Finance (after obtaining the approval of the Council of Ministers). Each of the four additional board members is drawn from expert practitioners in economics, finance or banking and is appointed by an Amiri Decree for three years. The Governor of the CBK and the Deputy Governor are each appointed by decree for a five-year renewable term.

The CBK is entrusted with the supervision of Kuwait's banking system. Its supervisory authority covers an 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 that are subsidiaries of Kuwaiti banks. The CBK may issue instructions to banks as it deems necessary to realise its credit or monetary policy and to ensure the sound progress of the Kuwaiti banking system. The CBK is entitled to inspect any 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 board member of any CBK-regulated institution. On completion of each inspection, the CBK issues a comprehensive report incorporating its recommendations of actions to be taken to address any issues identified during the inspection.

CBK instructions cover a wide range of matters, including the liquidity system, maximum limits for credit concentration, credit facilities classification, interest and profit rate ceilings, the organisation of banks' credit policy, the extension of consumer loans and financings and other instalment loans and financings, the extension of banking services, foreign exchange translation and portfolio management (see "*—Certain banking regulations*" below). The CBK may impose penalties on any institution that fails to comply with an instruction.

The 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 shall maintain that percentage at all times after the establishment. The Islamic Banking Law further provides 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 the 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 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 National Assembly enacted the CMA Law (as amended). The CMA had further issued the implementing regulations to the CMA Law (as amended) (the "**CMA Bylaws**" and, together with the CMA Law, 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 CMA with the power and authority to regulate, develop and supervise the activities of the capital markets in 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 Boursa Kuwait (formerly the KSE), including licensing those who operate within the Boursa Kuwait 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 Boursa Kuwait (formerly the KSE) or engage in securities activities as discussed further below. The CBK imposes the following 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 or finance sukuk issued by the Islamic Development Bank or governments of the GCC member countries (provided that the sukuk are traded and are rated not less than BBB or equivalent).

Bank liquidity in Kuwait 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 CBK instruction relating to liquidity establishes the elements to be included when calculating assets and liabilities for the purpose of determining liquidity.

The CBK requires Kuwaiti banks to maintain a liquidity coverage ratio (**LCR**) and a net stable funding ratio (**NSFR**) in accordance with the requirements of the Basel III accord. The LCR represents a 30 day stress scenario with combined assumptions covering both bank-specific and market-wide stresses. The implementation of the LCR requirements includes interim ratios (70 per cent, in 2016, 80 per cent. in 2017, 90 per cent. in 2018 and 100 per cent. in 2019) which are designed to apply until the LCR requirements come into effect on 1 January 2019. Reporting of the LCR was introduced from 1 January 2016. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio is required to be equal to at least 100 per cent. on an ongoing basis. Full compliance with the NSFR requirements will come into effect on 1 January 2018 for all Kuwaiti banks.

Credit risk regulations

Loans/financings to deposit ratio

Kuwaiti banks are restricted by the CBK from lending or financing amounts 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. However, in line with new regulations issued by the CBK, qualifying deposits will exclude interbank deposits, and an overall ratio of 90 per cent. is required to be maintained from October 2016.

Investment limits

The total value 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 relevant CBK instructions. Further, the ratio of an 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 CBK instructions specify the cases when a credit facility must be classified as 'irregular' and include where payment of an instalment is not made, interest or profit is not paid on the maturity date or the debit balance exceeds the drawing limits determined 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 four times a bank's capital base.

Consumer loans and 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 financing 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 either of the following events occurs:

(i) the issuing bank is instructed by its 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".

Interest/profit rate cap regulations

The CBK's instruction on interest and profit rates provides that the maximum limits for such rates on KD financings to corporate borrowers should not exceed:

- 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
- 4 per cent. over the CBK's discount rate in the case of commercial financings exceeding one year.

Interest and profit rates for housing and consumer loans and financings denominated in Kuwaiti dinar are currently capped at the CBK discount rate plus 3 per cent. for each block of five years. Such rates may be adjusted by no more than plus or minus 2 per cent. for each subsequent block of five years.

Interest and profit rates for loans and financings in currencies other than the Kuwaiti dinar are not regulated by the CBK.

Other 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'a supervisory board, which must have a minimum of three members. The Shari'a supervisory board is responsible for determining the Shari'a compliance of bank products and transactions. The board of directors of an Islamic bank must implement the directives of the Shari'a supervisory board regarding Shari'a compliance.

The CBK has also issued instructions containing guidelines relating to, among other matters: (i) post-dated cheques; (ii) banks' credit policy ratios; (iii) verification of the purpose of credit facilities granted to customers; (iv) collateral to be granted by customers against credit facilities; (v) the provision of facilities for trading in shares listed on the Boursa Kuwait (formerly the KSE); (vi) the protection of customers; (vii) special needs of customers and (viii) anti-money laundering and combating the financing of terrorism.

Corporate Governance

During June 2012, the CBK issued instructions for the governance of Kuwaiti banks (the "**Governance Instructions**") which apply to all banks in Kuwait. The Governance Instructions provide principles that should be followed and applied by Kuwaiti banks in order to ensure proper governance. These include ensuring the independence of the board, setting a strategy, having a clear risk policy, protecting the interests of depositors and conducting 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 to 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 Bank's Board has adopted and implemented internationally accepted as well as local corporate governance practices, including the Governance Instructions. See "*Management and employees*".

Application of CBK Regulations to the Bank

The Bank is the fastest growing Islamic bank in Kuwait in terms of total assets, customer deposits and financing assets as at 31 December 2016. 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 every five years, to carry on banking activities. The Bank's commercial licence was last renewed on 1 January 2014. The Bank has no reason to believe that its commercial licence will not be renewed by the MOCI for future periods.

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 periodic 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's most recent inspection of the Bank was conducted on 15 December 2016 and the CBK issued its final report in relation to that inspection on 14 February 2017. The final report contained no material issues.

In addition to the CBK, the CMA also exercises supervisory authority over the Bank as a company listed on the Boursa Kuwait (formerly the KSE) and as an institution that engages in investment activities in accordance with article 124 of the CMA Regulations.

Banking System

As at 31 December 2015, the Kuwaiti banking sector comprised 23 banks, including five commercial banks, one specialised bank, five Shari'a-compliant local banks, branches of 11 international conventional banks and a branch of a Saudi Arabian Shari'a-compliant bank.

The Kuwait 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. As at 31 December 2016, the total assets of local banks in the Kuwaiti banking sector amounted to KD 60.4 billion and the total loans to Kuwaiti residents of those banks amounted to KD 34.3 billion (source: CBK).

The key performance indicators of the major Kuwaiti banks for the year ended 31 December 2016 are set out below (source: annual reports published on the company website of each bank listed below).

	Cost to income ratio	**Return on average assets**	**Return on average equity**	**Earnings per share**	**Growth in Total Assets****	**Growth in Customer Deposits *****
	(%)	*(%)*	*(%)*	*(fils*)*	*(%)*	*(%)*
National Bank of Kuwait	26.0	1.3	9.5	52	2.6	4.6
Burgan Bank	29.1	0.95	7.9	28.3	6.5	3.5
Gulf Bank	27.3	0.8	7.7	15	0.5	(11.5)
Commercial Bank of Kuwait	22.2	1.2	8.5	33.8	2.2	12.7
Al-Ahli Bank of Kuwait	26.7	0.8	5.8	20	(1.7)	16.2
Ahli United Bank	21.8	0.99	9.3	25.9	(5.4)	(6.3)
Boubyan Bank	31.6	1.25	11.1	17.8	11.1	22.8
The Bank	**40**	**0.15**	**0.27**	**2.58**	**45.2**	**73.1**

Note:

* 1000 fils equals one Kuwaiti dinar.

** Growth in total assets as at 31 December 2016 compared to 31 December 2015.

*** Growth in customer deposits as at 31 December 2016 compared to 31 December 2015.

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 interest or 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. 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 and in no circumstances will such delegation of the powers of the Trustee result in the Delegate holding on trust the Trust Assets. 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 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 Warba Tier 1 Sukuk 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 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, Cayman Islands, 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.

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. Whilst it has not been tested, the "lending of funds in Kuwait" could extend to include (i) the investment by the Trustee of the Mudaraba Capital with the Mudareb; and (ii) the holding of the Certificates by the Certificateholders. However, Article 150 (*bis*) of Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities (which was introduced pursuant to Law No. 22 of 2015) (Article 150 (*bis*)), which was endorsed by Administrative Order No. 2028/2015 issued by the MOF, provides that the returns from bonds, finance sukuk and other similar securities (which would include income generated from the holding of the Certificates), regardless of the nature of the issuer, are exempt from Kuwaiti tax and this should also apply to non-GCC corporate entities.

See "*Risk Factors – The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Certificates which are "non-GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances*".

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 payments by the Mudareb under the Mudaraba Agreement. Although payments made by the Mudareb would likely not be subject to retention because of the Tax Exceptions, there is 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.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under Existing Cayman Islands Laws:

1. Payments on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.
2. No stamp duty is payable in respect of the issue of the Certificates. An instrument of transfer in respect of a Certificate is stampable if executed in or brought into the Cayman Islands.

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

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Trustee). Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement (the "**Subscription Agreement**") dated 9 March 2017, 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.

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 11 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 3-151-2016 dated 21 December 2016 (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 11 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 11 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 14 March 2017. 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.$8,500.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 27 February 2017. Warba Tier 1 Sukuk Limited, in its capacity as the Issuer and the Trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands 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 18 July 2016.

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 157599275 and ISIN XS1575992752.

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 since 31 December 2016 and there has been no material adverse change in the prospects of the Bank since 31 December 2016.

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.

The Bank has not 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.

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 Cayman Islands, and does not intend, to publish audited financial statements or appoint any auditors.

The Bank's appointed auditors are Ernst & Young Kuwait and KPMG Kuwait. The business address of Ernst & Young Kuwait is P.O. Box 74, 18 – 21st Floor, Baitak Tower, Ahmed Al Jaber Street, Safat Square 13001, Kuwait and the business address of KPMG Kuwait is Al Hamra Tower, 25th Floor, Abdulaziz Al Saqr Street, Kuwait. Each of Ernst & Young Kuwait and KPMG Kuwait is regulated in Kuwait by the CMA and is a registered auditor licensed to act as an auditor in Kuwait by the Kuwaiti Ministry of Commerce and Industry.

The financial statements of the Bank as at and for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 have been jointly audited by both Waleed A. Al. Osaimi with license no. 68A from Ernst & Young Kuwait and Safi A. Al-Mutawa with license no. 138A from KPMG Kuwait, in each case 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 Board of the Bank, the Fatwa & Shariah Supervisory Board of KFH Capital Investment Company KSCC, the Fatwa and Shari'a Supervisory Board of Noor Bank PJSC and the Sharia Supervisory Committee of Standard Chartered Bank. The composition of such Shari'a supervisory boards is disclosed below.

Sharia Supervisory Board

Members of the Bank

Sheikh Dr Issa Zaki Issa

Dr. Issa holds a Ph.D. in Fiqh major from the Islamic University, Al Madina Al Monawar, KSA. He is assistant professor at the Shari'a and Islamic Studies College of Kuwait University.

He is a member of the Fatwa and Shari'a Supervision body in many Islamic banks and financial institutions, both in Kuwait and abroad. He is the author of many research studies in Islamic Fiqh.

Sheikh Dr Abdulaziz K. Al-Qassar

Mr. Al-Qassar holds a Ph.D. in Shari'a and Law from Al Azhar University, Cairo. He is Professor of Comparative Fiqh at the Shari'a and Islamic Studies College of Kuwait University and was previously the Assistant Dean for Scientific and Higher Studies and Research Affairs at the same institution.

He is a member of the Fatwa and Shari'a Supervision body in many Islamic banks and financial institutions, both in Kuwait and abroad, and is a lecturer in Islamic Financial Transactions. He is the author of many studies in research in Islamic Fiqh and Contemporary Financial Transactions.

Sheikh Dr Essam K. Al Enezi

Mr. Al Enezi holds a Ph.D. in Shari'a from the Jordanian University (Fiqh Major). He is a faculty member at Kuwait University, Comparative Fiqh Section - Shari'a and Islamic Studies College. He is a member of the Shari'a Council at the Accounting and Audit Board for Islamic Financial Institutions and a member of the Fatwa and Shari'a Supervision body in a number of Islamic banks and financial institutions. He is the author of several studies and research works.

Shariah Fatwa & Supervisory Board of KFH Capital Investment Company KSCC

Sheikh Dr. Anwar Shuaib Abdulsalam

Sheikh Dr. Anwar Shuaib Abdulsalam received his PhD in Islamic Jurisprudence from Al-Azhar University in 1999. He acts as the Chairman of Fatwa and Shariah Supervisory Board at KFH -Turkey. He is the former Head of Department of Fiqh and Usul Al-Fiqh at the Faculty of Shariah and Islamic Studies at Kuwait University, and a member of the Fatwa and Shariah Supervisory Board for a number of companies and Islamic institutions.

Sheikh Dr. Mubarak J. Al-Harbi

Sheikh Dr. Mubarak J. Al-Harbi received his PhD from the Faculty of Darul Ulum, Cairo University, in 2002.He is the Head of Department of Comparative Fiqh and Shariah Governance at the Faculty of Shariah at Kuwait University, and a member of the Fatwa and Shariah Supervisory Board at KFH – Bahrain. He is member of the Fatwa Authority at the Ministry of Awqaf in Kuwait, and a member of the Fatwa and Shariah Supervisory Board for a number of companies and Islamic institutions.

Sheikh Dr. Mohammed Abdul Razaq Al-Tabtabae

Sheikh Dr. Mohammed Abdul Razaq Al-Tabtabae is a PhD holder in Fiqh from the Higher Institute of Judiciary at Islamic University Imam Mohammed Bin Saoud in Riyadh in 1996.He is a former Dean of Faculty Shariah and Islamic Studies at Kuwait University, a member of the teaching board, Chairman of Fatwa and Shariah Supervisory Board at KFH - Kuwait, Chairman of Fatwa and Shariah Supervisory Board of KFH - Malaysia, member of Shariah 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 Shariah Supervisory Board to a number of financial Islamic institutions and companies.

Fatwa and Shari'a Supervisory Board of Noor Bank PJSC

Dr. Mohamed Ali Elgari

Dr. Elgari holds a PhD from the University of California and was born in Makkah, Saudi Arabia in the year 1949. Dr. Elgari was a Former Professor of Islamic Economic at King Abdulaziz University, Jeddah, Saudi

Arabia and Former Director of the Center for Research in Islamic Economics, in the same university. He is an Expert at the Islamic Jurisprudence Academy of the OIC and the Islamic Jurisprudence Academy of the Islamic World League and a member of the Shari'ah Council of Auditing Organisation for Islamic Financial Institutions (AAOIFI).

Dr. Elgari is member of editorial board of several academic publications in the field of Islamic Finance and Jurisprudence among them, Journal of the Jurisprudence Academy (of the IWL), Journal of Islamic Economic Studies (IDB), Journal of Islamic Economic (IAIE, London), and the advisory board of Harvard Series in Islamic Law, Harvard Law School. Dr. Elgari is member of numerous Shariah Boards of Islamic Banks and Takaful Companies worldwide. He authored several books in Islamic finance and published tens of articles on the subject both in Arabic and English. Dr. Elgari is also a frequent speaker in conferences worldwide.

Dr. Mohammed Daud Bakar

Dr. Bakar has a Ph.D. from the University of St. Andrews, a Bachelor of Jurisprudence from the University of Malaya, and a Bachelor's degree in Shari'a from the University of Kuwait. He is a Chairman of the Central Shari'a Advisory Council of the Central Bank of Malaysia and a member of Securities Commission of Malaysia and the Labuan Financial Services Authority and the International Islamic Liquidity Management Corporation (IILM). Prior to this, Dr Bakar was an Associate Professor in Islamic Law and Deputy Rector at the International Islamic University in Malaysia.

Dr. Bakar is the Founder and Group Chairman of Amanie Advisors, a global boutique Shariah advisory firm with offices located worldwide. He is also member of numerous Shariah Boards of Islamic Banks worldwide. He has published a number of articles in various academic journals and has made many presentations in various conferences both local and overseas.

Amjad Naser

Amjad Naser is currently the Head of Shari'a at Noor Investment Group. Amjad represents Noor Islamic Bank in several Islamic regulatory bodies like the Accounting & Auditing Organization of Islamic Financial Institutions (AAOIFI) and the Islamic Centre for Reconciliation and Arbitration (ICRA). Amjad is a certified Shari'a Advisor & Auditor, and also a certified Islamic Professional Accountant from Accounting & Auditing Organization of Islamic Financial Institutions (AAOIFI). Amjad has worked with some of the prominent Shari'a scholars in Islamic finance for number of years and has gained a lot of knowledge and experience in Shari'a practices.

In 2011 he has been recommended by Noor Investment Group Fatwa and Sharia Supervisory Board and appointed as the member of Fatwa and Sharia Supervisory Board for Noor Takaful Family and Noor Takaful General to oversee the Takaful arm of Noor Investment Group. As a founder member, Amjad played a vital role in setting up of Noor Bank and Noor Takaful and recently Noor Awqaf and Noor Trade. Amjad plays a significant role in designing products and structuring deals further and providing sharia consultations attributed from his vast experience both in sharia and banking sciences.

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

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.

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.

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WARBA BANK K.S.C.P.

FINANCIAL STATEMENTS

31 DECEMBER 2016

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State of Kuwait
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Fax + 965 2228 7444

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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KPMG

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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Impairment of financing receivables

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

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

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

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

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

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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

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

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

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

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

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

Report on the Audit of the Financial Statements (continued)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Building a better working world

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

Report on the Audit of the Financial Statements (continued)

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

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

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

WALEED A. AL OSAIMI	SAFI A. AL-MUTAWA
LICENSE NO. 68 A	LICENSE NO 138 "A"
EY	OF KPMG SAFI AL-MUTAWA & PARTNERS
AL-AIBAN, AL-OSAIMI & PARTNERS	MEMBER FIRM OF KPMG INTERNATIONAL

Kuwait: 11 January 2017

Warba Bank K.S.C.P.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	*2016* *KD'000*	*2015* *KD'000*
ASSETS			
Cash and balances with banks	3	**5,480**	3,845
Placements with banks		**166,940**	133,355
Financing receivables	4	**827,872**	543,794
Available-for-sale investments	5	**99,825**	68,661
Investment properties	6	**14,815**	15,127
Other assets		**6,387**	4.949
Property and equipment		**5,643**	6,376
TOTAL ASSETS		**1,126,962**	776,107
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	7	**274,131**	244.333
Depositors' accounts	8	**750,498**	433.465
Other liabilities		**7,561**	6,029
TOTAL LIABILITIES		**1,032,190**	683,827
EQUITY	9		
Share capital		**100,000**	100,000
Accumulated losses		**(4,798)**	(7,373)
Fair value reserve		**(430)**	(347)
TOTAL EQUITY		**94,772**	92,280
TOTAL LIABILITIES AND EQUITY		**1,126,962**	776,107

Abdulwahab A. Al Houti
Chairman

Shaheen H. Al Ghanem
Chief Executive Officer

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

Warba Bank K.S.C.P.

STATEMENT OF INCOME
For the year ended 31 December 2016

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

Warba Bank K.S.C.P.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

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

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

Warba Bank K.S.C.P.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

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

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

Warba Bank K.S.C.P.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

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

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

1. CORPORATE INFORMATION

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

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

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

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

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

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of preparation

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

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

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

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

Annual Improvements 2012-2014 Cycle

IAS 19 Employee Benefits

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

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

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

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 – Financial Instruments

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

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 16 – Leases

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 – Leases (continued)

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

Amendments to IAS 7 Statement of Cash Flows

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Classification of financial instruments

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

Recognition

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

De-recognition

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

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

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

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

Measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Category of financial instruments

Placement with banks and financing receivables

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

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

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

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

Available-for-sale investments

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

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

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

Financial liabilities other than at fair value through profit or loss

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

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

Financial guarantees

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

Offsetting

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

National Labour Support Tax (NLST)

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

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

Segment information

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

Foreign currencies

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

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

Provisions

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

Contingencies

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

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

Use of estimates

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

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

Impairment losses on financing facilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments

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

Impairment of available-for-sale equity investments

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

Classification of property

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

3. CASH AND CASH EQUIVALENTS

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

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

4. FINANCING RECEIVABLES

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

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

4. FINANCING RECEIVABLES (continued)

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

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

Movement in provision for impairment:

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

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

5. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

6. INVESTMENT PROPERTIES

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

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

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

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

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

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

7. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

8. DEPOSITORS' ACCOUNTS

Depositors' accounts of the Bank comprise of the following:

a) *Non-investment deposits in the form of current accounts*
These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank.

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

9. EQUITY

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

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

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

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

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

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

10. NET INVESTMENT INCOME

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

11. NET FEES AND COMMISSION INCOME

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

12. BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

13. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

13. TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation to key management personnel and remuneration of board members:

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

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

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

14. COMMITMENTS AND CONTINGENT LIABILITIES

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

15. RISK MANAGEMENT

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

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

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

15. RISK MANAGEMENT (continued)

a) Risk management structure

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

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

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

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

b) Credit risk

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

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

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

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

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

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

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

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral

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

	Net maximum exposure	
	2016	*2015*
	KD'000	*KD'000*
Credit risk exposures relating to statement of financial position items:		
Balances with banks	**3,864**	2,840
Placements with banks	**166,940**	133,355
Financing receivables	**827,872**	543,794
Available-for-sale investments (investment in Sukuk)	**73,820**	51,283
Other assets	**4,380**	3,708
Total	**1,076,876**	734,980

	Net maximum exposure	
	2016	*2015*
	KD'000	*KD'000*
Credit risk exposures relating to off-statement of financial position items:		
Acceptances and letters of credit	**9,094**	10,985
Letter of guarantees	**40,951**	23,708
Total	**50,045**	34,693
Total credit risk exposure	**1,126,921**	769,673

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

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

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

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk
Geographical and industry sector concentrations of financial assets and off- statement of financial position items are as follows:

	2016		2015	
	Financial assets KD'000	**Off- statement of financial position items KD'000**	Financial assets KD'000	Off- statement of financial position items KD'000
Geographic region:				
Kuwait	**870,756**	**45,357**	594,384	34,693
Other Middle East	**175,673**	-	112,944	-
Rest of the World	**30,447**	**4,688**	27,652	-
	1,076,876	**50,045**	734,980	34,693

	2016		2015	
	Financial assets KD'000	**Off- statement of financial position items KD'000**	Financial assets KD'000	Off- statement of financial position items KD'000
Industry sector:				
Banks and Financial Institutions	**288,819**	**4,688**	161,414	-
Construction and Real Estate	**375,412**	**32,898**	252,249	13,509
Trading and Manufacturing	**150,463**	**8,962**	92,519	5,301
Other	**262,182**	**3,497**	228,798	15,883
	1,076,876	**50,045**	734,980	34,693

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

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

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

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

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit quality of financial instruments (continued)
The table below shows the credit quality of assets by class and grade before deducting the provision for impairment.

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

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

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

c) Market risk

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

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

15. RISK MANAGEMENT (continued)

c) Market risk (continued)

Market risk management (continued)
The market risk framework comprises of the following elements:

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

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

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

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

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

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

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

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

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

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

15. RISK MANAGEMENT (continued)

d) Liquidity risk

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

Liquidity risk management

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

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

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

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

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

2016	*Within 3 months KD'000*	*3 to 6 months KD'000*	*6 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
Assets					
Cash and balances with banks	5,480	-	-	-	5,480
Placements with banks	153,346	13,594	-	-	166,940
Financing receivables	483,123	140,640	31,069	173,040	827,872
Available-for-sale investments	31,245	711	-	67,869	99,825
Investment properties	-	-	-	14,815	14,815
Other assets	1,708	439	251	3,989	6,387
Property and equipment	-	-	-	5,643	5,643
	674,902	155,384	31,320	265,356	1,126,962
Liabilities					
Due to banks and other financial institutions	116,407	59,849	87,752	10,123	274,131
Depositors' accounts	491,233	136,246	123,019	-	750,498
Other liabilities	6,603	-	-	958	7,561
	614,243	196,095	210,771	11,081	1,032,190

15. RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

2015	*Within 3 months KD'000*	*3 to 6 months KD'000*	*6 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
Assets					
Cash and balances with banks	3,845	-	-	-	3,845
Placements with banks	128,353	5,002	-	-	133,355
Financing receivables	237,165	112,988	66,151	127,490	543,794
Available-for-sale investments	4,352	766	2,476	61,067	68,661
Investment properties	-	-	-	15,127	15,127
Other assets	1,617	183	154	2995	4,949
Property and equipment	-	-	-	6,376	6,376
	375,332	118,939	68,781	213,055	776,107
Liabilities					
Due to banks and other financial institutions	156,723	45,328	21,588	20,694	244,333
Depositors' accounts	241,220	121,533	70,712	-	433,465
Other liabilities	5,158	-	-	871	6,029
	403,101	166,861	92,300	21,565	683,827

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

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

15. RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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

	Within 3 months KD'000	*3 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
2016				
Acceptances and letters of credit	**6,166**	**2,974**	**-**	**9,140**
Letter of guarantees	**8,141**	**13,773**	**19,242**	**41,156**
Capital commitments	**-**	**238**	**-**	**238**
	14,307	**16,985**	**19,242**	**50,534**

	Within 3 months KD'000	*3 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
2015				
Acceptances and letters of credit	6,857	3,844	339	11,040
Letter of guarantees	3,719	9,876	10,232	23,827
Capital commitments	-	575	-	575
	10,576	14,295	10,571	35,442

e) Operational risk

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

Management of operational risk

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

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

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

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

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

16. SEGMENT REPORTING

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

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

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

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

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

	Corporate KD'000	***Retail KD'000***	***Treasury KD'000***	***Investment KD'000***	***Other KD'000***	***Total KD'000***
2016						
Segment operating income	**13,467**	**4,436**	**801**	**4,080**	**-**	**22,784**
Segment result	**8,358**	**(1,649)**	**622**	**3,716**	**(8,472)**	**2,575**
Segment assets	**655,687**	**172,185**	**166,940**	**114,640**	**17,510**	**1,126,962**

	Corporate KD'000	*Retail KD'000*	*Treasury KD'000*	*Investment KD'000*	*Other KD'000*	*Total KD'000*
2015						
Segment operating income	9,773	3,426	586	4,294	-	18,079
Segment result	6,705	(1,862)	440	4,038	(8,321)	1,000
Segment assets	416,335	127,458	133,355	83,789	15,170	776,107

17. CAPITAL MANAGEMENT

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

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

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

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

17. CAPITAL MANAGEMENT (continued)

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

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

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

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

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

18. FAIR VALUE MEASUREMENT

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

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

2016	*Date of valuation*	*Total KD'000*	*Fair value measurement: Quoted prices in active markets (Level 1) KD'000*	*Significant observable inputs (Level 2) KD'000*	*Significant unobservable inputs (Level 3) KD'000*
Assets measured at fair value					
Financial assets available-for-sale					
Sukuk		**71,820**	**71,820**	-	-
- Government Sukuk	**31 December 2016**	31,009	31,009	-	-
- Corporate Sukuk	**31 December 2016**	40,811	40,811	-	-
Quoted equity security	**31 December 2016**	**837**	**837**	-	-
Unquoted Sukuk	**31 December 2016**	**2,000**	-	-	**2,000**
Assets measured at cost while fair value is disclosed					
Investment properties		**15,632**	-	-	**15,632**
- Kuwait	**31 December 2016**	10,307	-	-	10,307
- Other Middle East	**31 December 2016**	5,325	-	-	5,325

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

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

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

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

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

WARBA BANK K.S.C.P.

FINANCIAL STATEMENTS

31 DECEMBER 2015

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

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

Report on Other Legal and Regulatory Requirements (continued)

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

SAFI A. AL-MUTAWA	WALEED A. AL OSAIMI
LICENSE NO. 138 A	LICENSE NO. 68 A
KPMG Safi Al-Mutawa & Partners	EY
MEMBER FIRM OF KPMG INTERNATIONAL	AL AIBAN, AL OSAIMI & PARTNERS

10 January 2016
Kuwait

Warba Bank K.S.C.P.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

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

Imad Abdullah Al Thaqib
Chairman

Jassar D. Al Jassar
Vice Chairman and Chief Executive Officer

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

STATEMENT OF INCOME

For the year ended 31 December 2015

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

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

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

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

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

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

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

1. CORPORATE INFORMATION

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

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

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

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

2.1 BASIS OF PREPARATION

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

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

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

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

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IAS 16 (Amendments) – Clarification of Acceptable Methods of Depreciation
The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. These amendments were issued in May 2014 and applied to annual periods on or after 1 January 2016. The Bank is in the process of quantifying the impact of this standard on the Bank's financial statements, when adopted.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Classification of financial instruments

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

Recognition

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

De-recognition

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

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

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

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

Measurement

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

Category of financial instruments

Placement with banks and financing receivables

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Category of financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
The carrying amount of the asset is reduced by the amount of impairment and the amount of impairment loss is recognised in the statement of income.

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

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

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

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

Impairment of non-financial assets

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

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

End of service indemnity

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

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

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

Revenue recognition

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

National Labour Support Tax (NLST)

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

Zakat

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

Segment information

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

Foreign currencies

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

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

Provisions

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

Contingencies

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

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

Use of estimates

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

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

Impairment losses on financing facilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates (continued)
Impairment losses on financing facilities (continued)

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

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

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

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

3. CASH AND CASH EQUIVALENTS

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

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

4. FINANCING RECEIVABLES

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

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

4. FINANCING RECEIVABLES (continued)

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

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

Movement in provision for impairment:

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

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

5. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

6. INVESTMENT PROPERTIES

	2015 *KD'000*	*2014* *KD'000*
Balance at 1 January	**15,340**	24,480
Sale during the year	**-**	(8,900)
Depreciation and impairment charged for the year	**(213)**	(240)
Balance at 31 December	**15,127**	15,340

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

	2015 *KD'000*	*2014* *KD'000*
Rental income from investment properties	**1,040**	1,393
Direct operating expenses	**(298)**	(516)
Net rental income arising from investment properties (note 10)	**742**	877

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

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

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

7. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

8. DEPOSITORS' ACCOUNTS

Depositors' accounts of the Bank comprise of the following:

a) *Non-investment deposits in the form of current accounts:*
These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank.

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

9. EQUITY

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

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

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

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

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

10. NET INVESTMENT INCOME

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

11. NET FEES AND COMMISSION INCOME

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

12. BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

13. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

13. TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation to key management personnel:

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

14. COMMITMENTS AND CONTINGENT LIABILITIES

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

15. RISK MANAGEMENT

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

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

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

a) Risk management structure

Board of Directors

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

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

15. RISK MANAGEMENT (continued)

a) Risk management structure (continued)

Risk Management Group

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

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

b) Credit risk

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

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

Credit risk management

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

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

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

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

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

Maximum exposure to credit risk without taking account of any collateral

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

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

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

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

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

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

Risk concentrations of the maximum exposure to credit risk

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

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

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

15. RISK MANAGEMENT (continued)

b) Credit risk (continued)

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

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

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

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

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

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

c) Liquidity risk

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

15. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

Liquidity risk management

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

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

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

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

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

2015	*Within 3 months KD'000*	*3 to 6 months KD'000*	*6 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
Assets					
Cash and balances with banks	3,845	-	-	-	3,845
Placements with banks	128,353	5,002	-	-	133,355
Financing receivables	237,165	112,988	66,151	127,490	543,794
Available-for-sale investments	4,352	766	2,476	61,067	68,661
Investment properties	-	-	-	15,127	15,127
Other assets	1,617	183	154	2995	4,949
Property and equipment	-	-	-	6,376	6,376
	375,332	118,939	68,781	213,055	776,107
Liabilities					
Due to banks and other financial institutions	156,723	45,328	21,588	20,694	244,333
Depositors' accounts	241,220	121,533	70,712	-	433,465
Other liabilities	5,158	-	-	871	6,029
	403,101	166,861	92,300	21,565	683,827

15. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

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

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

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

15. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

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

	Within 3 months KD'000	*3 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
2015				
Acceptances and letters of credit	**6,857**	**3,844**	**339**	**11,040**
Letter of guarantees	**3,719**	**9,876**	**10,232**	**23,827**
Capital commitments	**-**	**575**	**-**	**575**
	10,576	**14,295**	**10,571**	**35,442**

	Within 3 months KD'000	*3 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
2014				
Acceptances and letters of credit	505	551	979	2,035
Letter of guarantees	85	4,316	8,355	12,756
Capital commitments	-	461	-	461
	590	5,328	9,334	15,252

d) Market risk

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

Market risk management

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

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

The market risk framework comprises of the following elements:

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

15. RISK MANAGEMENT (continued)

d) Market risk

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

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

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

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

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

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

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

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

15. RISK MANAGEMENT (continued)

e) Prepayment risk

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

f) Operational risk

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

Management of operational risk

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

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

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

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

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

16. SEGMENT REPORTING

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

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

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

16. SEGMENT REPORTING (continued)

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

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

	Corporate KD'000	*Retail KD'000*	*Treasury KD'000*	*Investment KD'000*	*Other KD'000*	*Total KD'000*
2015						
Segment operating income	**10,214**	**3,616**	**1,023**	**3,226**	**-**	**18,079**
Segment result	**7,147**	**(1,672)**	**877**	**2,970**	**(8,322)**	**1,000**
Segment assets	**416,337**	**127,458**	**151,187**	**65,956**	**15,169**	**776,107**

	Corporate KD'000	*Retail KD'000*	*Treasury KD'000*	*Investment KD'000*	*Other KD'000*	*Total KD'000*
2014						
Segment operating income	7,771	2,164	494	3,124	-	13,553
Segment result	6,102	(2,206)	373	2,702	(6,856)	115
Segment assets	318,783	69,376	142,805	48,124	15,717	594,805

17. CAPITAL MANAGEMENT

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

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

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

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

17. CAPITAL MANAGEMENT (continued)

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

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

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

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

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

18. FAIR VALUE MEASUREMENT

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

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

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

2014			*Fair value measurement*		
	Date of valuation	*Total KD'000*	*Quoted prices in active markets (Level 1) KD'000*	*Significant observable inputs (Level 2) KD'000*	*Significant unobservable inputs (Level 3) KD'000*
Assets measured at fair value					
Financial assets available-for-sale					
Sukuk		41,926	41,926	-	-
- Government Sukuk	31 December 2014	32,505	32,505	-	-
- Corporate Sukuk	31 December 2014	9,421	9,421	-	-
Quoted equity security	31 December 2014	131	131	-	-
Assets measured at cost while fair value is disclosed					
Investment properties		15,836	-	-	15,836
- Kuwait	31 December 2014	10,571	-	-	10,571
- Other Middle East	31 December 2014	5,265	-	-	5,265

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

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

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

WARBA BANK K.S.C.P.

FINANCIAL STATEMENTS

31 DECEMBER 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of Warba Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 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.

KPMG

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Report on Other Legal and Regulatory Requirements

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

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations, during the year ended 31 December 2014 that might have had a material effect on the business of the Bank or on its financial position.

SAFI AL-MUTAWA
LICENSE NO. 138A
KPMG Safi Al-Mutawa & Partners
MEMBER FIRM OF KPMG
INTERNATIONAL

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

11 January 2015
Kuwait

Warba Bank K.S.C.P.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	***2014*** ***KD'000***	*2013* *KD'000*
ASSETS			
Cash and balances with banks	3	**6,098**	18,123
Placements with banks		**122,590**	72,552
Financing receivables	4	**388,159**	218,028
Available-for-sale investments	5	**53,000**	63,038
Investment properties	6	**15,340**	24,480
Other assets		**3,083**	2,260
Property and equipment		**6,535**	7,029
TOTAL ASSETS		**594,805**	405,510
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	7	**153,086**	65,103
Depositors' accounts	8	**346,092**	246,862
Other liabilities		**3,762**	2,900
TOTAL LIABILITIES		**502,940**	314,865
EQUITY			
Share capital	9	**100,000**	100,000
Accumulated losses		**(8,373)**	(8,488)
Fair value reserve		**238**	(867)
TOTAL EQUITY		**91,865**	90,645
TOTAL LIABILITIES AND EQUITY		**594,805**	405,510

Imad Abdullah Al Thaqib
Chairman

Jassar D. Al Jassar
Vice Chairman and Chief Executive Officer

The accompanying notes 1 to 17 form an integral part of these financial statements.

INCOME STATEMENT
For the year ended 31 December 2014

	Notes	*2014* *KD'000*	*2013* *KD'000*
INCOME			
Placements and financing income		**13,858**	8,160
Investment income	10	**4,081**	1,854
Net fees and commission		**419**	302
Other income		**176**	-
Foreign exchange (loss) gain		**(7)**	7
		18,527	10,323
EXPENSES			
Staff costs		**7,251**	5,232
General and administrative expenses		**2,989**	2,364
Depreciation		**1,345**	1,202
Finance cost		**1,442**	435
Provision for impairment	4	**1,802**	2,755
		14,829	11,988
Profit (loss) before distribution to depositors		**3,698**	(1,665)
Distribution to depositors		**(3,532)**	(2,044)
Profit (loss) before tax and Directors' remuneration		**166**	(3,709)
National Labour Support Tax		**(9)**	-
Directors' remuneration		**(42)**	-
PROFIT (LOSS) FOR THE YEAR		**115**	(3,709)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	11	**0.12 fils**	(3.71) fils

The accompanying notes 1 to 17 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	*2014* *KD'000*	*2013* *KD'000*
Profit (loss) for the year		**115**	(3,709)
Other comprehensive income (loss):			
Other comprehensive income (loss) to be reclassified to income statement in subsequent years:			
Change in fair value of available-for-sale investments		**1,421**	(1,184)
Gain realized during the year transferred to income statement	10	**(316)**	(4)
Other comprehensive income (loss) for the year		**1,105**	(1,188)
Total comprehensive income (loss) for the year		**1,220**	(4,897)

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	Share capital KD'000	*Accumulated losses KD'000*	*Fair value reserve KD'000*	*Total Equity KD'000*
Balance at 1 January 2014	100,000	(8,488)	(867)	90,645
Profit for the year	-	115	-	115
Other comprehensive income	-	-	1,105	1,105
Total comprehensive income for the year	-	115	1,105	1,220
Balance at 31 December 2014	**100,000**	**(8,373)**	**238**	**91,865**
Balance at 1 January 2013	100,000	(4,779)	321	95,542
Loss for the year	-	(3,709)	-	(3,709)
Other comprehensive loss	-	-	(1,188)	(1,188)
Total comprehensive loss for the year	-	(3,709)	(1,188)	(4,897)
Balance at 31 December 2013	100,000	(8,488)	(867)	90,645

The accompanying notes 1 to 17 form an integral part of these financial statements.

Warba Bank K.S.C.P.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	*2014* *KD'000*	*2013* *KD'000*
OPERATING ACTIVITIES			
Profit (loss) for the year		**115**	(3,709)
Adjustments for:			
Gain on available-for-sale investments	10	**(316)**	(4)
Gain on sale of investment property	10	**(681)**	-
Dividend income	10	**(769)**	-
Sukuk income	10	**(1,438)**	(1,376)
Net rental income from investment properties	10	**(877)**	(474)
Provision for end of service benefits		**201**	152
Depreciation		**1,345**	1,202
Provision for impairment	4	**1,802**	2,755
		(618)	(1,454)
Changes in operating assets and liabilities:			
Placements with banks		**(9,851)**	14,032
Financing receivables		**(171,933)**	(137,876)
Other assets		**(1,098)**	(131)
Due to banks and other financial institutions		**87,983**	18,585
Depositors' accounts		**99,230**	168,650
Other liabilities		**(1,409)**	(389)
Net cash from operating activities		**2,304**	61,417
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		**(7,690)**	(43,221)
Proceed from sale of available-for-sale investments		**20,326**	567
Purchase of investment properties	6	**-**	(14,274)
Proceeds from sale of investment property		**9,740**	-
Purchase of property and equipment		**(851)**	(4,737)
Dividend income received		**769**	-
Sukuk income received		**2,042**	1,381
Rental income received		**1,522**	1,135
Net cash from (used in) investing activities		**25,858**	(59,149)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**28,162**	2,268
Cash and cash equivalents at 1 January		**53,193**	50,925
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	**81,355**	53,193

The accompanying notes 1 to 17 form an integral part of these financial statements.

1. CORPORATE INFORMATION

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

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

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

The financial statements of the Bank for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 11 January 2015. The Annual General Assembly of the shareholders of the Bank has the power to amend these financial statements after issuance.

2.1 BASIS OF PREPARATION

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Bank are consistent with those used in the previous year, except for the adoption of the following new and amended IFRS and interpretations effective as of 1 January 2014:

IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendment)
These amendments are effective for periods beginning on or after 1 January 2014 and clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment has not resulted in any impact on the financial position or performance of the Bank.

IAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendment)
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Though these amendments have not resulted in any additional disclosures currently, the same would continue to be considered for future disclosures.

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

Other amendments to IFRSs which are effective for accounting period starting from 1 January 2014 did not have any significant impact on the accounting policies, financial position or performance of the Bank.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

IFRS 15: Revenue from Contracts with Customers
IFRS 15 was issued by IASB on 28 May 2014 is effective for 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 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 Bank is in the process of evaluating the effect of IFRS 15 on the Bank and do not expect any significant impact on adoption of this standard.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Wakala is an agreement whereby the Bank provides a sum of money to a customer under an agency arrangement, who invests it according to specific conditions in return for a fee.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(i) Placement and financing income is income from Murabaha, leasing and Wakala investments and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.

(ii) Rental income from investment properties is recognized on an accrual basis.

(iii) Dividend income is recognized when the right to receive payment is established.

(iv) Fee and commission income is recognized at the time the related services are provided.

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Impairment losses on financing facilities
The Bank reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

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

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

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

3. CASH AND CASH EQUIVALENTS

	2014 ***KD'000***	*2013* *KD'000*
Cash	**1,816**	1,514
Current account with CBK	**712**	1,982
Current accounts with commercial banks	**3,570**	14,627
Cash and balances with banks	**6,098**	18,123
Placements with CBK whose original maturity is within 3 months	**15,016**	12,000
Placements with banks whose original maturity is within 3 months	**60,241**	23,070
	81,355	53,193

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

4. FINANCING RECEIVABLES

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

	2014 *KD'000*	*2013* *KD'000*
Murabaha receivables	**348,509**	209,010
Ijara receivables	**69,489**	24,612
Others	**400**	231
Less: deferred profit	**(24,726)**	(12,132)
Net financing receivables	**393,672**	221,721
Less: provision for impairment	**(5,513)**	(3,693)
	388,159	218,028

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

	2014 *KD'000*	2013 KD'000
Corporate	**319,155**	186,202
Retail	**74,517**	35,519
	393,672	221,721
Less: provision for impairment	**(5,513)**	(3,693)
	388,159	218,028
Industry sector		
Trading and services	**96,508**	77,212
Real estate	**154,822**	77,727
Manufacturing and construction	**50,314**	15,053
Personal	**74,517**	35,519
Others	**17,511**	16,210
	393,672	221,721
Less: provision for impairment	**(5,513)**	(3,693)
	388,159	218,028

4. FINANCING RECEIVABLES (continued)

Movement in provision for impairment:

	2014			*2013*		
	Specific provision KD'000	***General provision KD'000***	***Total KD'000***	*Specific provision KD'000*	*General provision KD'000*	*Total KD'000*
Cash facilities						
Balance at 1 January	**638**	**3,055**	**3,693**	116	831	947
Provision charged during the year	**107**	**1,694**	**1,801**	522	2,228	2,750
Foreign currency movement	**-**	**19**	**19**	-	(4)	(4)
Balance at 31 December	**745**	**4,768**	**5,513**	638	3,055	3,693
Non-cash facilities						
Balance at 1 January	**-**	**73**	**73**	-	69	69
Provision charged during the year	**-**	**1**	**1**	-	5	5
Foreign currency movement	**-**	**-**	**-**	-	(1)	(1)
Balance at 31 December	**-**	**74**	**74**	-	73	73
Total facilities						
Balance at 1 January	**638**	**3,128**	**3,766**	116	900	1,016
Provision charged during the year	**107**	**1,695**	**1,802**	522	2,233	2,755
Foreign currency movement	**-**	**19**	**19**	-	(5)	(5)
Balance at 31 December	**745**	**4,842**	**5,587**	638	3,128	3,766

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

The fair values of financing receivables do not differ from their respective book values.

5. AVAILABLE-FOR-SALE INVESTMENTS

	2014 KD'000	*2013 KD'000*
Quoted Sukuk	**41,926**	56,528
Quoted equity security	**131**	-
Unquoted equity security	**4,098**	4,098
Unquoted funds	**6,845**	2,412
	53,000	63,038

All available for sale investments are recorded at fair value except for unquoted investments with a carrying value of KD 10,943 thousand (2013: KD 6,510 thousand), which are recorded at cost less impairment (if any).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in note 17.

6. INVESTMENT PROPERTIES

	2014 *KD'000*	*2013* *KD'000*
Balance at 1 January	**24,480**	11,025
Purchase during the year	**-**	14,274
Sale during the year	**(8,900)**	-
Depreciation and impairment charged for the year	**(240)**	(819)
Balance at 31 December	**15,340**	24,480

The fair value of the investment properties at the reporting date is KD 15,836 thousand (2013: KD 24,842 thousand).

The fair values of the properties are based on valuations performed by accredited independent valuers, who are specialists in valuing these types of investment properties. The valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

	2014 *KD'000*	*2013* *KD'000*
Rental income from investment properties	**1,393**	1,350
Direct operating expenses	**(516)**	(876)
Net rental income arising from investment properties (note 10)	**877**	474

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

Fair value hierarchy disclosures for investment properties have been provided in Note 17.

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

7. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

8. DEPOSITORS' ACCOUNTS

Depositors' accounts represent current accounts, saving accounts and deposits received from customers under Wakala and Mudarba contracts.

9. EQUITY

Share capital

The authorised, issued and paid up capital of the Bank comprises 1,000 million ordinary shares of 100 fils each (2013: 1,000 million shares of 100 fils each). The share capital has been contributed in cash.

Statutory reserve

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

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

Voluntary reserve

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

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

10. INVESTMENT INCOME

	2014 KD'000	*2013 KD'000*
Gain on sale of available-for-sale investments	**316**	4
Gain on sale of investment property	**681**	-
Dividend income	**769**	-
Sukuk income	**1,438**	1,376
Net rental income from investment properties (note 6)	**877**	474
	4,081	1,854

11. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

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

	2014	*2013*
Profit (loss) for the year (KD'000)	**115**	(3,709)
Weighted average number of shares outstanding ('000)	**1,000,000**	1,000,000
Basic and diluted earnings (loss) per share (fils)	**0.12**	(3.71)

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

12. TRANSACTIONS WITH RELATED PARTIES

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

Balances with related parties included in the statement of financial position amount to KD 84,475 thousand (2013: KD 84,628 thousand) with a major shareholder classified as depositors' accounts.

Transactions included in the income statement are transactions with a major shareholder amounting to KD 914 thousand (2013: KD 773 thousand) classified as distribution to depositors.

Compensation to key management personnel:

	2014 *KD'000*	*2013* *KD'000*
Salaries and other short-term benefits	**1,637**	1,123
Post-employment benefits	**104**	77
	1,741	1,200

13. COMMITMENTS AND CONTINGENT LIABILITIES

	2014 *KD'000*	*2013* *KD'000*
Acceptances and letters of credit	**2,035**	2,694
Letter of guarantees	**12,756**	11,909
Contingent liabilities	**14,791**	14,603
Capital commitments	**461**	246

14. RISK MANAGEMENT

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

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

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

a) Risk management structure

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

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

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

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

b) Credit risk

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

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

Credit risk management
The Bank's Board has approved Financing and Investment policies for various business groups and investment asset types. The Board has also approved the Executive Credit and Investment Committee (the 'ECIC') Charter empowered for initial screening of proposals and, approval within its delegated authorities and the BCIC Charter which provides guiding principles and approving authorities for the various financing and investment proposals of the Bank.

14. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit risk management (continued)

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

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

In addition, the Bank manages the credit exposure by obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the Bank's management of risks to an exposure.

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

Maximum exposure to credit risk without taking account of any collateral

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

	Gross maximum exposure	
	2014	*2013*
	KD'000	*KD'000*
Credit risk exposures relating to on-statement of financial position items:		
Balances with banks	**4,282**	16,609
Placements with banks	**122,994**	72,716
Financing receivables	**412,885**	230,160
Available-for-sale investments (investment in sukuk)	**41,926**	56,528
Other assets	**1,791**	699
Total	**583,878**	376,712
Credit risk exposures relating to off-statement of financial position items:		
Acceptances and letters of credit	**2,025**	2,681
Letter of guarantees	**12,692**	11,849
Total	**14,717**	14,530
Total credit risk exposure	**598,595**	391,242

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

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

The maximum credit exposure to a single counterparty as at 31 December 2014 was KD 15,015 thousand (2013: KD 14,060 thousand) before taking account of collateral.

14. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

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

	2014		*2013*	
	Financial assets KD'000	*Off- statement of financial position items KD'000*	*Financial assets KD'000*	*Off- statement of financial position items KD'000*
Geographic region:				
Kuwait	**473,469**	**14,717**	257,988	7,504
Other Middle East	**53,829**	-	69,622	7,026
Rest of the world	**56,580**	-	49,102	-
	583,878	**14,717**	376,712	14,530

	2014		*2013*	
	Financial assets KD'000	*Off- statement of financial position items KD'000*	*Financial assets KD'000*	*Off- statement of financial position items KD'000*
Industry sector:				
Banks and financial institutions	**180,974**	-	152,042	-
Construction and real estate	**172,152**	**10,159**	80,735	8,780
Trading and manufacturing	**92,062**	**613**	63,267	705
Other	**138,690**	**3,945**	80,668	5,045
	583,878	**14,717**	376,712	14,530

Credit risk mitigation

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

Credit quality of financial instruments

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

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

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

14. RISK MANAGEMENT (continued)

b) Credit risk (continued)

The table below shows the gross credit quality of assets by class and grade.

	Neither past due nor impaired		*Past due or impaired*	
	High quality KD'000	*Standard quality KD'000*	*KD'000*	*Total KD'000*
2014				
Balances with banks	4,282	-	-	**4,282**
Placements with banks	122,994	-	-	**122,994**
Financing receivables	269,367	140,111	3,407	**412,885**
Available-for-sale investments (investment in sukuk)	41,926	-	-	**41,926**
Other assets	1,791	-	-	**1,791**
	440,360	**140,111**	**3,407**	**583,878**
2013				
Balances with banks	16,609	-	-	16,609
Placements with banks	72,716	-	-	72,716
Financing receivables	164,330	67,425	2,098	233,853
Available-for-sale investments (investment in sukuk)	56,528	-	-	56,528
Other assets	523	176	-	699
	310,706	67,601	2,098	380,405

c) Liquidity risk

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

Liquidity risk management

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

Risk Management Group (RMG) and Treasury monitor bank's liquidity profile daily and take appropriate steps, if required. Treasury is updated daily on the Bank's liquidity profile; overall assets and liabilities as well as for KD and foreign currencies; on Bank's position in terms of Statutory Liquidity Ratio (SLR) as well as Lending to Deposit Ratio (LDR). Treasury also receives from other business groups details of other projected cash flows arising from projected future business.

Treasury is required to maintain a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and availability of inter-bank facilities at short notice, to ensure that sufficient liquidity is maintained with the Bank. The liquidity requirements of business groups are met through short-term or long-term funding as necessitated. Treasury's liquidity management is performed with most optimization, taking into account the maturity gaps. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the ALCO. A summary report, including any exceptions and remedial action taken, is reviewed by the ALCO. The Bank is governed by the liquidity limits and maturity ladder profile required by the CBK regulations and approved limits.

14. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

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

The Bank measures liquidity risk by preparing and monitoring the maturity profile of its assets and liabilities.

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

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

2013	*Within 3 months KD'000*	*3 to 6 months KD'000*	*6 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
Assets					
Cash and balances with banks	18,123	-	-	-	18,123
Placements with banks	64,657	7,895	-	-	72,552
Financing receivables	124,706	48,005	15,243	30,074	218,028
Available-for-sale investments	27,419	-	-	35,619	63,038
Investment properties	-	-	-	24,480	24,480
Other assets	1,316	181	36	727	2,260
Property and equipment	-	-	-	7,029	7,029
	236,221	56,081	15,279	97,929	405,510
Liabilities					
Due to banks and other financial institutions	39,426	-	20,248	5,429	65,103
Depositors' accounts	105,868	83,270	57,724	-	246,862
Other liabilities	2,474	-	-	426	2,900
	147,768	83,270	77,972	5,855	314,865

14. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

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

	Within 3 months KD'000	*3 to 6 months KD'000*	*6 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
2014					
Due to banks and other financial institutions	**45,657**	**36,912**	**20,554**	**51,807**	**154,930**
Depositors' accounts	**107,294**	**195,510**	**45,310**	**-**	**348,114**
Other liabilities	**3,146**	**-**	**-**	**616**	**3,762**
	156,097	**232,422**	**65,864**	**52,423**	**506,806**
2013					
Due to banks and other financial institutions	34,452	5,017	20,479	6,130	66,078
Depositors' accounts	109,712	78,994	58,245	-	246,951
Other liabilities	2,474	-	-	426	2,900
	146,638	84,011	78,724	6,556	315,929

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

	Within 3 months KD'000	*3 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
2014				
Acceptances and letters of credit	**505**	**551**	**979**	**2,035**
Letter of guarantees	**85**	**4,316**	**8,355**	**12,756**
Capital commitments	**-**	**461**	**-**	**461**
	590	**5,328**	**9,334**	**15,252**

	Within 3 months KD'000	*3 to 12 months KD'000*	*Over 1 year KD'000*	*Total KD'000*
2013				
Acceptances and letters of credit	1,433	-	1,261	2,694
Letter of guarantees	753	7,553	3,603	11,909
Capital commitments	-	246	-	246
	2,186	7,799	4,864	14,849

14. RISK MANAGEMENT (continued)

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

Market risk management
Overall supervision authority for market risk is vested in the ALCO function. The Risk Management Group are responsible for development of detailed Market Risk Management policies and for the day-to-day review of their implementation.

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

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that bank does not exceed aggregate risk and concentration parameters set by the management.
- Independent mark-to-market valuation, continuous review of all open positions and risk review of all investment proposals.

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

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

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

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

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

	2014			*2013*		
Currency	*Change in currency rate %*	*Effect on result KD 000's*	*Effect on fair value reserve KD 000's*	*Change in currency rate %*	*Effect on result KD 000's*	*Effect on fair value reserve KD 000's*
USD	**+1**	**(36)**	**42**	+1	(41)	(14)
SAR	**+1**	**(26)**	**24**	+1	-	-
GBP	**+1**	**(6)**	**-**	+1	29	-

14. RISK MANAGEMENT (continued)

d) Market risk (continued)

Equity price risk

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

The Bank conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major change in fair value of equity instruments. For such investments classified as available for sale, a five percent increase in stock prices as at 31 December 2014 would have increased equity by KD 7 thousand (31 December 2013: Nil). 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.

e) Prepayment risk

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

f) Operational risk

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

Management of operational risk

The Bank has a set of policies and procedures approved by the Board and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Bank.

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

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

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

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

15. SEGMENT REPORTING

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

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

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

15. SEGMENT REPORTING (continued)

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

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

	Corporate KD'000	*Retail KD'000*	*Treasury KD'000*	*Investment KD'000*	*Other KD'000*	*Total KD'000*
2014						
Segment operating income	**8,985**	**2,759**	**1,721**	**5,062**	**-**	**18,527**
Segment result	**5,011**	**(2,207)**	**374**	**3,793**	**(6,856)**	**115**
Segment assets	**268,358**	**69,376**	**142,803**	**98,548**	**15,720**	**594,805**

	Corporate KD'000	*Retail KD'000*	*Treasury KD'000*	*Investment KD'000*	*Other KD'000*	*Total KD'000*
2013						
Segment operating income	5,657	805	1,746	2,115	-	10,323
Segment result	2,005	(2,826)	1,056	1,053	(4,997)	(3,709)
Segment assets	156,069	34,101	90,350	97,577	27,413	405,510

16. CAPITAL MANAGEMENT

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

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

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

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

16. CAPITAL MANAGEMENT (continued)

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

	2014 KD'000
Risk weighted assets	**308,712**
Capital required	**37,045**
Capital available	
Common equity Tier 1 "CET1" capital	**91,865**
Total Tier 1 capital	**91,865**
Total Tier 2 capital	**3,578**
Total capital	**95,443**
CET1 capital adequacy ratio	**29.76%**
Total Tier 1 capital adequacy ratio	**29.76%**
Total capital adequacy ratio	**30.92%**

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

For the year ended 31 December 2013, the Bank followed Basel II regulations and the Bank's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RBA/44/2009 dated 15 June 2009 are shown below.

	2013 KD'000
Risk weighted assets	196,549
Capital required	23,586
Capital available	
Tier 1 capital	91,512
Tier 2 capital	1,921
Total capital	93,433
Total capital adequacy ratio	47.54%

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

	2014 KD'000
Tier 1 capital	**91,865**
Total exposure	**606,359**
Financial leverage ratio	**15.15%**

The Bank has disclosed the financial leverage ratio for the first time in financial statements for the year ended 31 December 2014.

17. FAIR VALUE MEASUREMENT

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

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

			Fair value measurement		
2014	***Date of valuation***	***Total KD'000***	***Quoted prices in active markets (Level 1) KD'000***	***Significant observable inputs (Level 2) KD'000***	***Significant unobservable inputs (Level 3) KD'000***
Assets measured at fair value					
Financial assets available for sale					
Sukuk		**41,926**	**41,926**	-	-
- Government Sukuk	**31 December 2014**	32,505	32,505	-	-
- Corporate Sukuk	**31 December 2014**	9,421	9,421	-	-
Quoted equity security	**31 December 2014**	**131**	**131**	-	-
Assets measured at cost while fair value is disclosed					
Investment properties		**15,836**	-	-	**15,836**
Kuwait	**31 December 2014**	10,571	-	-	10,571
Other Middle East	**31 December 2014**	5,265	-	-	5,265
Rest of the World	**31 December 2014**	-	-	-	-

			Fair value measurement		
2013	*Date of valuation*	*Total KD'000*	*Quoted prices in active markets (Level 1) KD'000*	*Significant observable inputs (Level 2) KD'000*	*Significant unobservable inputs (Level 3) KD'000*
Assets measured at fair value					
Financial assets available for Sale					
Sukuk		56,528	56,528	-	-
- Government Sukuk	31 December 2013	35,326	35,326	-	-
- Corporate Sukuk	31 December 2013	21,202	21,202	-	-
Quoted equity security	31 December 2013	-	-	-	-
Assets measured at cost while fair value is disclosed					
Investment properties		24,842	-	-	24,842
Kuwait	31 December 2013	10,487	-	-	10,487
Other Middle East	31 December 2013	5,245	-	-	5,245
Rest of the World	31 December 2013	9,110	-	-	9,110

During the years ended 31 December 2014 and 2013 there were no transfer between Level 1, Level 2 and Level 3.

Fair values of all financial instruments, except for those disclosed in above table are not materially different from their carrying values. The management of the Bank has assessed that fair value of cash and balances with banks, placements with banks, financing receivables, other assets, due to banks and other financial institutions, depositors' accounts and other liabilities approximate their carrying amounts.

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