AHLI UNITED SUKUK LIMITED

(incorporated as an exempted company with limited liability in the Cayman Islands)

U.S.$ 200,000,000 Tier 1 Capital Certificates

The U.S.$200,000,000 Tier 1 Capital Certificates (the **Certificates**) of Ahli United 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 25 October 2016 (the **Issue Date**) entered into between the Trustee, Ahli United Bank K.S.C.P. (the **Bank**) and Citicorp Trustee Company Limited as the delegate of the Trustee (the **Delegate**). The Certificates confer on the holders of the Certificates from time to time (the **Certificateholders**) the conditional right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the **Trust**) over the Trust Assets (as defined herein) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the **Conditions**).

If a Non-Viability Event (as defined herein) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificates shall be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) by the Trustee in accordance with the prevailing Capital Regulations (as defined herein) and the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally written-down in the same manner as the Certificates. See "*Risk Factors – Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit will be written-down (in whole or in part) 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) 25 October 2021 (the **First Call Date**) at a rate of 5.500 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 4.226 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 25 April and 25 October in each year, commencing on 25 April 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, and are otherwise at the sole discretion of the Bank (as Mudareb). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

The payment obligations of the Bank under the Mudaraba Agreement (as defined herein) (including all payments which are the equivalent of principal and profit) (the **Relevant Obligations**) will rank in priority to all Junior Obligations (as defined in the Conditions), *pari passu* with all other Pari Passu Obligations (as defined in the Conditions) and subordinate to all Senior 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 for 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**), "A2" with a stable outlook by Moody's Investors Service Cyprus Ltd. (**Moody's**) and "A+" with a stable outlook by Capital Intelligence Ratings Ltd (**Capital Intelligence**). Each of Fitch, Moody's and Capital Intelligence is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The Certificates will not be rated by any rating organisation upon their issue.

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

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

This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank of Ireland**) as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to Certificates which are to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) (**MiFID**) and/or which are to be offered to the public in any Member State of the European Economic Area. 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 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.

The Kuwait Capital Markets Authority (the CMA) and all other regulatory bodies in Kuwait assume no responsibility whatsoever for, and do not approve, the contents of this Prospectus and do not verify their validity or accuracy. The CMA and all other regulatory bodies in Kuwait assume no responsibility whatsoever for any damages that may result from relying on the contents of this Prospectus either wholly or partially. Prospective investors should consult an authorised investment advisor prior to making any investment decision in respect of the Certificates.

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

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

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Shari'a & Fatwa Supervisory Board of the Bank, the Shari'ah Supervisory Board of Crédit Agricole Corporate and Investment Bank and the Shari'a Supervisory Board of Citi Islamic Investment Bank E.C. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

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

Joint Lead Managers

Citigroup	**Crédit Agricole CIB**	**Credit Suisse**

Kuwait Subscription Agent

Kuwait and Middle East
Financial Investment Company

The date of this Prospectus is 24 October 2016

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

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

Each reference in this Prospectus to the Joint Lead Managers shall be read and construed as a reference to the Kuwait Subscription Agent 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 Shari'a & Fatwa Supervisory Board of the Bank, the Shari'ah Supervisory Board of Crédit Agricole Corporate and Investment Bank and the Shari'a Supervisory Board of Citi Islamic Investment Bank E.C. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STABILISATION

In connection with the issue of the Certificates, Citigroup Global Markets Limited (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, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the Issue Date and, if begun, may cease 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 Group*” 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

Historical financial statements

The financial statements relating to the Bank and its consolidated subsidiary (the **Group**) and included in this Prospectus are:

- the unaudited interim condensed consolidated financial information for the six months ended 30 June 2016 (the **2016 Interim Financial Statements**); and
- the audited consolidated financial statements for the year ended 31 December 2015 and 2014 (the **2015 Financial Statements** and **2014 Financial Statements** respectively, together the **Annual Financial Statements**)

(the Annual Financial Statements and the 2016 Interim Financial Statements, together the **Financial Statements)**.

The consolidated financial information in respect of financial year ended 31 December 2015 included in this Prospectus is derived from the 2015 Financial Statements, and the consolidated financial information in respect of financial years ended 31 December 2014 and 31 December 2013 included in this Prospectus is derived from the 2014 Financial Statements. The consolidated financial information for the six months ended 30 June 2015 is derived from the 2016 Interim Financial Statements.

Auditors and unaudited information

The 2016 Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*", and the Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**), as adopted by Kuwait for financial services institutions regulated by the Central Bank of Kuwait (the **CBK**). These regulations require the adoption of all IFRS requirements except for the International Accounting Standard (IAS) 39, '*Financial Instruments: Recognition and Measurement*', requirement for a collective provision. This has been replaced by the CBK's requirement for a minimum general provision to be made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

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

The 2016 Interim Financial Statements have been jointly reviewed in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by EY Kuwait and Deloitte Kuwait, without qualification as stated in their report appearing herein. The 2016 Interim Financial Statements and any other financial information in this Prospectus as at, or for the six month periods ended, 30 June 2016 and 30 June 2015 is unaudited.

Alternative Performance Measures

This Prospectus includes certain of the Group's key non-IFRS ratios (together, **Alternative Performance Measures**) in the following sections: (i) *Risk Factors – Factors that may affect the Bank's ability to fulfil its obligations under the Transaction Documents*, (ii) *Selected Financial Information – Selected Consolidated Ratios*, (iii) *Financial Review – Overview*, (iv) *Financial Review – Results of Operations in 2015, 2014 and 2013 – Operating Expenses*, (v) *Financial Review – Financing*, (vi) *Financial Review – Capital Adequacy*, (vii) *Description of the Group – Overview*, (viii) *Description of the Group – Strengths – Sound and consistent financial performance* and (ix) *Overview of Banking and Finance Regulations in Kuwait – Banking System*. The basis for the calculation of these Alternative Performance Measures in each of these sections is set out in the relevant notes thereto. Non-IFRS financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with IFRS. See "**–** *Certain non-IFRS financial information*" below.

Certain non-IFRS financial information

This Prospectus includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Group believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels. The Group's interpretation of any future planned ratios and the basis of its calculation of these ratios may be different from those of other financial institutions. Save for Basel III disclosures, none of the non-IFRS financial information included in this Prospectus is subject to any audit or review by independent auditors.

PRESENTATION OF OTHER INFORMATION

Rounding

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. 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.

Where the numeral "0" is used in a table it means that the relevant number has been rounded to zero. Where the symbol "—" is used in a table it means that there is no number for the relevant item.

Variances and percentages relating to the financial information of the Group included in this Prospectus have been computed based on the figures as reported in the Financial Statements and additional information provided by the Bank's management.

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 of America.

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

Third party and market share data

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

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

The statistical information in this Prospectus, including in relation to gross domestic product (**GDP**), balance of payments, revenues, 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. Accordingly, the statistical data contained in this Prospectus should be treated with caution by prospective investors.

Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Trustee and the Bank are aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

No incorporation of website information

The Bank's website is www.ahliunited.com.kw. 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

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

Capitalised terms which are used but not defined in any section of this Prospectus 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 **Government** are to the Government of Kuwait;
- references to **Kuwait** are to the State of Kuwait; and
- references to the **MENA region** are to the Middle East and North Africa region.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Restrictions on marketing and sales to retail investors

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

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

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

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

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

NOTICE TO RESIDENTS OF THE UK

The Certificates represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (**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 FSMA (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 CMA pursuant to Law No. 7 of 2010 and the executive bylaws 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 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 Certificates. This prohibition may adversely affect the liquidity and market price of the Certificates. In addition, any entity that is a “banking entity” under the Volcker Rule and is considering an investment in the 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 Trustee and the Bank believe that the following factors may affect their ability to fulfil their respective obligations under the Certificates and the Transaction Documents. 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. In addition, factors which are 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 and the Bank to make payments on or in connection with the Certificates and the Transaction Documents may occur for other reasons and neither the Trustee nor the Bank makes any representation that the statements below regarding the risks of holding the Certificates are exhaustive. 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.

Should any of the factors described materialise, this could have a material adverse effect on the Bank's financial condition, results of operations, cash flow and prospects which could negatively affect its ability to make payments under the Transaction Documents and therefore the Trustee's ability to make payments in respect of the Certificates.

Prospective investors should also consult their own financial and legal advisers about the risks associated with an investment in the Certificates and the suitability of investing in the Certificates in light of their particular circumstances, without relying on the Trustee or the Bank. Prospective investors are advised to make, and will be deemed by the Trustee and the Bank to have made, their own investigations in relation to such factors before making any investment decision.

Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE TRUSTEE'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE CERTIFICATES

The Trustee has no operating history and no material assets and will depend on receipt of payments from the Bank to make payments to Certificateholders

The Trustee was incorporated under the laws of the Cayman Islands on 3 August 2016 as an exempted company with limited liability and has no operating history. The Trustee has not engaged, 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 its capacity as Trustee, the issuance of shares in its capital and other activities incidental or related to the foregoing as required under the Transaction Documents. Since the Trustee is a Cayman Islands company, it may not be possible for Certificateholders to effect service of process on it outside the Cayman Islands.

The Trustee's only material assets, which will be held on trust for the Certificateholders, will be the Trust Assets, including the obligation of the Bank to make payments to the Trustee under the Transaction Documents. Therefore, the Trustee is subject to all the risks to which the Group 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 pursuant to the Transaction Documents (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents). See "*—Factors that may affect the Bank's ability to fulfil its obligations under the Transaction Documents*" below.

FACTORS THAT MAY AFFECT THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS

The Group 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 indirectly 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 Group's business growth and results of operations were adversely affected by these conditions and the impact they had in Kuwait and other countries in the MENA region. In particular, 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, including the Group, significantly increased their provisions in 2008 and 2009 as compared with prior years, which in turn adversely affected their results of operations. Following the financial crisis and since converting the businesses of the Group to be Shari'a compliant in 2010, the earnings have been stabilised since then.

If significant market disruptions and high levels of volatility recur, the Group 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 Group'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 Group.

The Group 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 Group

The Group's operations are focused on Kuwait. As at 31 December 2015, 82.4 per cent. of the Group's maximum exposure to credit risk (including commitments representing credit risk) was concentrated in Kuwait, with a further 8.7 per cent. concentrated in the other GCC countries while the remaining 8.9 per cent. exposure is in rest of the world.

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. This enabled Kuwait to generate a cumulative budget surplus of KD 231.1 billion for a continuous 15 years (2001-2015). Oil prices have, however, been volatile in recent years, which has impacted economic growth in Kuwait. 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.$42.68 in July 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.

Though the Bank's exposure to the oil and gas sector is non-material (comprising 1 per cent. of the total financing portfolio as at 31 December 2015), the impact of oil prices on Kuwait's economy could materially adversely affect many of the Group's borrowers and contractual counterparties. This, in turn, would adversely affect the Group's business, in particular through increases in the Group's non-performing financing (**NPF**) portfolio, increased loan loss provisions which would negatively impact the Group's profitability and reduced demand for financing and other banking services. See "*—The Group's financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the GCC*"

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

The Group's business is focused on Kuwait and the Group 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 as well as a recent coup d'etat attempt on the Turkish government. 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 Group's customers are located in Kuwait with a limited number of customers residing in the GCC. 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 Group'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 Group's customer deposits or its customers' demand for financing or other products offered by the Group. Continued instability in the GCC could impact the Group'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 Group.

The Group is exposed to the credit risk of borrowers and other counterparties and anticipated future growth in, or deterioration in the quality of, the Group'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 Group's businesses, principally in its financing and investment activities. In particular, the Group 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 Group regularly reviews and analyses its bank and customer financing receivables (the **financing portfolio**) and credit risks, and the Group'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 Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

As at 30 June 2016, the Group's customer financing portfolio amounted to KD 2,773.6 million as compared with KD 2,680.3 million as at 31 December 2015 and KD 2,480.4 million as at 31 December 2014. The Group's NPFs were KD 71.8 million as at 30 June 2016 as compared with KD 67.9 million as at 31 December 2015 and KD 76.0 million as at 31 December 2014 and its NPF receivables as a percentage of total gross financing receivables amounted to 2.49 per cent., 2.44 per cent. and 2.93 per cent. of its gross customer financing portfolio as at 30 June 2016, 31 December 2015 and 31 December 2014, respectively. Provision coverage ratio amounted to 144.4 per cent., 142.5 per cent. and 117.6 per cent. of its NPFs as at 30 June 2016, 31 December 2015 and 31 December 2014, respectively.

As the Group's customer financing portfolio expands and its credit exposure consequently increases, management of the Group will need to continually monitor the credit quality of the portfolio. This will be particularly important in the light of current unstable economic conditions in Kuwait. See "*Risk management—Principal risks—Credit risk*", note 2.26 to the 2015 Financial Statements and "*—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

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

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

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

Although certain Islamic financing structures used by the Group, 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 Group may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third party credit support arrangements when customers default 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 Group to pursue such proceedings, adversely affecting the Group's ability to recover its financing losses. As at 30 June 2016, 57.3 per cent. of the Group'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 30 June 2016, 39.0 per cent. of the Bank's financing portfolio comprised financing to individuals, which are secured by assignment of their salaries and/or eligible collaterals including real estate, pledges of shares and cash deposits.

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

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

The Group's customer financing portfolio and its investment securities portfolio are concentrated, geographically, in Kuwait and the GCC. Together, these portfolios constituted 74.1 per cent. of its total assets, or KD 2,928.6 million, as at 30 June 2016, 72.2 per cent. of its total assets, or KD 2,819.5 million, as at 31 December 2015 and 73.2 per cent. of its total assets, or KD 2,631.4 million, as at 31 December 2014. More than 99 per cent. of the Group's customer financing portfolio as at 30 June 2016 was advanced to borrowers in the GCC, principally in Kuwait.

The Group's investment securities portfolio principally comprises sukuk, with KD 137.9 million, or 88.9 per cent. of the portfolio being sukuk as at 30 June 2016. The issuers of these instruments are International Islamic Liquidity Management, a Malaysian-based supranational institution established by central banks, monetary agencies and multilateral organisations to introduce and facilitate effective cross-border Shari'a-compliant liquidity management, which accounted for 57.3 per cent of the portfolio and GCC issuers, which accounted for 37.2 per cent. of the portfolio, in each case as at 30 June 2016.

The Group's financial institution, bank and customer deposits constituted 98.7 per cent. of its total liabilities, or KD 3,527.4 million, as at 30 June 2016, 98.5 per cent. of its total liabilities, or KD 3,490.6 million, as at 31 December 2015 and 98.6 per cent. of its total liabilities, or KD 3,210.5 million, as at 31 December 2014. As is typical for banks in the GCC, the Group has a significant concentration of deposits from the Kuwaiti government and its related agencies, which amounted to 38 per cent. as at 30 June 2016, 39 per cent. as at 31 December 2015, 39 per cent. as at 31 December 2014 and 40 per cent. as at 31 December 2013, excluding deposits from the Government pension fund.

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

The Group has material customer and sector concentrations

The Group's 20 largest financing receivables outstanding as a percentage of its gross customer financing portfolio as at 30 June 2016 was 24.6 per cent. as compared with 23.8 per cent. as at 31 December 2015 and 23.7 per cent. as at 31 December 2014.

Although diversified by industry sector and maintaining 60 per cent. collateral cover, the Group's credit risk exposure with respect to financing receivables is concentrated on the real estate (with 98 per cent. collateral coverage ratio) and trade and commerce industry sectors which, as at 30 June 2016, accounted for 38.6 per cent. and 15.2 per cent. of the Group's total credit risk exposure as compared with 42.4 per cent. and 14.6 per cent., respectively, as at 31 December 2015 and 44.0 per cent. and 12.9 per cent., respectively, 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 Group's large financing customers, or any factors which negatively impact either of the sectors to which the Group has significant exposure, could result in the Group 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 Group'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 Group 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 Group'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 Group in respect of many of its Ijarah financings which could lead to an increase in its impairment provisions and reduced profitability. In addition, a large portion of the Group's customers purchase properties as investments, generally with a view to selling them for profit or leasing them for rental income. Any perceived or actual oversupply of properties in Kuwait, or a decrease in demand for rental space in Kuwait, may result in Group 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 Group's impairment provisions and reduced profitability.

In terms of liabilities, the Group's 20 largest deposits as at 30 June 2016 constituted 62.6 per cent. of its total deposits at that date. The withdrawal or non-renewal of its deposits by any one or more of the Group's large depositors could require the Group to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive, which would reduce the Group's net profit margin and adversely impact its operating income and profitability.

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

As part of its normal banking business, the Group issues guarantees, letters of credit (**LC**s) and acceptances which are accounted for off the Group's balance sheet until such time as they are actually funded or cancelled. In addition, the Group makes irrevocable commitments to advance financing to its customers. Although these commitments are contingent, they nonetheless subject the Group to both credit and liquidity risks. As at 30 June 2016, the Group had KD 557.1 million in contingent liabilities and commitments outstanding, equal to 16.7 per cent. of its combined customer financing portfolio and contingent liabilities and commitments.

As the facilities are approved after undertaking the due credit approval process, the Group anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Group may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This would result in the Group needing to obtain additional funding, potentially at relatively short notice, which may not be readily available or may be significantly more expensive, which would reduce the Group's net profit margin and adversely impact its operating income and profitability.

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

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

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

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

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

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

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

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

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

The Group has historically relied almost entirely on both customer and interbank deposits, which are mainly short-term and generally low cost in nature, to meet its funding needs. The availability of deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time. As at 30 June 2016, 46.7 per cent. of the

Group'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 46.3 per cent. had remaining maturities of one year or less or was payable on demand. The Group 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 Group's large Kuwaiti governmental depositors may start to withdraw part or even all of their deposits with it.

In addition, the Group's deposits are geographically concentrated in Kuwait and the Group is reliant on certain large deposits from a limited group of government-related and private sector corporate customers. See "*—The Group's financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the GCC*" above and "*—The Group has significant customer and sector concentrations*" above. The interbank limits available to the Group are used to cover any temporary shortage of liquidity.

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

In extreme cases, if the Group is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on its business generally.

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

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

The regulations to which the Group is subject may limit its ability to carry on certain parts of its business, to increase its 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 Group. Furthermore, non-compliance by the Group with any applicable regulations could expose it to potential liabilities and fines, which may be significant.

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

The Group is also required to comply with applicable know-your-customer, anti-money laundering and counter-terrorism financing laws and regulations in Kuwait and other jurisdictions where it operates, including those related to countries subject to sanctions by the United States Office of Foreign Assets Control (**OFAC**), similar regulations of other jurisdictions, and applicable anti-corruption laws in the jurisdictions in which it conducts business. To the extent that the Group fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged and it could be subject to fines or other monetary penalties, 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 stable outlook from Fitch, long-term foreign and local currency bank deposits ratings of A2 with stable outlook from Moody's and long-term foreign currency ratings of A+

with stable outlook from Capital Intelligence. 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 or any other member of the Group's ability to raise funding;
- increase the Bank's or any other member of the Group's cost of funding; and
- limit the Bank's or any other member of the Group'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 each of Moody's, Fitch and Capital Intelligence, 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 Group and there is no assurance that the Group will receive future support that is commensurate with the support that the banking sector 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 Group may not be able to raise capital as and when needed on commercially attractive terms

As at 30 June 2016, the Group's CET1 capital adequacy ratio (calculated according to Basel III standards) was 13.9 per cent. and its total capital adequacy ratio was 15.1 per cent., in each case above the levels required by the CBK at that date of 9.0 per cent. (CET1 capital) and 12.5 per cent. (total capital). The Group's CET1 capital adequacy ratio was 14.3 per cent. and its total capital adequacy ratio was 15.5 per cent. as at 31 December 2015 as compared with 15.0 per cent. and 16.3 per cent., respectively, as at 31 December 2014. The reductions in 2015 and in the six months to 30 June 2016 principally reflected the gradual phasing out of real estate collateral and increased precautionary provisions. The Group has been notified by the CBK that it will be designated as a domestic systemically important bank (**D-SIB**) with an additional Common Equity Tier 1 D-SIB surcharge of 0.5 per cent. required from 31 December 2016. This surcharge will also consequently increase the total capital adequacy ratio required by the CBK by 0.5 per cent. from the same date. As a result, the Group's total minimum capital requirement from that date is expected to be 13.5 per cent., which includes a capital conservation buffer of 2.5 per cent. to comprise Common Equity Tier 1 capital only. The CBK has advised the Bank that the results of the study conducted by the CBK in identifying D-SIBs are subject to periodic review and that the Bank will be informed by the CBK should there be any change to the capital buffer requirements applicable to the Bank in the future.

A variety of factors may affect the Group's capital adequacy levels. For example, an increase in lending during 2016 and beyond is likely to reduce the Group'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 Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

As a result and notwithstanding the issue of the Certificates, the Group 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 Group's capital ratios fall close to regulatory minimum levels or the Group's own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities or undertaking asset disposals. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase and it may suffer regulatory sanctions.

The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that the banking sector 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***.

By virtue of their shareholding Ahli United Bank, Bahrain (AUBB) exercise significant influence over its subsidiaries and their strategies and policies. Such influence may affect the investment strategies of the Certificateholders' funds consequently

As at the date of this Prospectus, AUBB is the Bank's majority shareholder through Ahli United Company W.L.L. owning 67.33 per cent. of the Bank's issued share capital. AUBB, as the majority shareholder of the Bank, is in a position to influence the appointment of the Board of Directors (the **Board**).

In addition, AUBB, by virtue of its shareholding, is able to exercise indirect influence over:

- the selection of the Group's management and any related business policies and strategies;
- the Group's budget approval; and
- the issuance of securities and other matters that require majority shareholder approval.

There can be a possibility that the resolution of any matter may be resolved by AUBB considering their or the best interest of the Group which may not be perceived by the Certificateholders in their best interest.

AUBB is able to exercise significant influence over all matters requiring shareholder approval and it may use its influence considering the best interest of the Group.

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

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

The Kuwaiti banking sector comprises five locally based conventional commercial banks and branches of 11 other non-Kuwaiti banks. In addition, a specialised bank, five banks operating according to the provisions of Islamic Shari'a and a branch of a Saudi Arabian bank are also licensed to operate in Kuwait. The Group's relatively small size as compared with some other banks in Kuwait could constrain its efforts to attract very large corporate customers.

The Group 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 Group's productivity and efficiency. See "*Description of the Group—Strategy*".

Any failure by the Group 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 Group could be adversely affected by market risks

The Group 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 Group 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 Group's equity and note 27C.3 to the 2015 Financial Statements illustrates the Group's sensitivity to a 5 per cent. increase in relevant market indices as at 31 December 2015 and 31 December 2014. In addition, the Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, profit rate levels, fluctuations in currency exchange rates and general market volatility.

As a financial intermediary, the Group is also exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by the CBK. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks. See note 27C.2 to the 2015 Financial Statements which illustrates the Group's sensitivity to a 5 per cent. change in the exchange rate of the U.S. dollar against the Kuwaiti dinar as at 31 December 2015 and 31 December 2014.

The Group 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. See note 27C.1 to the 2015 Financial Statements which illustrates the Group's sensitivity to a 25 basis point change in profit rates as at 31 December 2015 and 31 December 2014.

The Group enters into Islamic derivative transactions, such as forward foreign exchange contracts (waad), to manage its foreign currency positions and cash flows. As at 30 June 2016, these derivative contracts had a notional value of KD 15.8 million, an assets positive fair value of KD 76 thousand and a liabilities negative fair value of KD 49 thousand. There is no assurance that the Group's Islamic derivative contracts will be successful in mitigating its foreign exchange exposures or that the Group will not experience significant losses on its Islamic derivatives contracts from time to time.

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

Ultimately, there can be no assurance that the Group will be able to protect itself from any adverse effects of a currency revaluation or future volatility in 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 Group'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 Group's profitability by adversely affecting property values, which could have an adverse effect on the Group's real estate financing portfolio. There can be no assurance that the 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 Group 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 Group'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 Group's counterparties or vendors). The Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business generally and its reputation.

The Group's employees could engage in misrepresentation, misconduct or improper practice that could expose the Group 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 Group 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 Group 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 Group's reputation.

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

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

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

Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant losses as a result of unidentified credit, liquidity, market or operational risks, should they occur.

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

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

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

The Group's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in the Middle East is intensely competitive and the Group could face challenges in recruiting and retaining such personnel to manage its businesses.

The Group 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 Group from implementing its strategies. The Group is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel.

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

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

Management has identified the most significant judgments and estimates made by it in note 2.26 to the 2015 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 Group has established policies and control procedures that are intended to ensure that its significant accounting estimates and judgements are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. However, due to the uncertainty surrounding the Group's judgements and the estimates pertaining to these matters, the Group cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

RISKS RELATING TO THE REGION IN WHICH THE GROUP OPERATES

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

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

Specific risks in Kuwait and the MENA region that could have a material adverse effect on the Group's business 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 Group to enforce its intellectual property and contractual rights;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles; and
- logistical and communications challenges.

Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must determine for themselves whether, in light of those risks, an investment in the Certificates is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Kuwait may introduce VAT 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 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 Group. Furthermore, the introduction of VAT could have a more widespread economic impact, for example, reducing the levels of disposable income of the Group's customers which could negatively impact demand for the Group's services.

The Group is not currently subject to corporation tax on its earnings within Kuwait, although there is no guarantee that this will continue to be the case. If the Kuwaiti authorities impose new tax regimes on the Group (whether related to corporation tax or otherwise), or introduce any other changes in tax laws which make doing business in Kuwait less attractive, this may have a material adverse effect on the Group's business and prospects.

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

Kuwait is 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 Group has made or may make in the future, which may in turn have a material adverse effect on the Group'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 written-down (in whole or in part) upon the occurrence of a Non-Viability Event

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

The circumstances triggering a Write-down are unpredictable

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

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

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

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

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

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

No limitation on issuing senior securities; subordination

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

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

The Bank may elect, in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount (in whole or in part) to Certificateholders on the corresponding Periodic Distribution Date, except that no such election may be made in respect of the Periodic Distribution Amount payable on the Dissolution Date or if the Trustee has given notice to Certificateholders that the Certificates will be redeemed in whole in accordance with Condition 10 (*Redemption and Variation*), all as more particularly provided in Condition 8.2 (*Non-Payment Election*).

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

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

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

The Certificates are Perpetual Securities

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

The Bank Events and Certificateholders' rights following a Bank Event are set out in Condition 12 (*Dissolution Events and Winding-up*). The Dissolution Events in the Conditions are limited to: (a) Bank Events (being (i) a default by the Mudareb for a period of five days or more in the payment of any principal or fourteen days or more in the payment of any profit amount due and payable by it under the Mudaraba Agreement; (ii) an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Bank or the Bank applies or petitions for a winding-up or administration order in respect of itself except, in each case for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate (acting in accordance with the Declaration of Trust and the Conditions) or by an Extraordinary Resolution of the Certificateholders); and (b) Trustee Events (being similar in nature to Bank Events in respect of the Trustee), all as more fully described in the Conditions.

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

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

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

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

(iii) they sell their Certificates.

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

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

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

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

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

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

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

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

Resettable fixed rate instruments have a market risk

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

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

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

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

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 10.1 (*Redemption and Variation*) could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and none of the Trustee, the Delegate, the Agents or the Bank shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders (other than in respect of 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, as stated aforesaid), 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 of 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 written down (in whole or in part) upon the occurrence of a Non-Viability Event (see "*—Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right to any profit may be written-down upon the occurrence of a Non-Viability Event*") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "*—Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*"). Furthermore, certain shareholders and related parties of the Bank may participate in the offering of the Certificates. The secondary market liquidity of the Certificates may be adversely affected if, and to the extent that, such person(s) intend to adopt a buy and hold strategy in respect of the Certificates.

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

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

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

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

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

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

Investment in the Mudaraba Assets

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

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

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

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

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

RISKS RELATING TO ENFORCEMENT

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

In the event of the Bank's insolvency, Kuwaiti bankruptcy law will apply and such law may adversely affect the Bank's ability to perform its obligations under the Mudaraba Agreement, and obtaining a final bankruptcy judgment in Kuwait may take several years. There is little precedent to predict how any claims by holders of the Certificates against the

Bank would be resolved in the event of the Bank's insolvency and therefore there can be no assurance that holders of the Certificates will receive payment of their claims in full or at all in these circumstances.

Enforcing foreign judgments and arbitral awards in Kuwait

The Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and the Certificates (the **Documents**) each contain a provision to the effect that disputes arising under the Documents will, unless the option to litigate set out therein is exercised, be referred to arbitration under the London Court of International Arbitration (**LCIA**) 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 Shari'a & Fatwa Supervisory Board of the Bank, the Shari'ah Supervisory Board of Crédit Agricole Corporate and Investment Bank and the Shari'a Supervisory Board of Citi Islamic Investment Bank E.C. has confirmed that the Transaction Documents are, in their view, *Shari'a*-compliant. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a*-compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, the Bank, the Delegate, the Agents, or the Joint Lead Managers makes any representation as to the *Shari'a*-compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible.

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

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

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

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

As the Certificates have a denomination consisting of the minimum Authorised Denomination (as defined in the Conditions and further described in Condition 2.1 (*Form and Denomination*)) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Authorised Denomination that are not integral multiples of such minimum Authorised Denomination. In such 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 the 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.

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

Kuwait may introduce corporate income tax

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

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, retention 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 in certain circumstances. If the Trustee fails to gross-up for any such withholding, retention 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, retentions or deductions shall equal the amounts that would have been receivable in the absence of any such deduction, retention 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.

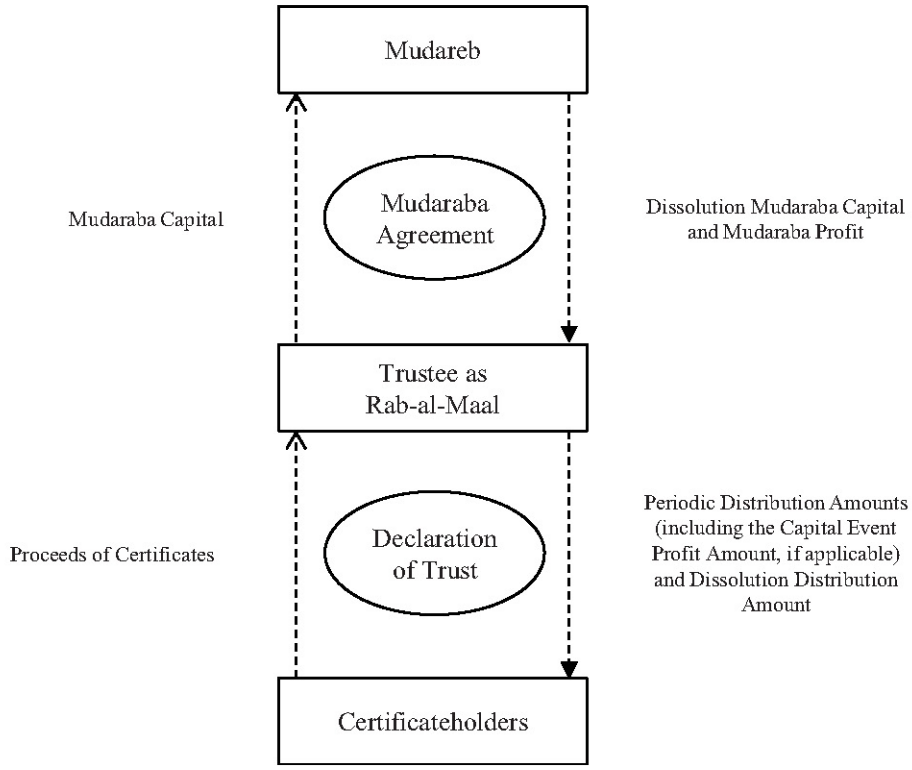
The Certificates may be an ownership interest for the purposes of the Volcker Rule

The Trustee may be a "covered fund" for the purposes of the Volcker Rule. Further, the 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 Certificates. This prohibition may adversely affect the liquidity and market price of the Certificates. In addition, any entity that is a "banking entity" under the Volcker Rule and is considering an investment in the 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 invested, on an unrestricted co-mingling Mudaraba basis, by the Bank in its general business activities carried out through the General Mudaraba Pool and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the **Mudaraba Assets**).

Periodic payments by the Trustee

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

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

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

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

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

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

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

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

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

  (b) upon the occurrence of a Capital Event.

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

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

OVERVIEW OF THE OFFERING

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

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

Certificates	U.S.$200,000,000 Tier 1 Capital Certificates.
Trustee	Ahli United Sukuk Limited, an exempted company incorporated with limited liability on 3 August 2016 under the laws of the Cayman Islands and formed and registered in the Cayman Islands with incorporation number 313772 with its registered office at MaplesFS Limited, PO 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 28 September 2016 between the Trustee Administrator and the Trustee (the **Corporate Services Agreement**). The Trustee Administrator's registered office is c/o MaplesFS Limited, P.O.Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands.
Mudareb / Obligor	Ahli United Bank K.S.C.P.
Rab-al-Maal	Ahli United 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*".
Joint Lead Managers	Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank and Credit Suisse Securities (Europe) Limited.
Kuwait Subscription Agent	Kuwait and Middle East Financial Investment Company K.S.C.P.
Delegate	Citicorp Trustee Company 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	Citibank N.A., London branch
Registrar and Transfer Agent	Citigroup Global Markets Deutschland AG
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	25 October 2016.
Issue Price	100 per cent.
Periodic Distribution Dates	25 April and 25 October every year, commencing on 25 April 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 5.500 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 4.226 per cent. per annum. If the Bank makes a Non-Payment Election or a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts (or any part thereof, as applicable) and neither the Bank nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (*Periodic Distribution Restrictions*).
Form of Certificates	The Certificates will be issued in registered form as described in "*Global Certificate*". The Certificates will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing a holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.
Clearance and Settlement	Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.
Denomination of the Certificates	The Certificates will be issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Status of the Certificates	Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*).

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

Trust Assets

The Trust Assets consist of:

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

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

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

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

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

Redemption of Certificates and variation of their terms

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

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

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

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

Write-down at the Point of Non-Viability

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

Dissolution Events

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

Withholding Tax

Subject to Condition 9.2 (*Payments subject to Applicable Laws*) and Condition 13 (*Taxation*), all payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding, retention or deduction for, or on account of, any Taxes (as defined in Condition 13 (*Taxation*)), unless the withholding, retention 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, retention 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, retention or deduction, for and on account of, any Taxes, unless such withholding, retention 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, the Paying Agents and any other party through which payments on the Certificates are made 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, "A2" by Moody's and "A+" by Capital Intelligence, 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:

Ahli United Sukuk Limited (in its capacity as issuer and in its capacity as trustee, as applicable, the **Trustee**, 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.$ 200,000,000. The Certificates are constituted by a declaration of trust (the **Declaration of Trust**) dated 25 October 2016 (the **Issue Date**) made between the Trustee, Ahli United Bank K.S.C.P. (the **Bank**) and Citicorp Trustee Company 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, Citibank, N.A., 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**), Citigroup Global Markets Deutschland AG 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 Citibank N.A., 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 Deputy Chairman of the Bank from time to time, or (b) is duly authorised by the Bank to sign documents on its behalf;

Bank Event means:

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

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

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

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

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

Basel Committee means the Basel Committee on Banking Supervision;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

First Call Date means 25 October 2021;

First Mudaraba Profit Distribution Date means 25 April 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;

LCIA means the London Court of International Arbitration;

Margin means 4.226 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 25 April and 25 October 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;

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 25 April and 25 October in each year, starting on (and including) 25 April 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 of the Bank;

(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 the State of Kuwait (in the case of any payment made by the Bank) or, in each case, any political sub-division or authority thereof or therein having the power to tax;

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

Relevant Five Year Reset Rate means the mid-swap rate for U.S. dollar swap transactions with a maturity of five years displayed on Reuters page "ICESWAP1" (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 24 October 2016);

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

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

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

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

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

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

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

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

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

Trustee Event means any of the following events:

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

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

(iii) **Analogous Event**: any event occurs that under the laws of the 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,

and references herein to "written-down" will be construed accordingly.

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 Ahli United 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 provider of registered office services;

(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.$27.50 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 5.500 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, 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.

8 Periodic Distribution Restrictions

8.1 Non-Payment Event

Notwithstanding Condition 7.4 (*Periodic Distributions*), if any of the following events occur (each, a **Non-Payment Event**), the Bank (as Mudareb) shall not pay Mudaraba Profit (and, as a result, Rab-al-Maal Mudaraba

Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal Final Mudaraba Profit) on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

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

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

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

8.2 Non-Payment Election

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

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, Variation, Purchase and Cancellation

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 Variation, Purchase and Cancellation*).

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

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

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

(iii) (in the case of a redemption or variation pursuant to Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*) only) the requirement that the circumstance that entitles the Bank to instruct the Trustee to exercise its right of redemption or variation is a change of law, published practice or regulation (including in the case of Condition 10.1(d) (*Redemption or Variation for Capital Event*), Applicable Regulatory Capital Requirements) in the State of Kuwait or, in the case of Condition 10.1(c) (*Redemption or Variation due to Taxation*), of a Relevant Jurisdiction or a change in the interpretation or application of such law, published practice or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after 24 October 2016.

(b) Trustee's Call Option

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

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

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

(c) Redemption or Variation due to Taxation

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 10.1(c) (*Redemption or Variation due to Taxation*), if a Tax Event occurs, the Bank may (acting in its sole discretion) instruct the Trustee to, whereupon the Trustee shall, by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 17 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable) and applicable Record Date, (a) redeem all, but not some only, of the Certificates at the Tax Redemption Amount; or (b) vary the terms of the Mudaraba Agreement, subject to the approval of the Mudareb's *Shari'a* board, and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee. 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, Variation, Purchase and Cancellation*).

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

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

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

(d) Redemption or Variation for Capital Event

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

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

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

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

(e) Taxes upon Variation

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

10.2 Purchase

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

10.3 Cancellation

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

11 Write-down at the Point of Non-Viability

11.1 Non-Viability Event

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

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

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

11.2 Non-Viability Notice

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

11.3 Liability of Delegate and Agents

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

12 Dissolution Events and Winding-up

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

12.1 Bank Events

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

12.2 Trustee Events

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

Trustee, in place of the Trustee (the **Substituted Trustee**), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:

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

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

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

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

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

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

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

12.3 Winding-up, Dissolution or Liquidation

(a) Proceedings for Winding-up

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

(b) Enforcement

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

(c) Non-Viability

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

(d) Extent of Certificateholder Remedy

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

(e) Realisation of Trust Assets

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

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

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

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

13 Taxation

All payments in respect of the Certificates by or on behalf of the Trustee shall be made free and clear of and without withholding, retention 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, retention 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, retention 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, the Paying Agents and any other party through which payments on the Certificates are made shall be permitted to withhold or deduct any amounts imposed pursuant to Sections 1471 through 1474 of the Code (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, retention or deduction for, or on account of, any present or future Taxes, unless such withholding, retention 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, retention or deduction and in the absence of the withholding, retention or deduction to which this Condition 13 applies.

14 Prescription

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

15 Delegate

15.1 Delegation of Powers

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

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

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

15.2 Indemnification

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

15.3 No Liability

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

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

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

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

15.5 Proper Performance of Duties

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

15.6 Illegality

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

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

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

15.8 Notice of Events

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

16 Replacement of Certificates

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

17 Notices

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

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

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

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

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

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

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

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

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

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

19 Currency Indemnity

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

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

20 Contracts (Rights of Third Parties) Act 1999

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

21 Governing Law and Dispute Resolution

21.1 Governing Law

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

21.2 Arbitration

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

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

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

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

21.3 Option to Litigate

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

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

(b) if no arbitration has commenced,

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

21.4 Notice to Terminate

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

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

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

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

21.5 Submission to Jurisdiction

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

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

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

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

21.6 Appointment of Process Agent

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

21.7 Waiver of Immunity

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

21.8 Waiver of Interest

(a) Each of the Trustee, the Delegate and the Bank has irrevocably agreed in the Declaration of Trust that if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Declaration of Trust, it will (i) not claim interest under, or in connection with, such arbitration and/or Proceedings; and (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

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

GLOBAL CERTIFICATE

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

Form of the Certificates

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

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

Holders

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

Cancellation

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

Payments

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

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

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

Notices

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

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

Registration of Title

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

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

Transfers

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

Exchange for Definitive Certificates

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

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

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

USE OF PROCEEDS

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

DESCRIPTION OF THE TRUSTEE

General

The Issuer was incorporated in the Cayman Islands on 3 August 2016 as an exempted company under the Companies Law (2013 Revision) of the Cayman Islands and with registered number 313772.

Registered office

The Issuer's registered office is c/o MaplesFS Limited, PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands, and its telephone number is +1 345 945 7099/ +971 4511 4200.

Business of the Issuer

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

Administration

MaplesFS Limited acts as the corporate service provider of the Issuer (in such capacity, the **Corporate Service Provider**). The office of the Corporate Service Provider serves as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement dated 28 September 2016 entered into between the Issuer and the Corporate Service Provider (the **Corporate Services Agreement**), the Corporate Service Provider has agreed to perform in the Cayman Islands, the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Issuer and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Corporate Service Provider will also provide registered office services to the Issuer in accordance with its standard terms and conditions for the provision of registered office services as published at http://www.maplesfidudciaryservices.com/terms (the **Registered Office Terms**). In consideration of the foregoing, the Corporate Service Provider will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and Registered Office Terms provide that either the Issuer or the Corporate Service Provider may terminate such appointments upon the occurrence of certain stated events, including any breach by the other party of its obligations in respect of such appointments. In addition, the Corporate Services Agreement and the Registered Office Terms provide that either party shall be entitled to terminate such appointments by giving at least three months' written notice to the other party. The Corporate Service Provider's principal office is c/o MaplesFS Limited, PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands. The directors of the Issuer are employees and/or officers of the Corporate Service Provider and/or its affiliate, Maples Fund Services (Middle East) Limited. The Issuer has no employees and is not expected to have any employees in the future.

Directors

The directors of the Issuer are:

Name	**Principal Occupation**
Aaron Bennett	Vice President of Maples Fund Services (Middle East) Limited
Cleveland Stewart	Senior Vice President of MaplesFS Limited

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

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

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

The business address of Aaron Bennett 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.

Secretary

The Issuer's secretary is Maples Secretaries (Cayman) Limited of PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Share capital

The Issuer has an authorised share capital of U.S.$50,000 consisting of 50,000 shares of U.S.$1.00 nominal value each, of which 250 shares are issued and fully paid up as at the date of this Prospectus. All of the issued shares (the **Shares**) are fully-paid and are held by 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 in accordance with the Share Declaration of Trust. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has power to benefit one or more Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificates are outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements 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.

Information as at and for the six month periods ended 30 June 2016 and 30 June 2015 is unaudited. Investors should not rely on any interim information as being indicative of the results the Group may achieve for the full year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

The table below shows the Group's consolidated statement of financial position data as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013.

	As at 30 June	**As at 31 December**		
	2016	**2015**	**2014**	**2013**
	(unaudited)			
	(*KD thousands*)			
Assets				
Cash and balances with banks	234,691	344,455	88,983	180,965
Deposits with Central Bank of Kuwait	387,228	265,199	345,329	377,589
Deposits with other banks	309,979	376,812	421,594	283,707
Financing receivables	2,773,557	2,680,334	2,480,431	2,140,922
Investments available for sale	155,045	139,167	150,929	69,023
Investment in associate	10,587	—	9,857	9,908
Investment properties	23,656	29,572	32,842	33,906
Premises and equipment	31,084	30,954	38,973	39,214
Other assets and intangibles	14,014	14,816	27,990	29,742
Assets classified as held for sale	12,451	22,994	—	—
Total assets	**3,952,292**	**3,904,303**	**3,596,928**	**3,164,976**
Liabilities and equity				
Liabilities				
Deposits from banks and financial institutions	888,758	829,989	756,737	700,405
Deposits from customers	2,638,653	2,660,629	2,453,757	2,093,009
Other liabilities	42,020	49,351	47,114	48,407
Liabilities directly associated with assets held for sale	3,193	3,499	—	—
Total liabilities	**3,572,624**	**3,543,468**	**3,257,608**	**2,841,821**
Equity				
Share capital	173,237	157,488	143,171	130,155
Reserves	245,678	242,627	227,654	223,594
	418,915	**400,115**	**370,825**	**353,749**
Treasury shares	(43,957)	(43,957)	(43,957)	(43,957)
Attributable to Bank's equity shareholders	**374,958**	**356,158**	**326,868**	**309,792**
Non-controlling interests	4,710	4,677	12,452	13,363
	379,668	**360,835**	**339,320**	**323,155**
Total liabilities and equity	**3,952,292**	**3,904,303**	**3,596,928**	**3,164,976**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS DATA

The table below shows the Group's consolidated statement of profit or loss data for the six months ended 30 June 2016 and the six months ended 30 June 2015.

	Six months ended 30 June	
	2016	**2015**
	(unaudited)	**(unaudited)**
	(*KD thousands*)	
Financing income	64,413	59,085
Distribution to depositors	(21,692)	(15,078)
Net financing income	**42,721**	**44,007**
Net fees and commission income	5,364	5,672
Foreign exchange gains	1,836	2,167
Net gain on sale of investment properties	2,949	505
Net gain (loss) on sale of investments	73	(621)
Share of results of associate	(220)	(80)
Other income	732	701
Total operating income	**53,455**	**52,351**
Provision and impairment losses	(10,008)	(9,113)
Operating profit after provisions and impairment losses	**43,447**	**43,238**
Staff costs	(10,338)	(10,135)
Depreciation	(1,323)	(1,222)
Other operating expenses	(4,808)	(6,145)
Total operating expenses	**(16,469)**	**`(17,502)**
Profit from operations	**26,978**	**25,736**
Taxation	(1,180)	(1,184)
Net (profit) loss attributable to non-controlling interests	(161)	975
Net profit for the period attributable to Bank's equity shareholders	**25,637**	**25,527**

The table below shows the Group's consolidated statement of profit or loss data for each of 2015, 2014 and 2013.

	2015	**2014**	**2013**
		(*KD thousands*)	
Financing income	120,839	110,693	97,076
Distribution to depositors	(31,757)	(31,175)	(19,236)
Net financing income	**89,082**	**79,518**	**77,840**
Net fees and commission income	10,508	10,479	10,803
Foreign exchange gains	4,209	4,328	4,192
Net gain on sale of investment properties	3,831	–	2,378
Net gain on sale of investments	1,365	4,770	1,548
Share of results of associate	373	326	567
Other income	1,504	1,754	1,385
Total operating income	**110,872**	**101,175**	**98,713**
Provision and impairment losses	(24,779)	(20,089)	(23,266)
Operating income after provisions and impairment losses	**86,093**	**81,086**	**75,447**
Staff costs	(20,359)	(19,441)	(18,524)
Depreciation	(2,391)	(2,808)	(2,976)
Other operating expenses	(10,454)	(10,133)	(8,961)
Total operating expenses	**(33,204)**	**(32,382)**	**(30,461)**
Profit from operations	**52,889**	**48,704**	**44,986**
Impairment loss on assets held for sale			
Attributable to Bank's equity shareholders	(7,928)	—	—
Attributable to non-controlling interests	(7,886)	—	—
Taxation	(2,006)	(2,172)	(1,990)
Directors' remuneration	(150)	(122)	(75)
Net loss (profit) attributable to non-controlling interests	7,886	598	(462)
Net profit for the year attributable to Bank's equity shareholders	**42,805**	**47,008**	**42,459**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME DATA

The table below shows the Group's consolidated statement of profit or loss and other comprehensive income data for the six months ended 30 June 2016 and the six months ended 30 June 2015.

	Six months ended 30 June	
	2016 (unaudited)	**2015 (unaudited)**
	(*KD thousands*)	
Net profit for the period attributable to the Bank's equity shareholders	25,637	25,527
Net profit (loss) for the period attributable to non-controlling interests	161	(975)
Other comprehensive income (loss)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Net movement in cumulative changes in fair values of investments available for sale	402	1,877
Exchange difference on translation of foreign operations	(277)	178
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**125**	**2,055**
Total comprehensive income for the period	**25,923**	**26,607**
Total comprehensive income attributable to Bank's equity shareholders	25,890	27,122
Total comprehensive income (loss) attributable to non-controlling interests	33	(515)

The table below shows the Group's consolidated statement of profit or loss and other comprehensive income data for each of 2015, 2014 and 2013.

	2015	2014	2013
		(*KD thousands*)	
Net profit for the year attributable to the Bank's equity shareholders	42,805	47,008	42,459
Net loss (income) for the year attributable to non-controlling interests	(7,886)	(598)	462
Other comprehensive (loss) income			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Net movement in cumulative changes in fair values of investments available for sale	(1,219)	(7,127)	2,123
Exchange difference on translation of foreign operations	222	192	19
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	**(997)**	**(6,935)**	**2,142**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of freehold land	483	127	1,893
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**483**	**127**	**1,893**
Other comprehensive (loss)/income for the year	**(514)**	**(6,808)**	**4,035**
Total comprehensive income attributable to Bank's equity shareholders	42,180	40,513	46,159
Total comprehensive (loss)/income attributable to non-controlling interests	(7,775)	(911)	797

CONSOLIDATED STATEMENT OF CASH FLOWS DATA

The table below summarises the Group's consolidated statement of cash flows data for the six months ended 30 June 2016 and the six months ended 30 June 2015.

	Six months ended 30 June	
	2016 (unaudited)	**2015 (unaudited)**
	(*KD thousands*)	
Net cash (used in)/from operating activities	(117,795)	214,489
Net cash (used in)/from investing activities	(6,965)	5,144
Net cash used in financing activities	(7,090)	(12,890)
Net (decrease)/increase in cash and cash equivalents	**(131,850)**	**206,743**
Cash and cash equivalents at 1 January	552,644	268,000
Cash and cash equivalents at 30 June	420,794	474,743

The table below summarises the Group's consolidated statement of cash flows data for each of 2015, 2014 and 2013.

	2015	2014	2013
		(*KD thousands*)	
Net cash from/(used in) operating activities	279,275	(5,095)	151,460
Net cash from/(used in) investing activities	18,259	(85,566)	(17,348)
Net cash used in financing activities	(12,890)	(23,437)	(19,176)
Net increase/(decrease) in cash and cash equivalents	**284,644**	**(114,098)**	**114,936**
Cash and cash equivalents at 1 January	268,000	382,098	267,162
Cash and cash equivalents at 31 December	552,644	268,000	382,098

SELECTED CONSOLIDATED RATIOS

The table below shows selected consolidated ratios for the Group as at, and for the years ended, 31 December in each of 2015, 2014 and 2013.

	As at/six months ended 30 June		As at/years ended 31 December		
	2016 (unaudited)	2015 (unaudited)	2015	2014	2013
			(*per cent.*)		
Performance measures					
Return on average assets[(1)]	1.3	1.4	1.1	1.4	1.5
Return on average equity[(2)]	14.1	15.3	12.7	15.1	14.9
Cost to income ratio[(3)]	30.8	33.4	29.9	32.0	30.9
Financial ratios					
Net financing margin[(4)]	2.26	2.51	2.51	2.47	2.80
Net profit margin[(5)]	48.0	48.8	38.6	46.5	43.0
Asset quality					
Non performing financing receivables ratio[(6)]	2.49	3.09	2.44	2.93	2.94
Financing receivables loss coverage ratio[(7)]	144.4	109.0	142.5	117.6	131.3
Liquidity coverage ratio[(8)]	254.0	94.3	165.5	—	—
Financing receivables to deposits ratio[(9)]	78.8	77.8	77.2	77.9	77.2
Other ratios					
Common equity tier 1 capital adequacy ratio[(10)]	13.9	13.8	14.3	15.0	—
Tier 1 capital adequacy ratio[(10)]	13.9	13.9	14.3	15.1	15.9
Total capital adequacy ratio[(10)]	15.1	15.0	15.5	16.3	17.8
Leverage ratio[(11)]	6.9	6.1	7.0	6.6	—

Notes:

(1) Profit for the period attributable to shareholders of the Bank divided by average assets for the period, with average assets calculated as the weighted average for the period. The weighted average for the period is calculated by assigning a weighting to each month-end balance based on its period of participation in generating returns. For example, for the 12 month period ending 31 December, the month-end balance for January is given a weighting of 11, while that for December is given a weighting of 0. The sum of each month-end balance multiplied by the relevant weighting is then divided by the sum of the weightings to calculate the weighted average for the period. The ratio for the six month periods has been annualised.

(2) Profit for the period attributable to shareholders of the Bank divided by average shareholders' equity for the period, with average shareholders' equity calculated as the weighted average for the period. The ratio for the six month periods has been annualised.

(3) Total operating expenses divided by total operating income.

(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, deposits with the CBK, deposits with other banks and investments available for sale. The ratio for the six month periods has been annualised.

(5) Profit for the period attributable to shareholders 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/RB/345/2014 dated 23 December 2014.
(9) Total financing receivables divided by the sum of deposits from customers and deposits from banks and other financial institutions.
(10) For all periods other than the year ended 31 December 2013, calculated in accordance with Basel III, as implemented in Kuwait and, for the year ended 31 December 2013, calculated in accordance with CBK Circular number 2/BS/184/2005 dated 21 December 2005 (based on Basel II framework). In each case, calculated on a post-dividend basis. In respect of common equity tier 1 capital adequacy ratio only, this was not applicable in 2013.
(11) The leverage ratio was introduced in 2014 and is calculated in accordance with CBK Circular number 2/BS/342/2014 dated 21 October 2014.

DISTRIBUTABLE FUNDS

For the purposes of calculating Distributable Funds, the Bank's "consolidated retained earnings" has been added to its "general reserve", each as set out in the relevant set of financial statements of the Bank. The Bank's Distributable Funds (as defined in the Conditions) as at 31 December 2015 and as at 30 June 2016 were as follows:

	30 June 2016 (unaudited)	**31 December 2015**
	(*KD thousands*)	
Retained earnings	120,987	118,189
General reserve	22,660	22,660
Distributable funds	**143,647**	**140,849**

FINANCIAL REVIEW

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

The discussion of the Group's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK. These regulations require the adoption of all IFRS requirements except for the International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement', requirement for a collective provision. This has been replaced by the CBK's requirement for a minimum general provision to be made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings "Cautionary statement regarding forward-looking statements" and "Risk factors".

Financial information in this section as at, and for the six-month periods ended, 30 June 2016 and 30 June 2015 is unaudited. Investors should not rely on any interim information as being indicative of the results the Group may achieve for the full year.

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

OVERVIEW

The Group provides a range of corporate banking, retail banking, private banking and wealth management, and treasury services to customers in Kuwait through its network of 38 branches. As at 30 June 2016, the Group's total assets were KD 3,952.3 million as compared with KD 3,904.3 million as at 31 December 2015 and its equity attributable to shareholders of the Bank was KD 375.0 million as compared with KD 356.2 million as at 31 December 2015.

The Group's core business is retail and commercial banking, which generates significant financing income as well as credit-related fee and commission income. The Group also undertakes treasury and investment management activities (which generate financing income, fee and commission income and investment gains or losses). The Group'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 30 June 2016, the Group's portfolio of financing receivables was KD 2,773.6 million and its deposits from customers were KD 2,638.7 million. In 2015, the Group's net profit attributable to the Bank's shareholders was KD 42.8 million as compared with KD 47.0 million in 2014. For the six months ended 30 June 2016, the Group's net profit attributable to the Bank's shareholders was KD 25.6 million as compared with KD 25.5 million in the corresponding period of 2015.

As at 30 June 2016, the Group's total and tier 1 capital adequacy ratios, calculated in accordance with the Basel III methodology adopted by the CBK, were 15.1 per cent. and 13.9 per cent., respectively, and its leverage ratio, calculated in accordance with CBK requirements, was 6.9 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 Group's results of operations.

Economic conditions

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

Factors affecting net financing income

The Group's net financing income is the major contributor to its total operating income, comprising 79.9 per cent. of its total operating income in the six months ended 30 June 2016 as compared with 84.1 per cent. in the corresponding period of 2015 and 80.3 per cent. of its total operating income in 2015 as compared with 78.6 per cent. in 2014 and 78.9 per cent. in 2013. The principal components of the Group's financing income are:

- financing income earned on customer financing receivables, which comprised 93.6 per cent. of its net financing income in the six months ended 30 June 2016 as compared with 94.9 per cent. in the corresponding period of 2015 and 94.9 per cent. of net financing income in 2015 as compared with 95.8 per cent. in 2014 and 94.4 per cent. in 2013;
- financing income from deposits with other banks, which comprised 4.8 per cent. of its net financing income in the six months ended 30 June 2016 as compared with 3.6 per cent. in the corresponding period of 2015 and 3.6 per cent. of net financing income in 2015 as compared with 3.5 per cent. in 2014 and 5.0 per cent. in 2013; and
- financing income from sukuk, which comprised 1.6 per cent. of its net financing income in the six months ended 30 June 2016 as compared with 1.5 per cent. in the corresponding period of 2015 and 1.5 per cent. of net financing income in 2015 as compared with 0.7 per cent. in 2014 and 0.6 per cent. in 2013.

The Group's financing expense comprises distributions made to depositors which are determined by the Board of Directors on a quarterly basis based on the Bank's results for the quarter. In each of the six-month periods ended 30 June 2016 and 30 June 2015, distributions to depositors amounted to 33.7 per cent. and 25.5 per cent. of the Group's total financing income for the relevant period. In each of 2015, 2014 and 2013, distributions to depositors amounted to 26.3 per cent., 28.2 per cent. and 19.8 per cent. of the Group's total financing income for the relevant year.

The Group's financing income is primarily determined by the volume of profit-earning assets and the rates earned on those profit-earning assets. The Group's profit-earning assets principally comprise its portfolio of customer financing receivables, although it also generates limited financing income from the deposits its makes with other banks and the sukuk investment securities held by it.

The KD 5.3 million, or 9.0 per cent., increase in the Group's financing income for the six months ended 30 June 2016 as compared with the corresponding period in 2015 was principally driven by increased financing income from its portfolio of customer financing receivables, which increased by KD 4.3 million, or 7.6 per cent. in the six months ended 30 June 2016. This increase was principally driven by growth in the size of the portfolio, with the Group's average customer financing receivables portfolio (based on daily average balances) increasing by KD 254.8 million, or 9.7 per cent, to KD 2,867.2 million for the six months ended 30 June 2016 as compared with KD 2,612.4 million for the corresponding period of 2015. In addition, income from the Group's deposits with other banks increased by KD 1.0 million, or 45.2 per cent., in the six months ended 30 June 2016 driven by the profit rate increase to 0.86 per cent. in June 2016 from 0.57 per cent. in June 2015 and financing income from the Group's portfolio of sukuk increased by KD 0.1 million, or 12.2 per cent., in the six months ended 30 June 2016 driven by growth in the size of the portfolio. The Group's average sukuk portfolio (based on daily average balances) was KD 130.8 million for the six months ended 30 June 2016 as compared with KD 118.1 million for the corresponding period of 2015, an increase of KD 12.7 million, or 10.7 per cent.

The Group's distribution to depositors was KD 21.7 million in the six months ended 30 June 2016 as compared with KD 15.1 million in the corresponding period of 2015, an increase of KD 6.6 million, or 43.9 per cent., resulting from the increase in cost of funds to 1.21 per cent. in June 2016 from 0.94 per cent. in June 2015. The increase in the CBK's discount rate and the resulting increase in market yield on deposit products acted as the main drivers for the increase in the Group's cost of funds.

The KD 10.1 million, or 9.2 per cent., increase in the Group's financing income for 2015 in comparison with 2014 was principally driven by increased financing income from its portfolio of customer financing receivables, which increased by KD 8.7 million, or 8.2 per cent. in 2015. This increase was principally driven by growth in the size of the portfolio, with the Group's average customer financing receivables portfolio (based on daily average balances) increasing by KD

269.7 million, or 11.7 per cent, to KD 2,580.4 million for 2015 as compared with KD 2,310.7 million for 2014. In addition, financing income from the Group's portfolio of sukuk increased by KD 1.0 million, or 127.9 per cent., to KD 1.8 million in 2015 as compared with KD 0.8 million in 2014, driven by growth in the size of the portfolio. The Group's average sukuk portfolio (based on daily average balances) was KD 118.0 million for 2015 as compared with KD 66.0 million for 2014, an increase of KD 52.0 million, or 78.9 per cent. Financing income from the Group's deposits with other banks increased by KD 0.5 million, or 11.9 per cent., in 2015, resulting from a combination of the change in the balance of profit-generating assets and liabilities as well as the change in profit rate from June 2014.

The Group's distribution to depositors was KD 31.8 million in 2015 as compared with KD 31.2 million in 2014, an increase of KD 0.6 million, or 1.9 per cent., reflecting the increase in customer deposits and market rates in 2015 as compared with 2014.

The KD 13.6 million, or 14.0 per cent., increase in the Group's financing income for 2014 as compared with 2013 was also principally driven by increased financing income from its portfolio of customer financing receivables, which increased by KD 14.4 million, or 15.7 per cent. This increase was also principally driven by growth in the size of the portfolio, with the Group's average customer financing receivables portfolio increasing by KD 376.2 million, or 19.4 per cent. to KD 2,310.7 million for 2014 as compared with KD 1,934.5 million for 2013. In addition, financing income from the Group's portfolio of sukuk increased by KD 0.2 million, or 30.8 per cent., to KD 0.8 million in 2014 as compared with KD 0.6 million in 2013, driven by growth in the size of the portfolio. The Group's average sukuk portfolio was KD 66.0 million for 2014 as compared with KD 16.0 million for 2013, an increase of KD 50 million. Financing income from the Group's deposits with other banks fell by KD 1.0 million, or 20.3 per cent., in 2014 and was mainly driven by the change in profit rate.

The Group's distribution to depositors was KD 31.2 million in 2014 as compared with KD 19.2 million in 2013, an increase of KD 12 million, or 62.1 per cent., due to an overall liquidity shortage during the last quarter of 2014.

The CBK's discount rate was 2.0 per cent. throughout 2013 and 2014 and was increased to 2.25 per cent. in December 2015. The CBK's discount rate directly impacts the profit rates chargeable by the Group 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 described above, the Group's net financing margin (being its net financing income (annualised in the case of interim periods) divided by its weighted average profit-earning assets for the period) fell in the six months ended 30 June 2016 to 2.26 per cent. as compared with 2.51 per cent. in the six months ended 30 June 2015. The Group's net financing margin in 2015 was 2.51 per cent. as compared with 2.47 per cent. in 2014 and 2.80 per cent. in 2013.

Provisions and impairment losses

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

- all individually significant customer financing receivables are assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortised cost (including the Group's customer financing 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 2.6 to the 2015 Financial Statements.

The Group's provisions and impairment losses for the six months ended 30 June 2016 were KD 103.6 million as compared with KD 90.8 million in the corresponding period of 2015.

The Group's specific provision in respect of its financing receivables amounted to KD 3.2 million in the six months ended 30 June 2016 and KD 6.6 million in the corresponding period of 2015 and its general provision in respect of its financing receivables amounted to KD 9.2 million in the six months ended 30 June 2016 and KD 1.6 million in the corresponding period of 2015. The decrease in the Group's specific provision in the 2016 period principally reflected the Group's stringent procedures for issuance of new financing and an improved recovery process, which resulted in an improvement in the quality of financing receivables. The increase in the Group's general provision mainly represents the additional precautionary provision recognised by the Group on a conservative basis during 2016.

The Group's total provisions and impairment losses were KD 96.9 million in 2015, KD 89.4 million in 2014 and KD 86.8 million in 2013.

The provision for customer financing receivables charged to the Group's income statement in each year was:

- KD 25.2 million in 2015 (of which KD 22.3 million related to commercial facilities and KD 2.8 million related to retail facilities). In 2015, the Group also wrote off customer financing receivables of KD 14.2 million (of which KD 10.5 million related to commercial facilities and KD 3.7 million related to retail facilities) and transferred KD 3.5 million of commercial facilities to assets held for sale, resulting in a net provision for customer financing receivables in 2015 of KD 7.4 million.
- KD 45.2 million in 2014 (of which KD 40.5 million related to commercial facilities and KD 4.7 million related to retail facilities). In 2014, the Group also wrote off customer financing receivables of KD 42.6 million (of which KD 39.1 million related to commercial facilities and KD 3.4 million related to retail facilities), resulting in a net provision for customer financing receivables in 2014 of KD 2.6 million.
- KD 21.1 million in 2013 (of which KD 17.9 million related to commercial facilities and KD 3.2 million related to retail facilities). In 2013, the Group also wrote off customer financing receivables of KD 12.7 million (of which KD 1.8 million related to commercial facilities and KD 10.9 million related to retail facilities), resulting in a net provision for customer financing receivables in 2013 of KD 8.4 million. The significant write off of retail facilities in 2013 was based on a management decision that the relevant customer financing, having been fully provided for, was not recoverable.

The Group's specific provision in respect of its financing receivables amounted to KD 14.8 million in 2015, KD 40.5 million in 2014 and KD 13.0 million in 2013 and its general provision in respect of its financing receivables amounted to KD 10.3 million in 2015, KD 4.6 million in 2014 and KD 8.2 million in 2013. The increase in the Group's specific provision in 2014 and the reduction in 2015 principally reflected the past due status of irregular clients in line with CBK guidelines and the increased provision in 2014 was mainly under the manufacturing, purchase of securities and financial sectors. Notwithstanding the increased specific provision in 2014, there was an overall decrease in total provisions in 2014 as a result of significant recoveries in accounts, previously written off on the basis of a management decision reflecting difficulties in recovery, which amounted to KD 25.5 million in that year.

In accordance with IFRS as adopted in Kuwait and CBK regulations related to provisions, banks are permitted to make precautionary general provisions and the increase in the Group's general provision in the six months ended 30 June 2016 and in 2015 reflected the prudent approach of management in light of economic uncertainty whilst the reduction in the general provision in 2014 reflected the recoveries noted above.

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 Group generally, see note 2 to the 2015 Financial Statements.

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group'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 evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. 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 Group's financial statements, see note 2.26 to the 2015 Financial Statements, which identifies:

- judgements made in the classification of financial instruments, which also determine the manner in which such instruments are measured following their acquisition, and judgments made when classifying financial assets as impaired;
- judgements made when determining fair values using valuation techniques, including income models;
- estimates of the amount and timing of future cash flows when determining the level of provisions/impairment losses on financing receivables, investments available for sale and intangible assets; and
- estimates of the useful lives of assets and the fair values of assets not quoted in an active market,

as the principal judgments and estimates impacting the Financial Statements.

RESULTS OF OPERATIONS IN THE SIX-MONTH PERIODS ENDED 30 JUNE 2016 AND 30 JUNE 2015

Net financing income

Financing income is the Group's principal source of income. The Group earns financing income on its portfolio of financing receivables, on its portfolio of sukuk investment securities and on its deposits with central banks and other banks. The Group 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 2.19(i) to the 2015 Financial Statements.

The Group's net financing income amounted to KD 42.7 million in the six months ended 30 June 2016 and KD 44.0 million in the corresponding period of 2015, a fall of KD 1.3 million, or 2.9 per cent.. The decrease reflected a KD 5.3 million, or 9.0 per cent., increase in financing income and a KD 6.6 million, or 43.9 per cent., increase in 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 Group's net financing income.

Net fees and commission income

The Group earns credit-related fees and commissions, investment management fees and brokerage fees. Credit-related fees and commissions relate to financing advanced to customers, other financing facilities made available (such as commitments to advance financing and acceptances, LCs and guarantees issued), and other fees such as account servicing, syndication and card-related fees.

The Group pays fees and commissions principally in respect of cards.

The Group's net fees and commission income amounted to KD 5.4 million in the six months ended 30 June 2016 and KD 5.7 million in the corresponding period of 2015, a fall of KD 0.3 million, or 5.4 per cent. The fall reflected a reduction in the share of income from off balance sheet products and brokerage commission from its subsidiary.

Other sources of operating income

The Group's other sources of operating income principally include the net foreign exchange gain recorded on customer transactions, net gains or losses from the sales of investments and investment properties, its share of results from its associate, Middle East Financial Investment Company (**MEFIC**), in which it has a 30 per cent. shareholding as at 31August 2016, and other income such as dividend income received from the equity securities in its investment securities portfolio and income from its investment properties.

The Group's other sources of operating income amounted to KD 5.4 million in the six months ended 30 June 2016 and KD 2.7 million in the corresponding period of 2015.

The increase of KD 2.7 million, or 100.9 per cent., principally reflected the fact that a KD 2.9 million gain was realised on the sale of investment properties in the six months ended 30 June 2016 as compared with a KD 0.5 million gain in the corresponding period of 2015.

Provision and impairment loss

The table below shows details of the Group's provision charges and impairment losses in the six month periods ended 30 June 2016 and 30 June 2015.

	Six months ended 30 June	
	2016 (unaudited)	**2015 (unaudited)**
	(*KD '000s*)	
Provision charges and impairment losses on:		
Financing receivables - general	9,180	1,576
Financing receivables – specific	3,176	6,645
Recoveries from written off financing receivables	(1,960)	(1,399)
Financing receivables net of write-offs	**10,396**	**6,822**
Non-cash credit facilities	(91)	(80)
Other (release)/charge	(297)	2,371
Total provisions and impairment losses	**10,008**	**9,113**

For a discussion of the trends in the Group's provisions in respect of financing receivables, see "*—Principal factors affecting results of operations—Provision and impairment losses*" above.

The Group's other provisions and impairment losses principally include charges (and recoveries) in respect of the Group's non-cash facilities, which amounted to a recovery of KD 91 thousand in the six months ended 30 June 2016 and a recovery of KD 81 thousand in the corresponding period of 2015.

Operating expenses

The Group's operating expenses comprise staff costs, depreciation and other operating expenses. The Group's total operating expenses amounted to KD 16.5 million in the six months ended 30 June 2016 and KD 17.5 million in the corresponding period of 2015. The fall of KD 1.0 million, or 5.9 per cent., in the 2016 period principally reflected a decrease of KD 1.3 million, or 21.8 per cent., in other operating expenses driven by further rationalised and controlled expenditure procedures. This decrease was offset by small increases in each of staff costs and depreciation in the 2016 period.

Profit from operations

Reflecting the above factors, the Group's profit from operations for the six months ended 30 June 2016 was KD 27.0 million as compared with KD 25.7 million in the corresponding period of 2015, an increase of KD 1.2 million, or 4.8 per cent.

Taxation and net profit or loss attributable to non-controlling interests

The Group's taxation charge comprises national labour support tax charged in Kuwait, its contribution to the Kuwait Foundation for the Advancement of Sciences and its zakat charge. Together, these charges amounted to KD 1.2 million in each six month period.

In the six months ended 30 June 2016, the Group recorded a KD 0.2 million net profit attributable to non-controlling interests as compared with a net loss of KD 1.0 million in the corresponding period of 2015.

Net profit for the period

Reflecting the above factors, the Group's net profit for the period attributable to its shareholders was KD 25.6 million in the six months ended 30 June 2016 and KD 25.5 million in the corresponding period of 2015, an increase of KD 0.1 million, or 0.4 per cent.

Other comprehensive loss or income

The Group's other comprehensive income/(loss) principally comprises changes in the fair value of its available for sale investments. Other factors impacting the Group's other comprehensive income/(loss) are exchange differences on the translation of foreign operations and, in earlier periods, revaluation gains on freehold land.

The Group recorded comprehensive income on changes in fair values of its available for sale investments of KD 0.4 million in the six months ended 30 June 2016 and KD 1.9 million in the corresponding period of 2015. The higher comprehensive income in the 2015 period was mainly due to the revaluation of investment funds amounting to KD 1.2

million in the accounts of the Bank, other movements in the accounts of its subsidiary (specifically, the positive change in the fair value of its available for sale assets), and its minority interest in MEFIC.

The Group recorded a comprehensive loss relating to exchange differences on the translation of foreign operations of KD 0.3 million in the six months ended 30 June 2016 and comprehensive income of KD 0.2 million in the corresponding period of 2015.

Total comprehensive income for the year

Reflecting the above factors and the Group's profit for the period, the Group's total comprehensive income attributable to its equity shareholders was KD 25.9 million in the six months ended 30 June 2016 and KD 27.1 million in the corresponding period of 2015, a fall of KD 1.2 million, or 4.5 per cent.

SEGMENTAL ANALYSIS

The Group has two reporting segments as follows:

- **Retail and commercial banking**, which comprises a full range of banking operations covering credit and deposit services provided to customers; and
- **Treasury and investment management**, which comprises financial institutions, clearing, money market, foreign exchange, sukuk, other treasury and miscellaneous operations, proprietary investment, securities trading activities and fiduciary fund management activities.

The table below shows segment revenue and result in the six month periods ended 30 June 2016 and 30 June 2015 as well as segment assets and segment liabilities as at 30 June 2016 and 30 June 2015.

	Retail and commercial banking	**Treasury and investment management**	**Total**
		(*KD '000s*)	
As at and for the six months ended 30 June 2016 (unaudited)			
Segment revenue	38,613	14,842	53,455
Segment result	13,282	12,516	25,798(1)
Segment assets(2)	3,077,867	816,875	3,952,292
Segment liabilities(3)	2,204,126	1,323,285	3,572,624
As at and for the six months ended 30 June 2015 (unaudited)			
Segment revenue	40,808	11,543	52,351(4)
Segment result	18,316	6,236	24,552
Segment assets(2)	2,902,745	790,001	3,753,289
Segment liabilities(3)	2,166,661	1,186,498	3,400,252

Notes:
(1) Excludes profit attributable to non-controlling interests of KD 161 thousand.
(2) Total column includes unallocated assets of KD 57.6 million as at 30 June 2016 and KD 60.5 million as at 30 June 2015.
(3) Total column includes unallocated liabilities of KD 45.2 million as at 30 June 2016 and KD 47.1 million as at 30 June 2015.
(4) Excludes loss attributable to non-controlling interests of KD 975 thousand.

Retail and commercial banking

Retail and commercial banking recorded segment revenue of KD 38.6 million in the six months ended 30 June 2016 and KD 40.8 million in the corresponding period of 2015. The fall of KD 2.2 million, or 5.4 per cent., was due to a slight increase in the Bank's cost of funds.

Retail and commercial banking's segment result was KD 13.3 million for the six months ended 30 June 2016 and KD 18.3 million in the corresponding period of 2015. The fall of KD 5.0 million, or 27.5 per cent., was due to a higher provision charge during the period.

Treasury and investment management

Treasury and investment management recorded segment revenue of KD 14.8 million for the six months ended 30 June 2016 and KD 11.5 million in the corresponding period of 2015. The increase of KD 3.3 million, or 28.6 per cent., was mainly due to the gain on sale of land by the Bank.

Treasury and investment management's segment result was KD 12.5 million for the six months ended 30 June 2016 and KD 6.2 million in the corresponding period of 2015. The increase of KD 6.3 million, or 100.7 per cent., was mainly due to the gain in 2016 from the sale of investment property amounting to KD 3 million, in addition to a lower provision charge.

RESULTS OF OPERATIONS IN 2015, 2014 AND 2013

Net financing income

The Group's net financing income amounted to KD 89.1 million in 2015, KD 79.5 million in 2014 and KD 77.8 million in 2013, an increase of KD 9.6 million, or 12.0 per cent., in 2015 and an increase of KD 1.7 million, or 2.2 per cent., in 2014. The increase in 2015 reflected a KD 10 million, or 9.2 per cent., increase in financing income and a KD 0.6 million, or 1.9 per cent., increase in distribution to depositors. The increase in 2014 reflected a KD 13.6 million, or 14.0 per cent., increase in financing income and a KD 11.9 million, or 62.1 per cent., increase in 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 Group's net financing income.

Net fees and commission income

The Group's net fees and commission income amounted to KD 10.5 million in 2015, KD 10.5 million in 2014 and KD 10.8 million in 2013.

The Group's fees and commission income was substantially flat in each year at KD 12.1 million in 2015, KD 12.0 million in 2014 and KD 11.9 million in 2013. In each year the Group recorded small increases in credit-related fees and commission income, which were offset by small reductions in brokerage fees, in each case principally reflecting volume changes rather than changes in rates charged.

The Group's fees and commission expense was KD 1.5 million in each of 2015 and 2014 and KD 1.1 million in 2013. The KD 0.4 million, or 33.7 per cent., increase in 2014 principally reflected the impact of credit promotion programmes.

Other sources of operating income

The Group's other sources of operating income amounted to KD 11.3 million in 2015, KD 11.2 million in 2014 and KD 10.1 million in 2013.

The increase of KD 0.1 million, or 0.1 per cent., in 2015 principally reflected the fact that in 2015 a KD 1.4 million gain was realised on the sale of investment securities and a KD 3.8 million gain was realised on the sale of investment properties. No investment properties were sold in 2014 although a KD 4.8 million gain was realised on the sale of investment securities. The higher gain on sales of investment securities in 2014 principally reflected positive market movements in that year.

The increase of KD 1.1 million, or 11.0 per cent., in 2014 principally reflected the fact that in 2014 a KD 4.8 million gain was realised on the sale of investment securities whilst in 2013 a KD 1.5 million gain was realised on the sale of investment securities and a KD 2.4 million gain was realised on the sale of investment properties.

Provision and impairment loss

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

	2015	2014	2013
		(*KD '000s*)	
Provisions charges and impairment losses on:			
Financing receivables - general	10,345	4,629	8,166
Financing receivables – specific	14,840	40,532	12,964
Recoveries from written off financing receivables	(2,343)	(25,485)	(3,140)
Financing receivables net of write-offs	**22,842**	**19,676**	**17,990**
Non-cash credit facilities	318	(1,941)	3,537
Investments available for sale........................	1,593	1,463	1,383
Investment properties.....................................	(157)	1,100	—
Other (release)/charge....................................	183	(209)	356
Total provisions and impairment losses.....	**24,779**	**20,089**	**23,266**

For a discussion of the trends in the Group's provisions in respect of financing receivables, see "*—Principal factors affecting results of operations—Provision and impairment losses*" above

The Group's provisions and impairment losses, other than provisions in respect of financing receivables, principally include:

- charges in respect of its investment securities which amounted to KD 1.6 million in 2015, KD 1.5 million in 2014 and KD 1.4 million in 2013. These charges mainly related to an impaired investment in a listed company and an underperforming money market fund which is currently under liquidation;
- charges (and recoveries) in respect of the Group's non-cash facilities which amounted to a charge of KD 0.3 million in 2015, a recovery of KD 1.9 million in 2015 and a charge of KD 3.5 million in 2014; and
- charges (and recoveries) in respect of the Group's investment properties which amounted to a recovery of KD 0.2 million in 2015 and a charge of KD 1.1 million in 2014. No charge or recovery was recorded in 2013. The charge in 2014 related to a significant decline in the value of Kuwait-based properties based on independent valuations. The recovery of KD 0.2 million in 2015 was due to a depreciation charge relating to the same properties for which the impairment was made in 2014, resulting in a lower net book value. There was no change in the valuation of the investment properties.

Operating expenses

The Group's total operating expenses amounted to KD 33.2 million in 2015, KD 32.4 million in 2014 and KD 30.5 million in 2013. The increase of KD 0.8 million, or 2.5 per cent., in 2015 principally reflected an increase of KD 0.9 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 Group's headcount increased by 83 during 2015, comprising a mix of Kuwaiti and expatriate staff. The Group's cost to income ratio in 2015 was 29.9 per cent. as compared with 32.0 per cent. in 2014.

The increase of KD 1.9 million, or 6.3 per cent., in 2014 reflected a KD 0.9 million, or 4.9 per cent., increase in staff costs and a KD 1.2 million, or 13.1 per cent., increase in other operating expenses. The increase in staff costs was due to higher salaries supplemented with increases in indemnity and other service costs and the increase in other operating expenses principally reflected increases in maintenance, marketing and other operational costs. The Group's cost to income ratio was 30.9 per cent. in 2013.

Profit from operations

Reflecting the above factors, the Group's profit from operations for the year was KD 52.9 million in 2015, KD 48.7 million in 2014 and KD 45.0 million in 2013, an increase of KD 4.2 million, or 8.6 per cent., in 2015 and an increase of KD 3.7 million, or 8.3 per cent., in 2014.

Impairment loss on asset held for sale, directors' remuneration and taxation

In 2015, the Group recorded a KD 7.9 million impairment loss (attributable to equity shareholders of the Bank) on an investment in its subsidiary, Kuwait and Middle East Financial Investment Company K.S.C.P (**KMEFIC**) (classified as an asset held for sale), in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. No equivalent impairment charges were recorded in either 2014 or 2013.

The Group paid directors' remuneration of KD 150 thousand in 2015, KD 122 thousand in 2014 and KD 75 thousand in 2013. The Group's taxation charge amounted to KD 2.0 million in 2015, KD 2.2 million in 2014 and KD 2.0 million for 2013. The higher taxation charge in 2014 principally reflected the Group's higher net profit in that year.

Net profit for the year

Reflecting the above factors, the Group's net profit for the year attributable to its shareholders was KD 42.8 million in 2015, KD 47.0 million in 2014 and KD 42.5 million in 2013, a fall of KD 4.2 million, or 8.9 per cent., in 2015 and an increase of KD 4.5 million, or 10.7 per cent., in 2014.

Other comprehensive loss or income

The Group recorded a comprehensive loss on changes in fair values of its available for sale investments of KD 1.2 million in 2015 and KD 7.1 million in 2014. In 2013, the Group recorded comprehensive income of KD 2.1 million on changes in fair values of its available for sale investments. The higher comprehensive loss on changes in fair values of available for sale investments in 2014 was mainly due to the reclassification of gain on sale on investments to the profit or loss statement.

The Group recorded comprehensive income relating to exchange differences on the translation of foreign operations of KD 0.2 million in 2015 and 2014 and KD 19 thousand in 2013. The Group recorded comprehensive income from the revaluation of land of KD 0.5 million in 2015, KD 0.1 million in 2014 and KD 1.9 million in 2013.

Total comprehensive income for the year

Reflecting the above factors and the Group's profit for the year, the Group's total comprehensive income attributable to its equity shareholders was KD 42.2 million in 2015, KD 40.5 million in 2014 and KD 46.2 million in 2013, an increase of KD 1.7 million, or 4.1 per cent., in 2015 and a fall of KD 5.6 million, or 12.2 per cent., in 2014.

SEGMENTAL ANALYSIS

The table below shows segment revenue and result for each of 2015, 2014 and 2013 as well as segment assets and segment liabilities as at 31 December in each of 2015, 2014 and 2013.

	Retail and commercial banking	Treasury and investment management	Total
		(*KD '000s*)	
2015			
Segment revenue......................	82,076	28,796	110,872
Segment result	30,166	4,753	34,919[(1)]
Segment assets[(2)]	2,990,296	845,243	3,904,303
Segment liabilities[(3)]	2,195,277	1,295,341	3,543,468
2014			
Segment revenue......................	75,801	25,374	101,175
Segment result	29,463	16,947	46,410
Segment assets[(2)]	2,793,110	736,868	3,596,928
Segment liabilities[(3)]	2,054,596	1,155,898	3,257,608
2013			
Segment revenue......................	74,879	23,834	98,713
Segment result	29,385	13,536	42,921
Segment assets[(2)]	2,461,031	635,011	3,164,976
Segment liabilities[(3)]	1,784,002	1,009,412	2,841,821

Notes:

(1) Excludes loss attributable to non-controlling interests of KD 7,886 thousand.

(2) Total column includes unallocated assets of KD 68.8 million as at 31 December 2015, KD 67.0 million as at 31 December 2014 and KD 68.9 million as at 31 December 2013.

(3) Total column includes unallocated liabilities of KD 52.9 million as at 31 December 2015, KD 47.1 million as at 31 December 2014 and KD 48.4 million as at 31 December 2013.

Retail and commercial banking

Retail and commercial banking recorded segment revenue of KD 82.1 million in 2015, KD 75.8 million in 2014 and KD 74.9 million in 2013. The increase of KD 6.3 million, or 8.3 per cent., in 2015 and the increase of KD 0.9 million, or 1.2 per cent., in 2014 principally reflected an increase in net financing income due to growth in the Group's financing portfolio. Financing rates were stable across all three years.

Retail and commercial banking's segment result was KD 30.2 million in 2015, KD 29.5 million in 2014 and KD 29.4 million in 2013. The increase of KD 0.7 million, or 2.4 per cent., in 2015 principally reflected the increase in net financing income offset by higher provision charges and operating expenses. Retail and commercial banking's segment result was substantially flat in 2014 as compared with 2013.

Treasury and investment management

Treasury and investment management recorded segment revenue of KD 28.8 million in 2015, KD 25.4 million in 2014 and KD 23.8 million in 2013. The increase of KD 3.4 million, or 13.5 per cent., in 2015 and the increase of KD 1.5 million, or 6.5 per cent., in 2014 principally reflected increases in income from sukuk (which was in line with the increase in investment in sukuk), gain on sale of non-trading investments and higher dividend and other income.

Treasury and investment management's segment result was KD 4.8 million in 2015, KD 16.9 million in 2014 and KD 13.5 million in 2013. The fall of KD 12.2 million, or 72.0 per cent., in 2015 principally reflected increased provisions against impaired investments. The increase of KD 3.4 million, or 25.2 per cent., in 2014 principally reflected increased income from sukuk as discussed above.

LIQUIDITY AND FUNDING

Overview

The Group's liquidity needs arise primarily from advancing financing to customers, the payment of expenses and investments in sukuk and equity securities. To date, the Group'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 Group's cash flow from operating activities, investing activities and financing activities for each of the six-month periods ended 30 June 2016 and 30 June 2015.

	Six months ended 30 June	
	2016	**2015**
	(unaudited)	**(unaudited)**
	(*KD '000s*)	
Net cash flows (used in)/from operating activities	(117,795)	214,489
Net cash flows (used in)/from investing activities	(6,965)	5,144
Net cash flows used in financing activities	(7,090)	(12,890)
Cash and cash equivalents at 1 January	552,644	268,000
Cash and cash equivalents at 30 June	420,794	474,743

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

	2015	**2014**	**2013**
		(*KD '000s*)	
Net cash flows from/(used in) operating activities	279,275	(5,095)	151,460
Net cash flows from/(used in) investing activities	18,259	(85,566)	(17,348)
Net cash flows used in financing activities	(12,890)	(23,437)	(19,176)
Cash and cash equivalents at 1 January	268,000	382,098	267,162
Cash and cash equivalents at 31 December	552,644	268,000	382,098

Operating activities

The Group's net cash used in operating activities in the six months ended 30 June 2016 was KD 117.8 million as compared with net cash from operating activities of KD 214.5 million in the corresponding period of 2015. The Group's net cash flow from operating activities before changes in operating assets and liabilities principally reflects its profit for the year adjusted to reflect its provisions, impairment losses and gain on sale of investment properties, and amounted to KD 33.6 million in the six months ended 30 June 2016 and KD 34.4 million in the corresponding period of 2015.

The Group's net cash from operating activities in 2015 was KD 279.3 million as compared with net cash used in operating activities of KD 5.1 million in 2014 and net cash from operating activities of KD 151.5 million in 2013. The Group's net cash flow from operating activities before changes in operating assets and liabilities principally reflects its profit for the year adjusted to reflect its provisions and impairment losses and amounted to KD 70.9 million in 2015, KD 62.6 million in 2014 and KD 63.4 million in 2013.

Investing activities

The Group's net cash used in investing activities in the six months ended 30 June 2016 was KD 7.0 million as compared with net cash from investing activities of KD 5.1 million in the corresponding period of 2015. In the six months ended 30 June 2016, the Group spent a net KD 14.5 million on the purchase and sale of available for sale investments and a net KD 2.0 million on the purchase and sale of premises and equipment and received a net KD 8.8 million from the sale of investment property. In the six months ended 30 June 2015, the principal investment made was a net KD 3.0 million on the purchase and sale of available for sale investments, while the Group received a net KD 7.1 million from the sale and purchase of premises and equipment and a net KD 0.5 million from the sale and purchase of investment properties.

The Group's net cash from investing activities in 2015 was KD 18.3 million as compared with net cash used in investing activities of KD 85.6 million in 2014 and KD 17.3 million in 2013. In 2015, the Group received a net KD 3.9 million from the sale and purchase of available for sale investments, a net KD 7.4 million from the sale and purchase of investment property and a net KD 5.5 million from the sale and purchase of premises and equipment. In 2014 and 2013, the principal investments made were purchases and sales of available for sale investments, with significantly more cash being spent on purchases than was received from sales in each year.

Financing activities

The Group's net cash flow used in financing activities in the six months ended 30 June 2016 was KD 7.1 million as compared with KD 12.9 million in the corresponding period of 2015. In each case, this reflected the payment of dividends.

The Group's net cash flow used in financing activities in 2015 was KD 12.9 million as compared with KD 23.4 million in 2014 and KD 19.2 million in 2013. In each case, this reflected the payment of dividends.

Funding

The Group's principal sources of funding are its customer deposits and, to a lesser extent, interbank deposits.

The Group also has access to a pool of unencumbered and liquid securities in the form of sukuk as well as quoted available for sale equity securities that it can access to meet liquidity needs, in addition to its cash balances and deposits with the CBK and other banks. As at 31 December in each of 2015, 2014 and 2013, the Group's liquid assets (defined as its cash and its short-term (less than three months) deposits with the CBK and other banks and investments available for sale) comprised 39.0 per cent., 34.4 per cent. and 35.5 per cent., respectively, of its total assets, with the maturity of up to three months.

The Group's customer deposits were KD 2,660.6 million, or 75.1 per cent. of its total liabilities, as at 31 December 2015, KD 2,453.8 million, or 75.3 per cent. of its total liabilities, as at 31 December 2014 and KD 2,093.0 million, or 73.7 per cent. of its total liabilities, as at 31 December 2013. The Group has a significant concentration of deposits from the Kuwaiti government and its related agencies, which amounted to 38 per cent. as at 30 June 2016, 39 per cent. as at 31 December 2015, 39 per cent. as at 31 December 2014 and 40 per cent. as at 31 December 2013, excluding deposits from the Government pension fund, see "*Risk factors—Factors that may affect the Bank's ability to fulfil its obligations under the Transaction Documents—The Group's financing portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the GCC*".

The Group currently has no outstanding financing or sukuk securities in issue. During 2014, the Group focused on optimising its funding mix and rebalancing its liquidity profile. During 2015, the Group continued to diversify its long-term deposit base.

The tables below show the Group's funding in the form of customer deposits and deposits from banks and other financial institutions as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013.

	As at 30 June		As at 31 December					
	2016 (unaudited)		2015		2014		2013	
	(*KD ‘000s*)	(*% of total*)	(*KD ‘000s*)	(*% of total*)	(*KD ‘000s*)	(*% of total*)	(*KD ‘000s*)	(*% of total*)
Deposits from banks and other financial institutions	888,758	25.2	829,989	23.8	756,737	23.6	700,405	25.1
Customer deposits	2,638,653	74.8	2,660,629	76.2	2,453,757	76.4	2,093,009	74.9
Total funding................................	**3,527,411**	**100.0**	**3,490,618**	**100.0**	**3,210,494**	**100.0**	**2,793,414**	**100.0**

The Group’s customer deposits comprise both investment deposits and non-investment deposits in the form of current accounts. Current accounts are not entitled to any profit.

The Group’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 annual 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 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 Group.

The Group 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 Group’s total deposits as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013. This analysis is based on contractual undiscounted repayment obligations, including profit share and shows the remaining contractual maturities. Repayments subject to notice are treated as if notice had been given.

	Less than one month	One to three months	Three to 12 months	One to five years	Total
			(*KD ‘000s*)		
30 June 2016 (unaudited)					
Deposits from banks and other financial institutions.................	490,139	38,667	130,166	229,786	888,758
Customer deposits....................	1,156,925	872,077	593,006	16,645	2,638,653
Total.......................................	**1,647,064**	**910,744**	**723,172**	**246,431**	**3,527,411**
31 December 2015					
Deposits from banks and other financial institutions.................	521,290	112,899	172,199	25,922	832,310
Customer deposits....................	1,207,010	938,135	504,562	17,640	2,667,347
Total.......................................	**1,728,300**	**1,051,034**	**676,761**	**43,562**	**3,499,657**
31 December 2014					
Deposits from banks and other financial institutions.................	312,926	234,726	211,775	—	759,427
Customer deposits....................	1,257,466	651,073	545,317	5,147	2,459,003
Total.......................................	**1,570,392**	**885,799**	**757,092**	**5,147**	**3,218,430**
31 December 2013					
Deposits from banks and other financial institutions.................	381,106	84,272	237,278	—	702,656
Customer deposits....................	1,035,912	577,378	478,696	4,802	2,096,788
Total.......................................	**1,417,018**	**661,650**	**715,974**	**4,802**	**2,799,444**

A significant proportion of the Group’s funding disclosed in the table above as at 30 June 2016 is short term in nature, with 46.7 per cent. of such funding being repayable within one month and a further 46.3 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 Group is subject to the risk that liquidity may not always be readily available or may* *only be available at costs which may adversely affect its business*". The issue of the Certificates is intended to help the Group diversify its sources of funding and to extend the average maturity of its funding base.

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

Equity funding

For a discussion of the Group's share capital and reserves as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013, see note 12 to the 2016 Interim Financial Statements and note 19 to the Annual Financial Statements (which, for the avoidance of doubt, and as defined in the "*Presentation of Financial and other Information*", include only 2015 and 2014 Financial Statements).

FINANCING

Customer financing receivables portfolio

The Group's customer financing receivables portfolio (net of provisions) was KD 2,773.5 million as at 30 June 2016. The table below shows the breakdown of the Group's customer financing receivables portfolio as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013.

	As at 30 June	**As at 31 December**		
	2016 (unaudited)	**2015**	**2014**	**2013**
		(KD '000s)		
Commercial	2,201,471	2,155,289	1,982,694	1,736,930
Retail	572,086	525,045	497,737	403,992
Total customer financing	**2,773,557**	**2,680,334**	**2,480,431**	**2,140,922**

The table below shows the Group's total gross and net customer financing receivables portfolio and customer financing to deposit ratios as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013.

	As at 30 June	**As at 31 December**		
	2016 (unaudited)	**2015**	**2014**	**2013**
			(KD '000s, except percentages)	
Gross customer financing receivables	2,877,186	2,777,211	2,569,869	2,227,763
Less: impairment	103,629	96,877	89,438	86,841
Net customer financing receivables	2,773,557	2,680,334	2,480,431	2,140,922
Net customer financing receivables/customer deposits (%)	105.1	100.7	101.1	102.3
Net customer financing receivables/total deposits (%)[1]	78.6	76.8	77.3	76.6

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

The Group's 20 largest customer financings amounted to 24.6 per cent. of its total gross customer financings as at 30 June 2016 as compared with 23.8 per cent. as at 31 December 2015 and 23.7 per cent. as at 31 December 2014.

The Group's customer financing receivables portfolio is principally denominated in Kuwaiti dinar, although financing is also made in U.S. dollars. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms. In addition, the Group hedges a part of its currency exposure through the use of derivative contracts, such as forward foreign exchange contracts. See note 24 to the 2015 Financial Statements.

The majority of the financing within the Group's customer financing receivables portfolio contains terms permitting the Group to adjust the profit rate payable by the customer upon any change in the CBK discount rate or the relevant interbank benchmark. The Group 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 Group'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 improves in an increasing market profit rate environment.

Distribution of customer financing receivables by maturity

The table below shows the distribution of the Group's customer financing receivables portfolio by maturity (based on contractual undiscounted repayment obligations) as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013.

	Up to three months	**Three to 12 months**	**Over one year**	**Total**
		(*KD '000s*)		
30 June 2016 (unaudited)				
Customer financing receivables................	1,452,344	737,976	583,237	**2,773,557**
31 December 2015				
Customer financing receivables................	1,460,320	627,310	592,704	**2,680,334**
31 December 2014				
Customer financing receivables................	1,492,673	433,951	553,807	**2,480,431**
31 December 2013				
Customer financing receivables................	1,319,804	280,001	541,117	**2,140,922**

Gross maximum exposure to credit risk

The table below shows the Group's maximum credit risk exposure (net of provisions, without taking account of collateral or other credit enhancements and ignoring commitments representing credit risk) by credit quality of financial assets by class, grade and status as at 31 December 2015.

	Neither past due nor impaired				
	High grade(1)	**Standard grade**(2)	**Closely monitored**(3)	**Past due including individually impaired**(4)	**Gross maximum exposures**
			(*KD '000s*)		
Balances with banks	328,339	—	—	—	328,339
Deposits with CBK.......	265,199	—	—	—	265,199
Deposits with other banks............................	376,812	—	—	—	376,812
Customer financing receivables	2,412,617	120,167	66,280	81,270	2,680,334
Investments available for sale	121,809	—	—	—	121,809
Other assets..................	13,620	—	—	—	13,620
Assets classified as held for sale	—	2,937	—	—	**2,937**
Total............................	**3,518,396**	**123,104**	**66,280**	**81,270**	**3,789,050**

Notes:

(1) Financing exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and repayment capacity which are considered to be good to excellent.

(2) Financing exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired.

(3) Financing exposures classified as "Closely Monitored" are facilities that are rescheduled or included in the Bank's internal watch list.

(4) This category includes KD 23.7 million that was past due for less than 90 days. All financings which are past due for more than 90 days are impaired.

As at 31 December 2015, the Group's gross maximum exposure to credit risk was KD 3,789.1 million, of which its portfolio of financing receivables comprised 70.7 per cent. As at 31 December 2015, 92.9 per cent. of the Group's gross maximum exposure to credit risk was considered to be high grade, 3.2 per cent. was considered to be standard grade, 1.7 per cent. was considered to be acceptable grade and 2.1 per cent. was past due.

The table below provides further information in relation to the Group's past due but not impaired financing receivables as at 31 December 2015.

	Past due up to 60 days	Past due 61 to 90 days	Total
Retail financing..	19,625	2,736	22,361
Commercial financing	1,372	—	1,372
Total financing receivables	**20,997**	**2,736**	**23,733**

As at 31 December 2015, the fair value of the collateral accepted in respect of the Group's past due but not impaired financing receivables was KD 5.8 million, or 24.4 per cent. of the outstanding amount of the financing receivables.

The table below provides further information in relation to the Group's impaired financing receivables as at 31 December 2015.

	Gross exposure	Impairment provision	Fair value of collateral
Retail financing..	5,413	1,905	—
Commercial financing	62,580	8,551	109,215
Total financing receivables	**67,993**	**10,456**	**109,215**

The Group did not renegotiate any financial assets in 2015 that would otherwise be past due or impaired.

The table below shows the Group's credit risk exposure by credit quality of financial assets by class, grade and status as at 31 December 2014.

	Neither past due nor impaired				
	High grade	Standard grade	Closely monitored	Past due including individually impaired[(1)]	Gross maximum exposures
			(*KD '000s*)		
Balances with banks	73,060	—	—	—	73,060
Deposits with CBK	345,329	—	—	—	345,329
Deposits with other banks............................	421,594	—	—	—	421,594
Financing receivables ...	2,240,104	150,573	11,343	78,411	**2,480,431**
Investments available for sale	114,197	—	—	—	114,197
Other assets..................	11,603	—	—	—	11,603
Total	**3,205,887**	**150,573**	**11,343**	**78,411**	**3,446,214**

Note:
(1) This category includes KD 15.7 million that was past due for less than 90 days.

As at 31 December 2014, the Group's gross maximum exposure to credit risk was KD 3,446.2 million, of which its portfolio of financing receivables comprised 72.0 per cent. As at 31 December 2014, 93.0 per cent. of the Group's gross maximum exposure to credit risk was considered to be high grade, 4.4 per cent. was considered to be standard grade, 0.3 per cent. was considered to be acceptable grade and 2.3 per cent. was past due.

The table below provides further information in relation to the Group's past due but not impaired financing receivables as at 31 December 2014.

	Past due up to 60 days	Past due 61 to 90 days	Total
Retail financing..	14,431	811	15,242
Commercial financing	493	—	493
Total financing receivables	**14,924**	**811**	**15,735**

As at 31 December 2014, the fair value of the collateral accepted in respect of the Group's past due but not impaired financing receivables was KD 12.9 million, or 82.2 per cent. of the outstanding amount of the financing receivables.

The table below provides further information in relation to the Group's impaired financing receivables as at 31 December 2014.

	Gross exposure	Impairment provision	Fair value of collateral
Retail financing	9,917	2,107	—
Commercial financing	66,121	11,255	125,118
Total financing receivables	**76,038**	**13,362**	**125,118**

The Group did not renegotiate any financial assets in 2014 that would otherwise be past due or impaired.

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

The Group 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 Group's maximum exposure to credit risk (ignoring commitments representing credit risk) as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013.

	As at 30 June	As at 31 December		
	2016 (unaudited)	2015	2014	2013
		(*KD '000s*)		
Geographic region				
Kuwait	3,345,532	3,149,594	3,063,525	2,646,183
Other GCC	293,409	288,612	229,954	254,404
Europe	47,723	46,158	29,131	7,276
North America	51,790	233,719	59,450	86,236
Rest of the world	101,791	70,967	64,154	4,261
	3,840,245	**3,789,050**	**3,446,214**	**2,998,360**
Industry sector				
Trading and manufacturing	554,009	522,821	478,842	469,435
Banks and other financial institutions	1,122,380	1,156,529	1,011,886	886,789
Construction and real estate	1,239,528	1,331,914	1,273,177	1,039,237
Other	924,328	777,786	682,309	602,899
	3,840,245	**3,789,050**	**3,446,214**	**2,998,360**

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

- construction and real estate which, as at 30 June 2016, accounted for 32.3 per cent. of its total gross maximum credit exposure as compared with 35.2 per cent. as at 31 December 2015, 36.9 per cent. as at 31 December 2014 and 34.7 per cent. as at 31 December 2013; and
- banks and other financial institutions which, as at 30 June 2016, accounted for 29.2 per cent. of its total gross maximum credit exposure as compared with 30.5 per cent. as at 31 December 2014, 29.4 per cent. as at 31 December 2014 and 29.6 per cent. as at 31 December 2013.

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 Group'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.

The Group's advances that finance the trading of securities listed on the Kuwait Stock Exchange are regulated and monitored by the CBK which requires that this financing does not exceed the lower of 10 per cent. of the total credit facilities portfolio granted to resident customers and 25 per cent. of the Bank's regulatory capital.

See "*Risk management—Credit risk*" for a discussion of the Group'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 Group'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 Group invests in these securities both to generate returns and to provide an additional source of liquidity when needed.

The table below summarises the Group's investment securities portfolio as at 30 June 2016 and as at 31 December 2015, 2014 and 2013.

	As at 30 June	As at 31 December		
	2016 (unaudited)	2015	2014	2013
	(*KD '000s*)			
Investment securities portfolio				
Securities carried at cost	140	140	140	224
Securities fair valued using level 1[(1)]	138,853	118,934	122,791	39,038
Securities fair valued using level 2[(2)]	7,069	11,110	15,118	15,804
Securities fair valued using level 3[(3)]	8,983	8,983	12,880	13,957
Total investment securities	**155,045**	**139,167**	**150,929**	**69,023**

Note:

(1) References to level 1, level 2 and level 3 are to the valuation techniques used to determine the fair value of the relevant investments. These techniques are:

- Level 1 – valued based on quoted bid price as the securities are traded in an active market.
- Level 2 – these are equity securities and funds which are valued based on recent arm's length transactions and comparisons to similar instruments for which market observable prices exist, including price to book value multiples, price earnings multiples and net asset values published by fund managers.
- Level 3 – these are equity securities and funds which are valued based on the discounted cash flow method, the book value method or other relevant valuation techniques commonly used by market participants. The significant inputs for these valuation techniques include market interest rates, discount rates, terminal growth rates, illiquidity discounts and cash flow estimates.

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

During 2014, the Group invested significantly in sukuk issued by International Islamic Liquidity Management and GCC issuers as these securities were offering stable earnings with an acceptable credit risk.

The Group'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 25 to the 2015 Financial Statements.

CAPITAL ADEQUACY

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are also governed by guidelines of the Basel Committee 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 Banks (**D-SIBs**).

The Group'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 Group aims to ensure adherence to the CBK's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures that 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 is scheduled to increase to 13.0 per cent. from 31 December 2016. The Group has been notified by the CBK that it will be designated as a D-SIB with an additional Common Equity Tier 1 D-SIB surcharge of 0.5 per cent. required from 31 December 2016. As a result, the Group's total minimum capital requirement from that date is expected to be 13.5 per cent., which includes a capital conservation buffer of 2.5 per cent. which must comprise Common Equity Tier 1 only.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 30 June 2016 and as at 31 December in each of 2015 and 2014 (determined in accordance with Basel III as implemented in Kuwait) and as at 31 December 2013 (determined in accordance with Basel II as implemented in Kuwait). In each case, the ratios are calculated on a post-dividend basis.

	As at 30 June		**As at 31 December**	
	2016 (unaudited)	**2015**	**2014**	**2013**
		(*KD '000s, except percentages*)		
Risk weighted assets	2,513,234	2,495,987	2,082,622	1,670,898
Capital required	314,154	311,998	249,915	200,508
Capital required	12.5%	12.5%	12.0%	12.0%
Capital available				
Tier 1 capital	349,972	357,304	314,685	264,945
Common equity tier 1	349,321	356,158	312,396	264,945
Additional tier 1	651	1,146	2,289	—
Tier 2 capital	30,134	29,906	24,948	31,748
Total capital	**380,106**	**387,210**	**339,633**	**296,693**
Common equity tier 1 capital adequacy ratio	13.9%	14.3%	15.0%	-
Tier 1 capital adequacy ratio	13.9%	14.3%	15.1%	15.9%
Total capital adequacy ratio	15.1%	15.5%	16.3%	17.8%

The principal factor behind the Group's falling capital ratios has been the significant increase in its risk weighted assets which has only partially been offset by increased Common Equity Tier 1 capital principally arising from the Group's profit in each period.

The Bank is also subject to a CBK Basel III minimum leverage ratio requirement of 3 per cent. The Bank's leverage ratio was 6.85 per cent. as at 30 June 2016, 6.98 per cent. as at 31 December 2015 and 6.57 per cent. as at 31 December 2014.

CAPITAL EXPENDITURE AND OTHER COMMITMENTS

The Group's major capital expenditure requirements in 2016 relate to upgrading its IT systems to facilitate improved decision making and customer service.

COMMITMENTS AND CONTINGENT LIABILITIES

The Group has irrevocable financing commitments as well as contingent liabilities in relation to acceptances, LCs and guarantees issued by it. The table below shows these contingent liabilities as at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013.

	As at 30 June	**As at 31 December**		
	2016 (unaudited)	**2015**	**2014**	**2013**
		(*KD '000s*)		
Guarantees	403,568	388,919	339,093	311,642
Irrevocable commitments to extend credit	50,638	8,237	11,287	2,738
Letters of credit	63,670	91,806	117,720	85,087
Acceptances	37,563	19,276	16,800	9,993
Total commitments and contingent liabilities	**555,439**	**508,238**	**484,900**	**409,460**

RELATED PARTY TRANSACTIONS

The Group's principal related party transactions are with its parent, associate, 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 Group 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 Group 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 Group's related party transactions in the six-month periods ended 30 June 2016 and 30 June 2015 is set out in note 13 to the 2016 Interim Financial Statements. Further information on the Group's related party transactions in 2015, 2014 and 2013 is set out in note 22 to the 2015 Financial Statements and note 21 to the 2014 Financial Statements.

DESCRIPTION OF THE GROUP

OVERVIEW

The Bank was established in 1941 as the Kuwait branch of The British Bank of the Middle East (**BBME**) and was the first bank to be established in Kuwait. Since April 2010, the Bank has operated as an Islamic bank in accordance with Islamic Shari'a principles (in addition to the provisions of Law No. 32 of 1968 (the **Banking Law**)). As at 30 June 2016 and based on published interim financial statements of the Bank's current parent, Ahli United Bank, Bahrain (**AUBB**), the Group was the second largest Islamic banking group in Kuwait in terms of assets, deposits and customer financing products.

The Group's core businesses are retail, corporate banking, private banking and wealth management, treasury and investment management. The Group offers its products and services principally in Kuwait and has a presence outside Kuwait through an associate that operates in the Kingdom of Saudi Arabia.

The Group offers its clients a wide range of banking and financial services through its network of 38 branches, 91 automated teller machines (**ATM**s) and 3,718 point of sale (**POS**) terminals and other electronic channels such as telebanking, internet banking and mobile banking.

As at 30 June 2016, the Group's total assets were KD 3,952.3 million as compared with KD 3,904.3 million as at 31 December 2015 and its equity attributable to shareholders of the Bank was KD 375.0 million as at 30 June 2016 as compared with KD 356.2 million as at 31 December 2015. As at 30 June 2016, the Group's portfolio of financing receivables was KD 2,773.6 million as compared with KD 2,680.3 million as at 31 December 2015 and its aggregate customer deposits and deposits from banks and other financial institutions were KD 3,527.4 million as compared with KD 3,490.6 million as at 31 December 2015. In 2015, the Group's net profit for the year attributable to the Bank's equity shareholders was KD 42.8 million as compared with KD 47.0 million in 2014. In the six months ended 30 June 2016, the Group's net profit attributable to Bank's equity shareholders was KD 25.6 million.

As at 30 June 2016, the Group's total and tier 1 capital adequacy ratios, calculated in accordance with the Basel III methodology adopted by the CBK, were 15.1 per cent. and 13.9 per cent., respectively, and its leverage ratio, calculated in accordance with CBK requirements, was 6.85 per cent.

The Bank has been listed on the KSE since September 1984. Its total market capitalisation as at 28 July 2016 was KD 675.6 million.

The Bank's registered office is at Darwazat Al-Abdul Razzak, P.O. Box 71 Safat, 12168, Kuwait and its telephone number is +965 1802 000. Its commercial registration number with the Kuwaiti Ministry of Commerce is 429.

HISTORY

The Bank was established as the Kuwait branch of BBME in 1941 under a 30-year concession.

In 1971, when the concession expired, the Kuwait Investment Authority (the **KIA**) assumed control of the Bank and reincorporated it as a Kuwaiti bank under the name The Bank of Kuwait and the Middle East. AUBB began acquiring shares in the Bank in March 2001 (through its subsidiary "Ahli United Company W.L.L. - Kuwait") and acquired control of the Bank in August 2005 when it increased its shareholding to approximately 67.33 per cent. In April 2010, the Bank converted from a conventional bank to a Shari'a-compliant bank and was renamed as Ahli United Bank, Kuwait.

The Bank established a subsidiary, KMEFIC, in January 1984. The Bank currently owns 50.18 per cent. of the shares in KMEFIC. KMEFIC is a KSE-listed investment and portfolio management company that provides broker-dealer services, wealth management services and investment advice and funds for equity, real estate and venture capital in both regional and international markets. Through KMEFIC, the Bank also has a 30.0 per cent. shareholding in MEFIC, an unquoted company incorporated in the Kingdom of Saudi Arabia engaged in investment activities. KMEFIC transferred this shareholding to the Bank in 2016. In 2015, the Bank classified KMEFIC as an "asset held for sale".

The Bank has won numerous awards including Best Islamic Bank in Kuwait from The Banker magazine in each of 2013, 2014, 2015 and 2016 and the Commerzbank Annual Award for Payments in each of 2013, 2014 and 2016. In addition, the Bank has won:

- in 2014, "Best Bank in Private Banking Services in Kuwait" from The Banker magazine;
- in 2015, "Second Most Secure Islamic Bank in Kuwait" from Global Finance and Quality Award in Banking Operations from J.P. Morgan; and
- to date in 2016, "Best Islamic Bank in Kuwait" by The Banker International Magazine (for the fourth consecutive year), the Commerzbank award for "outstanding performance in straight-through-processing of payments" (for the third consecutive year) in 2015, the "Second Most Secure Islamic Bank in Kuwait" from Global Finance and "Quality Award in Banking Operations" from J.P. Morgan in 2015 and to date in 2016.

STRATEGY

Vision, Mission and Objectives of the Bank

The Bank's vision for the period from March 2015 to 2019, through its strategic plan approved by the Board of Directors, is to become a leading Islamic bank in the MENA region operating in accordance with international standards while always placing its customers FIRST. In line with this vision, the Bank's core objectives are:

- to provide innovative Shari'a-compliant financial solutions, competitive products and quality services to its customers;
- to maintain high standards of corporate governance and risk management and a solid capital base whilst also achieving maximum returns for shareholders on a sustainable basis;
- to adopt the latest technology in order to reduce costs and meet the needs of the Bank's customers;
- to retain and develop its human resources by establishing a meritocratic management structure with the aim of becoming the employer of choice in the financial services sector in Kuwait; and
- to contribute to the social and economic advancement of local communities in line with the Bank's commitment to corporate social responsibility.

With a view to achieving its core objectives, the Bank's principal strategic focuses relate to its retail and corporate banking businesses. In addition, the Bank has an IT strategy designed to help it achieve its core objectives.

Within its retail banking business, the Bank's strategic focus is on increasing its market share through:

- developing its distribution channels by expanding its branch network from 38 branches as at July 2016 to reach 47 branches by the end of 2019, increasing its direct sales force throughout the network and enhancing its direct channels with enhanced electronic payment systems;
- offering financing products at competitive rates and using targeted offers (for example, targeting specific age groups for salary acquisition), revamping its salary acquisition campaign designed to target retail customers (specifically, Kuwaiti retail customers above 21 years of age with a monthly salary greater than KD 400), marketing its Al-Hassadi prize draw savings account to capitalise on the product exclusivity, re-launching its real estate products and developing innovative Islamic products and services (such as musawama products in auto, health and education financing) to achieve asset and liability growth that is consistent with the Bank's overall objectives;
- launching pre-paid cards (in KD and other currencies), upgrading its cards portfolio with more premium Visa and MasterCard cards, revamping its co-branded card and reinforcing its current loyalty programme;

- targeting and attracting new private banking customers, increasing its share of wallet of existing private banking customers, enhancing its fund management alliances both on a product and geographic basis and introducing new profit-bearing accounts with benefits and privileges for its private banking customers; and

- encouraging cross-selling across all products (including between the Bank's private banking and corporate businesses) thereby capitalising on the Bank's reputation and large customer base, creating a retail positioning and publicising the launch of new products to maximise customer awareness and continuing to focus on service through staff training and employee engagement initiatives.

Kuwaiti banks are currently 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 (i) 75 per cent. for deposits with a maturity of less than three months, (ii) 90 per cent. for deposits with maturities from three months to one year, and (iii) 100 per cent. for deposits with a maturity in excess of one year. However, in line with 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. Consequently, the new regulations are expected to benefit the Bank by enabling it to maintain asset growth without the need for the same level of coverage by its deposit base.

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

- continuing to grow in terms of assets, non-cash turnover, fee income and profitability. In particular, the Bank plans to develop key client strategies to identify opportunities for asset/liability growth, non-cash business and cross border and other cross-selling opportunities, to increase its trade finance lines with a view to tapping regional trade flows, to participate in selected local and regional syndication opportunities and to target projects announced under the Kuwait government's development plan for 2015/16 to 2019/20, including through a focus on the extension of financing to government development projects' contractors;

- expanding its customer base through new business partnerships with local and foreign corporates whilst maintaining a high quality credit portfolio with adequate sector diversification;

- ensuring high-quality service to clients through maintaining a main contact point for each corporate relationship, ensuring a high level of transparency in all dealings and responding promptly to any comments and other feedback received through the Bank's customer complaint division;

- diversifying its sources of funding and liquidity through offering a liability product mix that matches its customers' expectations and through avoiding concentrations of depositors;

- enhancing its brand name and positioning as a major Islamic banking provider through tailoring Shari'a-compliant solutions to its customers' needs, offering comparable and, where possible, high quality solutions to conventional banking products, structuring facilities to best suit its customers' financing requirements and ensuring high quality levels of customer service; and

- attracting and retaining qualified staff with an emphasis on attracting Kuwaiti nationals where possible.

The Bank's IT strategy includes using IT as a strategic tool to gain a competitive advantage and to improve the Bank's productivity and efficiency. The Bank seeks to:

- capitalise on and leverage its current technology investments to develop new systems and offer efficiency in relation to operational processes;

- promote IT and operations standardisation by developing and implementing common technology infrastructure when optimally prudent;

- centralise its IT and operations to reduce costs and enhance customer support capabilities; and

- maximise benefits and reduce overall costs by leveraging solutions that have been successfully deployed within its parent company's group where possible.

STRENGTHS

The Bank benefits from a number of business strengths. In particular:

A leading Islamic bank in Kuwait with strong market share

The Bank is the second largest Islamic bank in Kuwait in terms of total assets and financing assets (Source: June 2016 interim financial statements for each bank). In 2015 and 2016 the Bank also achieved the highest return on equity ratio of all banks in Kuwait and was among the top three in respect of its return on assets ratio. Since its conversion in 2010 to comply with the Islamic Shari'a, the Bank has increased its domestic market share across several segments. As at 30 June 2016, the Bank had total assets of KD 4.0 billion, total Islamic financing assets of KD 2.8 billion and total depositors' accounts of KD 2.6 billion as compared with KD 2.5 billion, KD 1.6 billion and KD 1.3 billion, respectively, as at 31 December 2010. In addition, the Bank maintains a 6.5 per cent. and 5.9 per cent. market share in financings and deposits, respectively, as at 30 June 2016.

Sound and consistent financial performance

The Bank has a history of remaining profitable while growing its total assets from KD 2.5 billion in 2010 to KD 4.0 billion in June 2016. Between 2010 and June 2016, the Bank's net profit attributable to shareholders grew by 56 per cent., while its total assets grew by 61 per cent. According to the Bank's management, asset quality continued to be amongst the highest in the market by applying sound risk management measures. The NPF ratio reached 2.4 per cent. in December 2015 (on par with the market average despite conservative additional precautionary provisions) and the Bank's liquid assets ratio was an average of 24.8 per cent. between 2013 and 30 June 2016. This conservative approach has enabled the Bank to maintain its domestic franchise and to take advantage of opportunities to grow its business during the challenging global financial market conditions. The Group's net financing margin in 2015 was 2.51 per cent. as compared with 2.47 per cent. in 2014 and 2.80 per cent. in 2013.

The Group's net cash used in operating activities during the six months ended 30 June 2016 was KD 117.8 million, net cash from operating activities was KD 279.3 million in 2015 as compared with net cash used in operating activities of KD 5.1 million in 2014 and net cash from operating activities of KD 151.5 million in 2013. The Group's net cash flow from operating activities before changes in operating assets and liabilities principally reflects its profit for the year adjusted to reflect its provisions, impairment losses and gain on sale of investment properties, and amounted to KD 33.6 million in the six months ended 30 June 2016, KD 70.9 million in 2015, KD 62.6 million in 2014 and KD 63.4 million in 2013.

The cash flow generation allowed the Group to maintain a net cash position at the end of each of these periods and the Group had KD 420.8 million, KD 552.6 million, KD 268.0 million and KD 382.1 million in cash and cash equivalents as at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013, respectively.

Diversified customer deposits base

The Bank maintains a diversified customer base. As at 30 June 2016, the Bank's Retail and Private Banking customers represented 31.2 per cent. of its total customer deposits as compared with 32.3 per cent. of its total customer deposits and 32.1 per cent. as at 31 December 2015 and 31 December 2014, respectively. As at 30 June 2016, the Bank's Corporate Banking customers represented 28.1 per cent. of its total customer deposits as compared with 28.8 per cent. of its total customer deposits and 26.2 per cent. of its total customer deposits as at 31 December 2015 and 31 December 2014, respectively. In addition, in line with the vision of the Bank "To become a leading innovative Islamic Bank operating with international standards while placing our customers always "FIRST"", the Bank is increasingly focusing on high net worth and premium clients and large and mid-market corporate customers, thereby leveraging many of the Bank's core strengths as well as focusing on high quality growth. By focusing on high net-worth and premium clients and large and mid-market corporate customers, the Bank's customer base has changed and diversified resulting in a general dilution of customer concentration. For the period from 2010 to 2015 the concentration of the Bank's premium customers (consisting of customers with salaries above KD 2,000 per month or a total balance of KD 30,000 or more in any of the Bank's fixed deposit or investment funds) and private banking customers in its portfolio maintained its levels of 12 per cent. from its total customer deposits during the period from 2013 to 2016.

Strategically located distribution channels

The Bank has maintained its position as the second largest Islamic Bank in Kuwait by branch network and its strong regional presence provides its customers with a geographical reach which differentiates it from its competitors. Within Kuwait, the Bank operates 38 branches, whilst being part of the Group, which has a presence in Bahrain, UAE, Egypt, Iraq, Oman, UK, and Libya, among others, supports the Bank's domestic network and creates substantial cross-selling opportunities for the Bank. The Bank has also successfully adapted its branch network to cater for the specific needs of its various customer segments in an efficient and timely manner, which has led to the Bank achieving one of the highest levels of customer satisfaction among Kuwaiti banks (based on the results of the latest customer satisfaction survey performed by the Group).

Shareholders' support, experienced Board of Directors and qualified management

The main shareholders, including the Group, have consistently provided all necessary support to the Bank, including ensuring that the corporate governance standards are comprehensively adopted by the Bank. These main shareholders of the Bank have maintained their shareholdings at the same level for several years.

The Bank believes that it has a strong and stable Board, consisting of nine directors, of whom two are independent. The Board brings collectively more than two hundred and fifty years of professional experience to the Bank.

The executive management team has acquired vast experience and has a solid track record in Kuwait, regionally and internationally.

See "*Management and Employees*" for further information on the Bank's Board of Directors and management.

High credit ratings and strong brand name

The Bank has one of the highest credit ratings amongst banks in the MENA region, with ratings of A2 (stable outlook) from Moody's, which was affirmed on 14 July 2016 and A+ (stable outlook) from Fitch, which was affirmed in March 2016.

In addition, the Bank's brand is well-recognised domestically and internationally, reflected in its winning of a number of prestigious awards as well as being part of the Group. In 2016, the Bank was named "Best Islamic Bank in Kuwait" by The Banker International Magazine for the fourth consecutive year. In 2016, the Bank was also awarded for the third consecutive year the Commerzbank award for outstanding performance in straight-through-processing of payment, recognising the high level of operational efficiency at the Bank.

Reputable Shari'a advisory board

Since the conversion of the Bank to comply with Islamic Shari'a principles in 2010, the shareholders of the Bank have appointed an active, experienced and reputable Shari'a Advisory Board to provide management with the required support during the conversion phase and with the necessary guidance thereafter. The Shari'a Board consists of a number of highly-regarded Shari'a scholars who have significant experience in Islamic Finance and sit on the Shari'a advisory boards of many other Islamic financial institutions. The Shari'a Advisory Board has played a key role in assisting the Bank in developing innovative Shari'a compliant banking products and services. For example, the Bank was the first in Kuwait to structure and introduce deposit account products with the feature of distributing profits on quarterly basis.

Innovative and extensive product range and stable funding base

In line with its Vision, the Bank offers new products and innovative services which it believes provide it with a competitive advantage. For example, such recent promotions include the Bank's Al-Hassadi prize draw savings account, the recent salary acquisition campaign, and its credit cards loyalty points programs, which are operated in collaboration with three airlines. In addition, the Bank relies, in part, on cost-effective retail current and savings deposits whilst still offering a liability product mix that matches its customers' expectations. Notwithstanding that its deposit base principally comprises short-term customer deposits, the Bank's experience is that the majority of these deposits have historically been held on a long-term basis. For example, the deposits from financial institutions and other governmental institutions have proven to be sticky in nature.

The Bank believes that its current demand and savings accounts are diversified and sticky in nature and constitute a stable and secure source of low cost funding.

Customer Loyalty

The Bank aims to ensure uninterrupted service to its corporate clients. It also seeks to attract highly qualified individuals and focuses on continuous staff training and development at all levels to ensure the provision of high quality services and prompt responses to client queries, requests and feedback. The Bank believes that the quality of its services, allied with its product range, has generated significant customer loyalty, as evidenced by the results of customer satisfaction surveys during June 2016 conducted by the Bank's customer complaint division, which showed an overall 'fully satisfied' customer satisfaction level of approximately 97 per cent.

Risk management and compliance

Risk management: Risk is an integral part of the Bank's business activities. The Bank's risk management framework and governance structure are intended to provide comprehensive controls and on-going management of the major risks inherent in its business activities. The Bank employs a holistic approach to risk management to ensure that a broad spectrum of risk types are considered in managing its business activities. The Bank's risk management framework is intended to create a risk conscious culture throughout the Bank's entire operations, whereby collaboration, discussion and sharing of information are encouraged. The Bank's overall risk appetite is established in a risk framework document to clearly establish a dynamic link between risk appetite and the target return, the Bank's controls and capital management. The Risk Management Division is the primary body responsible for setting the overall bank-wide risk appetite, which is approved by the Board of Directors.

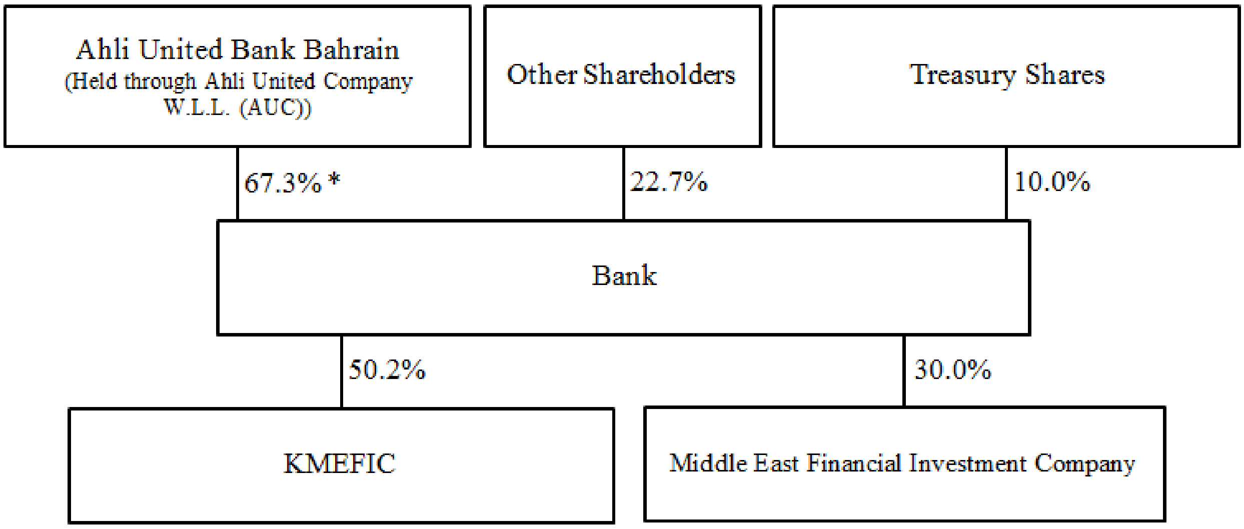
Compliance: The Board of Directors of the Bank is responsible for complying with the regulations which affect the Bank. The Bank is primarily regulated by the CBK, the CMA and the Commercial Companies Law, amongst other statutes. The Senior Management of the Bank is required to establish procedures and controls to maintain compliance with applicable requirements and standards under the regulatory system, observe the highest standards of integrity and fair dealing and display professional care and skill. The compliance function provides guidance to the Senior Management with the objective of bringing it in line with the various regulatory requirements and best business practices. The Bank's compliance function is independent and identifies, assesses, advises, monitors, and reports on the Bank's compliance risk.

The Bank's well-established risk management and compliance functions have resulted in improved management of various types of risk, including credit, liquidity, market and operational, which in turn has prevented the Bank from incurring significant operational losses and penalties. These functions have also strengthened the brand name of the Bank by managing other risks, such as reputation risk and legal risk. In addition, the sound risk management and compliance function have played a key role in maintaining the Bank's credit rating, which positions the Bank among the most highly rated banks in the MENA region.

GROUP STRUCTURE AND SHAREHOLDERS

Group structure

The diagram below illustrates the Group structure as at 31 August 2016.



* Effective shareholding (net of Treasury shares): 74.8%

AUBB is the parent company of the Group. AUBB, is a Bahrain-incorporated bank that, in addition to the Bank, also owns subsidiary banks incorporated in the United Kingdom, the Dubai International Financial Centre, Egypt and Iraq. In addition, AUBB has a 40.0 per cent. shareholding in a bank incorporated in Libya (United Bank for Commerce and Investment) and a 35.0 per cent. shareholding in a bank incorporated in the Sultanate of Oman (Ahli Bank Oman S.A.O.G.).

During 2015, the Bank classified KMEFIC as "an asset held for sale" and in 2016, KMEFIC transferred its equity interest in MEFIC to the Bank. Determining that it exercised significant influence over MEFIC, the investment was accordingly classified by the Bank as an "Investment in an Associate".

Shareholders

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

Shareholder	**Percentage of issued share capital**	**Percentage of effective shareholding (Net of Treasury shares)**
AUBB (Held through AUC)	67.3	74.8
Kuwait Public Institute for Social Security	12.1	13.5
KIA	1.5	1.6
Other shareholders (free float).	9.1	10.1
Treasury shares.	10.0	-
Total	**100.0**	**100.0**

Reporting segments

The Group currently operates through two segments for financial reporting purposes:

- **Retail and commercial banking,** which comprises a full range of banking operations, including Private Banking, covering credit and deposit services provided to its commercial customers; and

- **Treasury and investment management**, which comprises correspondent banking, clearing, money market, foreign exchange, sukuk, other treasury and miscellaneous operations and fiduciary fund management activities.

The table below shows certain information in relation to each reporting segment as at and for the six month period ended 30 June 2016 and as at and for the year ended 31 December 2015.

	Retail and commercial banking	Treasury and investment management	Total
30 June 2016 (unaudited)		(*per cent.*)	
Segment revenue....................	72.2	27.8	100.0
Segment result	51.5	48.5	100.0
Segment assets.......................	77.9	20.6	100.0[1]
31 December 2015			
Segment revenue....................	74.0	26.0	100.0
Segment result	86.4	13.6	100.0
Segment assets.......................	76.6	21.6	100.0[1]

Note:

(1) Including unallocated assets amounting to 1.5 per cent. and 1.8 per cent. as at June 2016 and December 2015 respectively.

Retail and commercial banking reporting segment

The retail and commercial banking reporting segment encompasses the Group's retail banking and corporate banking divisions. The table below provides summary unaudited management financial information for each of these divisions for the six month period ended 30 June 2016.

	Retail[1]	Corporate	Total retail and commercial banking
		(*KD million*)	
Division/segment revenue ...	18,565	20,048	**38,613**
Division/segment result	7,985	5,297	**13,282**

Note:

(1) Includes private banking.

Each of these divisions is described separately below.

Retail banking division

The Group 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 Group has a direct sales force which markets its retail products and services to new and existing customers. The Group's retail customers principally comprise Kuwaiti residents of various nationalities.

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

- *Deposits*: The Group has a range of retail deposit products, including demand, savings and deposit accounts. The Group's demand accounts are non-profit bearing, have a minimum required opening balance of KD 1 and allow withdrawals of up to KD 1,000 per day through the Group's ATMs provided that there are sufficient funds in the account. The Group's saving accounts include profit-bearing investment accounts offered to Kuwaitis and expatriates with the profit payable either quarterly or annually depending on the account and a savings account that offers both an annual profit distribution and an opportunity to participate in weekly and/or quarterly prize draws. The Group's deposit accounts are profit-bearing, can be denominated in a range of currencies and have terms of one, three, six, nine or 12 months, depending on the account, which are renewed automatically unless instructions to the contrary are received from the depositor. The opening balances required for the Group's savings and deposit accounts vary based on the type of account.

- *Financing*: The Group's retail financing products include personal, home and auto financing products based on a range of Shari'a-compliant structures including murabaha, musawama, istisna and ijara. Personal and auto financing is advanced for a maximum term of five years and in a maximum amount equal to the lower of KD 15,000 or 15 times the applicant's net salary. The Group's personal and auto financing products are available to Kuwaiti, GCC or other expatriate salaried employees of companies on the Group's list of approved companies. In accordance with CBK regulations, these loans cannot exceed five years in tenor or KD 15,000 in amount and personal financing can only be used for the purpose of paying medical and education expenses, purchasing furniture and cars or paying other personal expenses. Unlike non-Islamic banks, Islamic banks in Kuwait are permitted to offer mortgage-based financing. The Group's home financing products are available to customers who seek to purchase land to build a home or to purchase or improve a home. The financing is advanced for a maximum term of 15 years and for 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 and KD 70,000 in amount (on a per customer basis across all banks). All financing customers must provide proof of debt in accordance with CBK requirements. Typically financing is granted against the customer's salary or pension being paid to an account with the Group, although the Group offers a limited number of loans which are not subject to this requirement against other collateral. The Group's retail financing is only offered in Kuwaiti dinar. For Kuwaiti national customers with a minimum net income of KD 400 per month whose salary is paid through the Bank, the Group offers a profit-free loan of up to KD 8,000 for a term of up to three years with no fees or other charges being applied.

- *Cards:* The Group provides a range of Visa and MasterCard credit cards under the brand name Al-Motahid. Amounts outstanding on the Group'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 at the time of acquiring the card. The Group's credit cards do not generate profit income but do generate fee income as customers are charged a periodic fee for their cards which varies depending on whether the partial payment option has been utilised by the customer. The Group's cards are aimed at different customer segments based on income and offer a range of benefits including discounts at more than 100 outlets in Kuwait and points (based on the customer's spending using the card) that may be redeemed for a range of rewards. As at 30 June 2016 and as at 31 December in each of 2015, 2014 and 2013, the total outstanding balance on the Group's cards was KD 5.0 million, KD 5.2 million, KD 5.4 million and KD 5.5 million, respectively. As at the same dates, the Group had 11,009, 10,966, 11,918 and 12,942 active cards in issue, respectively.

Applications for both financing and credit cards can be made through the Group's branch network, direct sales force, telebanking or through the Group's internet banking platform. Consistent with its credit risk management strategy, the Group 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 Group'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 Group's principal distribution channels in Kuwait comprise:

- *Branch network*: As at 30 June 2016, the Group had a network of 38 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 91 machines.

- *Telebanking*: The Group 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 Group's call centre in Kuwait handled 272,524 calls.

- *Internet banking*: The Group's internet banking platform had 16,745 registered online banking customers as at 30 June 2016 with 74,161 transactions executed in 2015. The services provided to accountholders through the platform include the provision of account balances, history and transaction detail, funds transfers, bill payments and a secure channel for customers to request other products and services.

- *SMS and mobile banking*: The Group's customers may use its SMS banking services to receive regular account updates and SMS alerts about specific events, such as investment deposit account maturities. The Group also offers a mobile banking application that, among other things, allows account balance checking, local and international fund transfers and credit card payments. The Group had 38,761 registered SMS and mobile application banking subscribers as at 30 June 2016.

- *Direct sales force*: The Group has a direct sales force numbering 51 members as at 30 June 2016, including 13 members who are located within car dealerships. The direct sale force focuses on customer acquisition and attracting new customers and makes a significant contribution to the retail business.

The retail banking division also provides private banking and wealth management services to high net worth customers holding U.S.$1 million or more with the Group or having financing of U.S.$1 million or more with the Group. As at 30 June 2016, the Group had approximately 700 of these customers, the majority of which are in Kuwait, who are serviced by dedicated relationship managers and a team of operational staff. In addition to core banking services, the Group also offers its high net worth customers discretionary portfolio management services, a range of structured products through periodic product launches or on an individual client basis, with deposit driven structures providing a longer-term source of funding for the Group, a range of real estate, mutual and other funds through alliances with international fund managers and property companies and general advisory services, including portfolio analysis and market research. The Bank is one of only two Kuwaiti banks to offer a dedicated private banking service and, in 2015, the Bank was awarded "Best Private Bank in Kuwait" by The Banker magazine.

Corporate banking division

The Group's corporate banking division is structured into four corporate banking units and, in addition, a small- to medium-sized enterprises (**SME**) unit and a cash management and business to business (**B2B**) unit. The four corporate banking units are product specific and focus on:

- trading and services;

- real estate and investment;

- food, pharma and energy; and

- contracting and manufacturing, respectively.

Each of these units provides its generally medium- to large-sized clients with a wide range of Shari'a-compliant financial solutions including trade finance, working capital finance, assets finance and project finance. The units' clients include both local and international companies.

The SME unit focuses on small- and medium-sized businesses, which are entities with total annual revenue of less than KD 5 million or total cash or non-cash facilities of less than KD 3 million. Although these are the principal determinants, other factors such as facility size may contribute to the classification of an account as an SME account. The SME unit also provides support to medium-sized local corporates and individuals through financing their business requirements (mainly on a secured basis) and cross selling the B2B platform along with the Bank's retail, private banking, treasury and direct investment products.

The cash management and B2B unit was launched in late 2013 and markets and monitors the implementation of the Group's B2B platform. This platform aims to promote and facilitate the implementation of corporate internet banking solutions designed to meet clients' banking business requirements through integration with their enterprise resource planning (ERP) systems. These solutions support the Bank's corporate clients in terms of:

- the automation of payments (including salary, vendor and supplier payments);
- collections (both physical and electronic); and
- reconciliation and direct debits.

The B2B platform also aims to streamline any after-sales service offered. In 2015, the Group had 110 active B2B accounts which executed transactions with an aggregate value of KD 366.4 million in 2015 as compared with KD 162.7 million in 2014.

The corporate banking division's products and services include a range of deposit and financing solutions. The deposit solutions include a corporate current account accessible through the Group's branch network, ATMs and online. In addition, corporate customers may invest their surplus funds in a range of savings and deposit accounts. The financing solutions include a range of trade-related services such as LCs and guarantees, short-term inventory and working capital finance, financing for asset acquisition or other capital expenditure, real estate and contracting finance, project finance and financing solutions for investment companies.

Treasury and investment management reporting segment

The Group's treasury and investment management teams manage the Group's assets and liabilities and liquidity requirements under the supervision of the Assets and Liabilities Committee (**ALCO**), which meets monthly 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 teams:

- monitor and maintain the Group's regulatory ratios in-line with CBK guidelines and requirements;
- undertake a range of foreign exchange business, across both spot and forward markets, largely on behalf of the Group's customer base, and conduct a limited amount of proprietary foreign exchange trading within the constraints of what the Group considers to be prudent risk guidelines;
- manage foreign exchange risk on the Group's overall currency positions and its strategic foreign exchange exposures;
- acquire sukuk in the primary and secondary markets both on an own-account basis to manage liquidity and for clients;
- manage the Group'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;
- identify counterparties for executing Islamic contracts to deploy excess liquidity; and
- update private banking clients and senior management on market fundamentals.

COMPETITION

The Bank is the second largest Islamic bank in Kuwait in terms of total assets, customer deposits and financing assets according to interim reports for the six months ended 30 June 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 Warba 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 30 June 2016 and as at 31 December in each of 2015 and 2014.

	As at 30 June	As at 31 December	
	2016	2015	2014
		(*KD million*)	
Ranking by total assets[1]			
National Bank of Kuwait	24,067	23,597	21,784
Kuwait Finance House	17,030	16,527	17,182
Burgan Bank	7,182	6,825	7,751
Gulf Bank	5,472	5,438	5,331
Al-Ahli Bank of Kuwait	4,582	4,359	3,499
Commercial Bank of Kuwait	4,138	4,037	4,213
The Bank	**3,952**	**3,904**	**3,597**
Boubyan Bank	3,408	3,133	2,648
Kuwait International Bank	1,828	1,790	1,663
Warba Bank	918	776	595

Source: June 2016 unaudited interim financial statements and 2015 annual financial statements for each bank.
Note:
(1) Total assets are based on consolidated figures and include international assets.

As at 30 June 2016, the Group's total assets represented 14.6 per cent. of the total assets of the Kuwaiti Islamic commercial banking sector and 5.5 per cent. of the Kuwaiti total commercial banking sector.

	As at 30 June	At 31 December	
	2016	2015	2014
		(*KD million*)	
Ranking by customer deposits[1]			
National Bank of Kuwait	13,274	12,059	11,260
Kuwait Finance House	11,189	10,839	10,881
Burgan Bank	4,064	3,874	4,708
Gulf Bank	3,707	3,837	3,662
The Bank	**2,639**	**2,661**	**2,454**
Commercial Bank of Kuwait	2,449	2,546	2,554
Al-Ahli Bank of Kuwait	3,025	2,496	1,938
Boubyan Bank	2,789	2,399	2,092

Kuwait International Bank	1,118	1,018	989
Warba bank	596	434	346

Source: June 2016 unaudited interim financial statements and 2015 annual financial statements for each bank.
Note:
(1) Customer deposits are based on consolidated figures and include international customer deposits.

As at 30 June 2016, the Group's customer deposits represented 14.4 per cent. of the total customer deposits of the Kuwaiti Islamic commercial banking sector and 5.9 per cent. of the Kuwaiti total commercial banking sector.

	As at 30 June	At 31 December	
	2016	**2015**	**2014**
		(*KD million*)	
Ranking by customer financings and advances[(1)]			
National Bank of Kuwait	13,703	13,551	11,909
Kuwait Finance House	8,450	8,096	8,119
Burgan Bank	4,318	4,012	4,387
Gulf Bank	3,736	3,715	3,711
Al-Ahli Bank of Kuwait	3,127	3,047	2,422
The Bank	**2,774**	**2,680**	**2,480**
Commercial Bank of Kuwait	2,281	2,298	2,320
Boubyan Bank	2,360	2,172	1,805
Kuwait International Bank	1,209	1,173	1,073
Warba Bank	675	544	388

Source: June 2016 unaudited interim financial statements and 2015 annual financial statements for each bank.
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.

As at 30 June 2016, the Group's customer loans and advances represented 17.9 per cent. of the total customer loans and advances of the Kuwaiti Islamic commercial banking sector and 6.5 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 mortgage financing, which conventional banks are not permitted to engage in. Regulatory restrictions relating to interest 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 to charge customers higher margins to compensate for the fixed nature of profit on financings.

INFORMATION TECHNOLOGY

The Bank has an offsite IT disaster recovery site located in Kuwait that can be activated when required. This is to ensure that all critical systems are fully operational in line with the Bank's business continuity plan, in order to provide essential services to its customers. The Bank carries out daily and other periodic data back-ups which are stored in the main data centre and replicated online (in real time) to the disaster recovery centre.

Additionally, the Bank provides back-ups of all critical systems and data to an international location (which is in London) in compliance with CBK instructions. The Bank's system security unit has implemented a Group-wide information security management system based on a risk management approach. The Bank is ISO/IEC 27001:2013 certified and is audited annually to maintain the certification. ISO/IEC 27001:2013 is an information security standard published by the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC) under the joint ISO and IEC subcommittee. The Bank also has other industry security certifications and undergoes third party external and internal vulnerability assessments and penetration tests on a periodic basis. The controls and incident response procedures in place have minimised any adverse impact from cyber threats on services provided by the Bank.

The IT projects planned for 2016 are:

- **Customer Centric**, which includes enhancement of internet banking, mobile & SMS banking, IT facilities for new branches, ATM upgrades and other IT projects with a focus on enhanced customer service.

- **Infrastructure**, which includes an expansion in current hardware and software availability, upgrades to current information systems and enhancement of archiving processes.

- **Security Management**, which includes firewall upgrades, enhanced data protection, cyber protection and fraud detection.

- **Compliance**, which includes an AML system upgrade and enhancement.

RISK MANAGEMENT

RISK MANAGEMENT STRUCTURE AND PROCESS

Overview

This section describes the Bank's risk management function. The risk management function is overseen by the Board of Directors and managed by the senior management team.

Risk is at the core of the Bank's business activities. The Bank's risk management framework, risk management policy and related documents, which incorporate risk mitigation, as well as its governance structure, are designed to control and manage the risk/reward relationship across the Bank. The Bank's risk management framework establishes the dynamic link between risk appetite and return target, internal controls and capital adequacy management.

The Board sets the Bank's risk appetite and approves all risk appetite-related policies.

The Bank's Risk Management Division (**RMD**) is responsible for identifying, measuring, monitoring, controlling and mitigating risks and reporting on risk exposures. RMD is independent of the Bank's business units. RMD is headed by a General Manager – Risk Management, appointed by the Board, who has a direct reporting line to the Board through the Board Risk Committee (**BRC**). RMD comprises the following units:

- credit risk;
- market and operational risk;
- risk management; and
- credit control.

The RMD consistently and continually monitors risks and processes across the Bank to identify, assess, measure, manage and report on potential threats that could impact the achievement of the Bank's objectives. In addition to credit risk, market risk and operational risk under Pillar I, the Bank, in accordance with CBK instructions, also assesses additional risks and their impact on capital under Pillar II. These additional risks mainly comprise credit concentration risk, interest rate risk in the banking book, liquidity risk, remained operational risk, legal risk, strategic risk, reputation risk and others. The RMD General Manager is a member of several management committees that have responsibilities and authorities in relation to the Bank's day to day risk management activities.

The Bank measures risk using a variety of qualitative and quantitative methodologies based on the nature of the risks. Stress-tests and benchmarking to other industry standards are also periodically conducted. Risk management policies, models, tools and systems are regularly reviewed, validated and benchmarked to improve the framework, reflect market changes and ensure that the Bank's risk estimates are reasonable, reflective of the risk of the underlying positions and comparable to best practices.

Risk committees

The following committees have the responsibilities and authorities vested in them for the day to day risk management activities of the Bank. Authorities vested in the committees are exercised within the objectives and policies approved by the Board and subject to the rules and regulations laid down by the CBK.

- BRC. The BRC assists the Board in fulfilling its oversight responsibilities related to present and emerging risk issues, strategies and appetite associated with the Bank's banking and credit activities including the investment portfolio. The BRC recommends risk management policies and frameworks to the Board, ensures adherence to the Bank's risk appetite policy and provides oversight on major risk categories.

- Board Executive Committee (**BEC**). The BEC assists the Board in discharging its responsibilities in two capacities: deputising between Board meetings on matters normally reserved to the Board and discharging responsibilities delegated by the Board, including in relation to credit, investment, liquidity and market risks.

- Shari'a Supervisory Board (**SSB**). The SSB's members are appointed by the Bank's General Assembly. The SSB monitors the Bank's activities to ensure that they are Shari'a-compliant and provides recommendations to ensure compliance. The SSB has the right to submit written objections to the Board with respect to any of the Bank's activities which it considers not to be Shari'a-compliant.

- Senior Credit Committee (**SCC**). The SCC is a management committee that approves risks in excess of limits assigned to individual executives or other committees, within parameters set by the Board. The SCC also reviews bank and country exposures and makes appropriate recommendations to the Board, where it considers appropriate.

- Credit Committee (**CC**). The CC is a management committee which reviews and approves credit proposals which exceed individual credit authority limits, within parameters set by the Board.

- Credit Classification and Evaluation Committee (**CCEC**). The CCEC is a management committee which studies and evaluates classified accounts and the Bank's over-all financing portfolio, including investments, and determines the appropriate provisioning level.

- Assets and Liabilities Committee (**ALCO**). ALCO is a management committee that meets periodically to review and approve strategies relating to the management of the Bank's assets and liabilities, including liquidity, profit rate, foreign exchange, cost of funds, cost allocation, deposit pricing matrix and strategic trading positions.

- Risk Management Committee (**RMC**). The RMC is a management committee that reviews the effectiveness of the Bank's overall risk management processes and procedures, amendments to the credit risk, market risk, operational risk and treasury policies, new products and information technology security, procedures, processes and framework. It also monitors compliance with financial regulatory ratios and corporate legislation and recommends to the Board changes in the Bank's policies and methodologies needed to identify, measure, manage and monitor the multiple dimensions of risks inherent in its business activities.

Risk strategy

The key elements of the Board-approved risk strategy are:

- balancing performance across the Bank's functions;

- maintaining stability and sustainability during crisis situations;

- aligning the risk framework with the overall business strategy of the Bank;

- ensuring effective and adequate compliance with regulatory capital requirements, in keeping with the Bank's strategy;

- effective planning of risk through an appropriate risk appetite; and

- performing stress tests consistently to assess the impact on the Bank's capital requirements, capital base and liquidity position.

Risk appetite

The Bank's risk appetite defines the maximum limit of risk that the Bank is willing to accept in relevant business categories in order to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives. Any risk which breaches the 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 for final approval. 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.

RMD aims to identify early warnings of risk limit and risk appetite breaches, and is responsible for notifying them to the BRC and the Board.

PRINCIPAL RISKS

The principal risks faced by the Bank are:

- **credit risk**, which the Bank defines as the risk of financial loss arising from the failure of a customer or counterparty to meet its obligations to the Bank under a contract. It also includes the risk of loss in portfolio value as a result of credit quality migration from lower risk to higher risk categories. This risk arises principally in the Bank's financing, trade finance and treasury activities;

- **market risk**, which the Bank defines as the uncertainty in future earnings, of the Bank's on and off balance sheet positions, resulting from changes in market conditions, including changes in prices of assets, currency rates and profit rates. Market risk pertains to the profit, equity, foreign exchange and commodity risks in the Bank's trading and banking books;

- **liquidity risk**, which the Bank defines as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost; and

- **operational risk**, which the Bank defines as the risk of direct and indirect loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes disaster recovery planning as a function of operational risk management and is the reason why the Bank includes unexpected significant and unusual one-time events, such as disaster events, in its framework for operational risk management.

CREDIT RISK

Categories of credit risk

Credit risk is the most significant risk to which the Bank is exposed, and proactive management of credit risk is key to ensuring the Bank's long-term success. Credit risk includes the following major risks:

- **direct credit risk** - the risk that customer financing obligations will not be repaid on time. Direct credit risk occurs in various secured and unsecured Islamic products offered by the Bank and exists for the entire life of the transaction.

- **contingent credit risk** - the risk that potential contingent obligations will become actual obligations and will not be repaid on time. Contingent credit risk occurs in products offered by the Bank ranging from letters of credit and guarantees to unused financing commitments. Contingent credit risk exists for the entire life of the transaction.

- **issuer risk** - the risk that the market value of a security or other financing instrument may change when the perceived or actual financing standing of the issuer changes thereby exposing the Bank to a financial loss. Issuer risk is interrelated to price risk.

- **pre-settlement risk** - the risk that a counterparty with which the Bank trades may default on a contractual obligation before settlement of the contract.

- **settlement risk** - the risk that a counterparty fails to settle a transaction on the due date.

The Bank's credit policy aims to promote a strong credit risk management architecture that includes credit policies, procedures and processes. The policy defines the areas and scope of financing activities undertaken by the Bank and its main goal is not limited to avoiding losses, but to ensure achievement of targeted financial results with a high degree of reliability in an efficient manner. The Bank's credit risk management focuses on the dynamic and interactive relationship between the following three financing extension processes.

Portfolio strategy and planning

The portfolio strategy and planning phase defines desired financial results (in each business unit and for the Bank) and the credit standards required to achieve them. Business strategies integrate risks and meet defined hurdles for risk-adjusted return on capital. Facility structuring translates this risk-conscious business strategy into terms and conditions that mitigate risk. Portfolio management establishes composition targets, monitors the results of these diverse business strategies on a continual basis and allows the Bank to manage concentrations that can result from seemingly unrelated activities. Specifically, portfolio management involves setting concentration limits by standard dimensions so that no single category of assets or dimension of risk can materially harm the overall performance of the Bank.

The RMD and senior management review portfolio concentrations in terms of geographical concentrations, individual economic sectors and credit risk rating on a monthly basis to ensure that there are no undue concentrations in one sector or risk rating, and that the limits are within those set out by the Bank. Reports on portfolio concentrations are submitted to the Board on a quarterly basis.

The BEC, SCC and CC approve Bank-wide portfolio credit concentration limits to corporate or individual counterparties based on the Bank's overall risk capacity, capital considerations, and assessment of the internal and external environments. The Bank's credit exposure to individuals or groups of counterparties is in accordance with relevant CBK instructions. In compliance with CBK regulations, financing to individual Board members and other related parties is fully secured and monitored by the SCC and the BRC. Facilities granted to related parties are made on substantially the same terms, including collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board in accordance with authorities granted by the General Assembly.

Country and Bank limits are periodically reviewed internally. The approved limits are then segregated between commercial banking and treasury and investment management.

A summary of the Bank's risk exposure incorporating all concentration limits as well as discussions on past due financings, NPFs, collateral concentration, funding profile, capital adequacy and other risk management initiatives are reviewed by the RMD and senior management on a monthly basis and reported to the Board on a quarterly basis.

Financing origination and monitoring

In the financing origination and monitoring phase, each business unit solicits, evaluates and manages credit according to the strategies and portfolio parameters established in the portfolio strategy and planning phase. Transactions are generated within well-defined target market and product structure criteria and are approved on a risk-adjusted basis through the use of risk rating models.

The Bank uses a Moody's credit risk rating model to assess the credit worthiness of its corporate borrowers. The credit risk measurement methodology measures financing risk for corporate and private banking customers using a scale of 1 to 10 which meets the requirements of the Bank for International Settlements. Risk ratings 1 to 6 (which correspond to rating agency ratings AAA (risk rating 1) through B (risk rating 6) and equivalent) denote performing assets; risk rating 7 (which corresponds to a CCC or equivalent rating) relates to watch list accounts and risk ratings 8 to 10 identify classified accounts.

All financing proposals (both retail and commercial) are reviewed independently by the RMD before proposals are sent for approval to the CC or a higher level authority, depending on the amount of the relevant financing. A post fact approval unit independently reviews financing approvals to ensure that the approvals are consistent with policy and that all conditions are met prior to the disbursement of proceeds and throughout the tenure of the financing facilities.

Credit risk analytical models are used to facilitate financing decisions and to monitor financing facilities advanced to retail customers. Applicant scoring models are customer-centric models which incorporate CBK regulatory guidelines and the Bank's policies related to retail facilities, such as profit-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from credit bureaus, particularly Ci-Net (the Kuwait credit bureau) statistics, to assist in assessing an applicant's ability to pay and the probability of default. These models are reviewed and refined on a continual basis.

Financing monitoring involves processes to control documentation and disbursement, monitor timely repayment, value collateral and review the status of exposures. It also includes early problem identification and remedial management of troubled exposures. The RMD's special asset management unit is responsible for monitoring irregular and delinquent accounts. The unit's primary objective is to develop effective strategies to either rehabilitate or restructure impaired financings.

The Bank constantly reviews the entire financing portfolio and conducts stress tests in order to provide senior management with clear indications of the composition of the portfolio, the maximum exposure at risk, the overall financing quality and any potential signs of weaknesses.

See "*Financial review—Financing—Financing receivables portfolio—Gross maximum exposure to credit risk*" for an analysis of the Group's financing portfolio by credit quality.

The Bank obtains collateral, when appropriate, based on the customer's financial position, solvency, reputation and past financing history. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of different types of collateral and valuation parameters. The main types of collateral obtained include charges over Bank deposits and balances, pledges of listed securities acceptable to the Bank, assignments of revenue or third party receivables, LCs and bank guarantees, and charges over other assets such as real estate, plant and equipment and inventory. The minimum financing to value ratio is 60 per cent. where the collateral comprises shares or real estate.

The Bank seeks to update its collateral valuation on a regular basis in accordance with CBK guidelines. Quoted securities are independently valued on a daily basis and periodic independent valuations for other collateral, including real estate, are obtained. Whenever a gap in collateral coverage is identified, the relevant counterparty is requested to provide additional collateral and/or to reduce its outstanding exposure. For unsecured exposures, selected counterparties are requested to provide acceptable collateral. While structuring financing facilities, the Bank seeks to ensure that the financing will be repaid from clearly identifiable and unencumbered sources of repayment.

Performance assessment and reporting

The performance assessment and reporting phase allows both senior management and the business units to monitor results and improve performance. Both portfolio and process trends are monitored in order to make appropriate and timely adjustments to business strategies, portfolio parameters, financing policies and credit origination and monitoring practices.

This phase of the credit process draws on information within the Bank and external benchmarks to help evaluate performance.

Credit performance is assessed through the analysis of:

- portfolio concentrations by obligor, industry, risk rating, tenor, product, collateral and other factors;
- credit quality indicators;
- exceptions to risk acceptance criteria; and
- other policy exceptions.

The Bank has adopted an internal account profitability model to determine the profitability of corporate and private banking accounts. The methodology is based on risk-adjusted return on capital methodology.

Periodic reviews of both financing portfolios and processes are performed by the business units as well as by RMD and the Bank's internal audit division.

In accordance with CBK instructions, the Bank has a credit classification and evaluation committee which comprises members of senior management. The CCEC studies and evaluates existing financing facilities of each customer of the Bank, identifies abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular and determines appropriate provisioning levels.

Financing provisioning and write-off

Impairment of financial assets

The Bank assesses, at each reporting date, if there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

In relation to the Bank's customer financings, which are typically carried at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be connected objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income. In addition, in accordance with CBK instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not specifically provided for.

Past-due and impairment provisions

Financing facilities are classified as past-due when:

- an overdraft account exceeds 10 per cent. over the limit continuously;
- a current account is in debit balance without any authorised limit;
- a financing facility is not renewed/extended on expiry;
- an instalment due on the financing has not been repaid on its due date; and/or
- a profit payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

Past-due and impaired facilities are managed and monitored as "irregular" facilities and are classified into the following four categories, which are then used to guide the provisioning process under both CBK guidelines and IAS 39 requirements:

- ***Watchlist***, irregular for a period up to and including 90 days;
- ***Substandard***, irregular for a period from and including 91 days and up to and including 180 days;
- ***Doubtful***, irregular for a period from and including 181 days and up to and including 365 days; and
- ***Bad***, irregular for a period exceeding 365 days.

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances. Reports on watch list accounts and irregular credits are monitored on an ongoing basis by the CCEC that meets on a quarterly basis. Reports on irregular credits are also presented to the BRC on a quarterly basis.

In relation to credit facilities which have been rescheduled by agreement between the Group and the customer, any previously-made provision is required to be maintained to meet the rescheduled credit facilities. When 25 per cent. of the rescheduled debt balance has been repaid, the CCEC may reduce the provision to an amount not less than 20 per cent. of the debt balance.

The general provision is required to be maintained at minimum levels of 1 per cent. for cash facilities and 0.5 per cent. for non-cash facilities (net of certain categories of collateral) for all facilities in respect of which no specific provision has been made.

For a discussion of movements in the Group's specific and general provisions as at 31 December in each of 2015, 2014 and 2013, see note 11 to the Annual Financial Statements (which, for the avoidance of doubt, and as defined in the "*Presentation of Financial and other Information*", include only 2015 and 2014 Financial Statements).

MARKET RISK

The Bank defines market risk as the uncertainty in future earnings of the Bank's on- and off-balance sheet positions resulting from changes in market conditions, including changes in asset prices, currency rates and profit rates. Market risk principally arises in relation to the profit, equity, foreign exchange and commodity positions in the Bank's trading and banking books.

Market risk management is undertaken through:

- quantitative parameters that define acceptable levels of market risk;
- authorised instruments and hedging policies for managing risk exposures; and
- exposure limits.

RMD submits monthly risk exposure reports to senior management and, on a regular basis, prepares stress testing reports covering the trading book, profit rate risk in the banking book and liquidity risk. This exercise is conducted in order to assess the Bank's exposure to certain stress scenarios.

The Bank's market risk management policy covers the following broad areas:

- Profit rate risk management in the trading book and the banking book. The Bank assesses its profit rate risk in the balance sheet through gapping analysis based on the re-pricing mismatches of assets and liabilities. Given the Islamic nature of the Bank's assets and liabilities the Bank believes that there is no significant exposure to profit rate risk in the banking book. Profit rate risk also arises when fixed-income investments are present valued against changing profit rate curves. The Bank faces this risk if profit rates increase, which would result in a negative valuation impact on its sukuk portfolio as its sukuk are fixed-income investments. The Bank's 2015 Financial Statements contain a sensitivity analysis that showed that a 25 basis point change in profit rates in 2015 and 2014, with all other variables held constant, would have impacted its equity by KD 301,000 and KD 384,000, respectively.

- Foreign exchange risk management in the trading book and the banking book. Foreign exchange risk in the banking book arises from a currency mismatch between the Bank's assets and liabilities. The Bank is a Kuwaiti entity and the Kuwaiti dinar is its functional currency. Conventional methods, such as limiting net open positions, are used to manage any significant risk in other currencies. Assets carried at fair values that are not denominated in the Bank's functional currency are hedged using non-derivative Islamic financial liabilities for foreign currency risk, such as borrowing foreign currency to fund foreign currency assets. RMD monitors various foreign exchange limits (including overnight, forward gap and stop loss limits) on a daily basis and regularly reports on them to the ALCO. The Bank's 2015 Financial Statements contain a sensitivity analysis that showed that a 5 per cent. increase in the U.S. dollar/Kuwaiti dinar exchange rate in 2015 and 2014, with all other variables held constant, would have positively impacted its profit before tax by KD 2,000 in 2015 and negatively impacted its profit before tax by KD 291,000 in 2014. A negative 5 per cent. change in the exchange rate would have had an equal but opposite effect on the Bank's profit before tax.

- Equity price risk management in the trading book and the banking book. Equity price risk arises from the changes in fair values of equity investments. The values of individual securities can fluctuate in response to a variety of factors, other than movements in profit or exchange rates. For example, market valuations of equity securities may be in response to factors such as operating results of the company, rights issues, key corporate decisions, changes in credit ratings of the securities and other market changes. The Bank does not have any exposure to equities in its trading book. Equity risk in the banking book is mitigated through diversification of investments in terms of risk sector, geography, equity issuer, beta and other market dynamics. The CBK has set a maximum limit of 50 per cent. of a bank's regulatory capital for investment in funds and equities, excluding subsidiaries. The Bank treats its available for sale equity instruments as impaired when there has been a significant or prolonged decline in the fair value below the cost of the investment or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgement by management. See notes 2.6 and 2.26 to the 2015 Financial Statements. The Bank's 2015 Financial Statements contain a sensitivity analysis that showed that a 5 per cent. change in the Kuwait index in 2015 and 2014, with all other variables held constant, would have impacted its equity by KD 375,000 and KD 558,000, respectively and that a 5 per cent. change in the MSCI index in 2015 and 2014, with all other variables held constant, would have had no impact on the Bank's equity in 2015 but would have impacted its equity by KD 138,000 in 2014.

Market risk capital is also assessed under Pillar II for any concentration in trading positions, illiquidity in the markets and positions marked to model. The Bank adopts a standardised approach to measuring its market risk.

LIQUIDITY RISK

The Bank defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost.

The following key factors are taken into consideration when assessing and managing the Bank's liquidity risk:

- the Bank maintains a diversified base for deposit funding sources comprising retail customers, large corporates and institutions, SMEs and high net worth individuals without significant correlation or concentrations;

- based on the past behavioural pattern analysis of the Bank's main liabilities, management expects that a large portion of customer deposits will continue to be rolled over at their contractual maturity;

- in accordance with CBK rules and regulations, the Bank (i) observes maturity ladder mismatch limits for specific time periods: 10 per cent. for seven days or less; 20 per cent. for one month or less; 30 per cent. for three months or less; and 40 per cent. for six months or less, (ii) keeps at least 18 per cent. of its deposits in qualifying short-term liquid assets, and (iii) maintains sufficient funding against financing generation;

- commitments for financing are approved after taking into account the Bank's overall liquidity position; and

- the Bank calculates its high quality liquid assets against net cash outflows over 30-days as part of the CBK's newly introduced Basel III liquidity coverage ratio (**LCR**), which assesses the Bank's ability to sustain liquidity stress over a 30-day time period.

In applying the general guidelines highlighted above, the Bank maintains, reviews and reports the following:

- liquidity gapping reports in accordance with CBK guidelines which show periodic and cumulative net outflows between assets and liabilities profiled in terms of their contractual maturities; and

- monthly liquidity reports which summarise eight-week liquidity forecasts taking into account behavioural adjustments, duly approved by the ALCO, and present different scenarios for efficient management of liquidity risk.

In order to supplement the existing liquidity risk monitoring reports, a set of liquidity ratios are monitored on a regular basis to manage the liquidity funding profile of the Bank.

A liquidity contingency plan to address systemic and localised liquidity emergencies is reviewed periodically to ensure that it is kept up to date and in line with the Bank's business continuity plan.

The Bank calculates the Basel III LCR on a monthly basis and the Basel III net stable funding ratio (**NSFR**) on a quarterly basis. Both ratios are reported to the CBK.

Note 26 to the 2015 Financial Statements summarises the maturity profile of the Group's assets and liabilities by remaining contractual maturity.

OPERATIONAL RISK

The Bank defines operational risk as the risk of direct and indirect loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition includes disaster recovery planning as a function of operational risk management.

The Bank's conversion to an Islamic financial institution in 2010 has added the risk of non-compliance with Shari'a principles. To address this risk, at the time of conversion the Bank undertook an enterprise wide assessment of potential risks, established control processes, updated its operational risk policy and procedures documents and educated its staff on Islamic products, processes and systems. These measures were complemented by the establishment of the Shari'a Board and the SSC.

Operational risk is managed by RMD in line with CBK instructions. RMD ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of the overall risk management process.

The operational risk management framework provides the Bank with the foundation for a comprehensive and an effective operational risk management programme with the following major objectives:

- to provide a clear understanding throughout the Bank of what constitutes an operational risk event;
- to promote communication among senior management and risk taking units on elements that impact operational risk, thereby clarifying accountability; and
- to systematically track relevant operational risks by business unit across the Bank and build up an operational loss database.

The operational risk management framework outlines Bank-wide principles of how operational risk is to be identified, assessed, monitored and controlled or mitigated and has the following core elements:

- the Bank's operational risk policies and procedures, which are updated on a periodic basis;
- the Bank's operational risk management process to identify, assess, monitor and mitigate operational risks, which helps to identify inherent and residual risks and controls;
- the Bank's loss recording policy, which requires that all actual losses and near-miss events are recorded;
- operational risk management reports to Board-sanctioned committees and senior management, which enable these committees and senior management to take risk-based business decisions;
- an operational risk management review of all new products and processes, and of any significant change in existing products and processes or the operational risk system;
- business continuity plans, which have been designed, developed and implemented for all business units to recover all critical business functions at the time of a disaster scenario. Business impact analysis is also undertaken annually to identify all the critical processes in the Bank and the critical resources required to recover the processes and critical systems;
- employee training to raise risk awareness and ensure that all employees are able to understand and identify operational risk in their respective business areas; and
- oversight of outsourced services by operational risk management and relevant business units to evaluate the risks associated with outsourcing and ensure proper risk mitigation.

The Bank's contingency planning (including its disaster recovery plan (**DRP**) and business continuity plan) is designed to identify critical information systems and business functions and enable those systems and functions to be resumed in the event of a significant disruption. The Bank performs regular testing to ensure that its contingency plans are effective. During the testing process, management verifies that the business unit plans complement the information systems plans that are in effect for mainframe functions.

The Bank's DRP covers four critical factors, namely (i) technical DRP (which is the foundation on which the remaining three factors are built), (ii) business continuity plans, (iii) logistical requirements in the event of a disaster and (iv) the procedures to be followed during the implementation of the DRP. Integral to the DRP is the assignment of key individuals who are tasked with triggering and overseeing the DRP until the Bank regains normal operations.

The Bank conducts periodic DRP tests in which all critical units operate from the business continuity site and seek to recover critical functions. In case of a disaster at the Bank's head office, all data is replicated at the business continuity site on a real-time basis. In addition, the Bank also performs data integrity and branch off-host tests, which are conducted for all branches on a regular basis. All off-host transactions posted by the branches are accepted as soon as the system is shifted back to on-host mode. The data integrity test is also conducted at the business continuity site at regular intervals.

Business continuity plan procedures are updated regularly in line with any technical changes implemented by the IT division. The exercise also requires the end-users to conduct a business impact analysis to assess and support business continuity in the end-users' respective areas.

STRATEGIC RISK

The Bank defines strategic risk as the current or prospective impact on the Bank's earnings, capital, and risks arising from changes in its operational environment, from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry strength, economic direction or technological changes. In this connection, the Bank has established a strategic risk framework to identify, measure, monitor and report on strategic risk exposures. The principal sources of strategic risk are:

- an inadequate strategic governance framework;
- inadequate identification of factors that impact the strategy and/or business plans;
- an insufficient planning and resource allocation process;
- failure in the execution of plans, projects and initiatives; and
- issues related to internal and external environment dynamics, including products, services and practices of the Bank.

Strategic risk is primarily assessed in terms of the controls available to mitigate the risks and the Bank's ability to successfully implement its goals under its long-term strategic plan. Matrices have been developed to monitor and measure through a score card process risks to the strategic plan, and to consider whether the Bank has adequate capacity to withstand those risks against its approved risk appetite. Capital is assessed based on the metric score taking into account all strategic initiatives that impact the business and earnings through a self-assessment exercise.

REPUTATIONAL RISK

Reputational risk is defined as the risk of a current or prospective negative impact on the Bank's earnings or capital arising from damage to the Bank's reputation in the perception of major stakeholders. The Bank seeks to manage reputational risk through:

- identifying key reputational risk indicators under each driver;
- establishing the roles and responsibilities of different entities in the reputational risk assessment and management process; and
- developing a formalised and structured approach for managing risks to the Bank's reputation.

The Bank has identified various reputational risk indicators and has classified these under 12 drivers: customer satisfaction; financial soundness; corporate governance; management integrity; business practice; risk management and control environment; regulatory compliance; transparency; media and rumours; corporate culture; staff competence; and crisis management. These parameters are used to assess and manage reputational risk.

ISLAMIC FORWARD FOREIGN EXCHANGE AGREEMENTS

The Group utilises forward foreign exchange agreements in the ordinary course of its business to manage its exposure to fluctuations in foreign exchange rates. A forward foreign exchange agreement is an agreement between two parties where payments are dependent upon movements in the price of one or more underlying currency exchange rates. The Group transacts in forward foreign exchange agreements both as principal, solely to manage its own financial risk, and on behalf of its clients. In the latter case, the Group covers the exposure which it assumes on a back-to-back basis with market counterparties to avoid taking any market risk. The fair values and notional amounts of the Group's positions in forward foreign exchange agreements are listed in note 24 to the 2015 Financial Statements.

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 function is headed by the Assistant General Manager – Regulatory Compliance.

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.

Anti-money laundering (AML) and counter-terrorism financing (CTF)

The Bank's AML and CTF measures take account of the Financial Action Task Force recommendations, international sanctions lists (such as those of the United Nations, the European Union and OFAC), applicable AML-related laws and regulations and the guidelines of the central banks of the countries in which it operates.

The Bank's AML/CTF policies apply customer due diligence principles for applicants and customers which include the following:

- the identification and verification of all new customers;
- the screening of all customers against all prohibited lists to ensure full compliance with international sanctions lists; and
- the screening of all outward and inward transfers to comply with all sanctions lists.

Customer transactions are monitored on a daily basis under a risk-based approach to ensure that no money laundering transactions are conducted. In addition, the Bank conducts enhanced due diligence in relation to high-risk customers.

INTERNAL AUDIT

The Bank has implemented an independent internal audit function headed by the General Manager - Audit, through which the Board, senior management and stakeholders are provided with reasonable assurance that the Bank's key organisation and procedural controls are effective, appropriate and complied with. Internal Audit has access to any information or any staff at the Bank as well as full authority to perform the tasks assigned to it.

The General Manager – Audit is appointed by the Board and reports to the Board Audit and Compliance Committee.

The primary objective of Internal Audit is to assist the Board (through the Audit and Compliance Committee) and senior management in the discharge of their management and oversight responsibilities through independent audits and reviews designed to evaluate and enhance the effectiveness of risk management, internal control systems, information systems and governance processes within the Bank. The scope of internal audits covers all business, operational and support units of the Bank, including its controlled subsidiaries.

The key responsibilities of Internal Audit include the following:

- reviewing the adequacy and effectiveness of the internal control systems;

- reviewing the Bank's compliance with applicable laws and regulations;

- appraising the adequacy of and adherence to the Bank's approved policies and procedures; and

- auditing particular business activities relating to the Bank's financial position, internal control systems, risk management and others.

MANAGEMENT AND EMPLOYEES

MANAGEMENT

Corporate governance framework

The Group'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 Group. The framework is designed to secure effective oversight of the Group's strategy and business operations with a robust risk management approach, transparency and accountability.

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 Group is committed to providing timely, consistent and accurate information to its stakeholders and has adopted a disclosure and transparency policy to ensure that this is achieved. This policy covers a wide range of areas, including the key quantitative and qualitative information related to financial performance and financial stability, risk management factors, remuneration, corporate governance, related-party transactions, conflicts of interest and substantial changes in business.

Board

The Group operates under the direction of the Board, which comprises nine non-executive members, three 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 seven times in 2015 and six times in 2014.

The Board has overall responsibility for the Group, 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 Group'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 Group 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 all senior management positions reporting to the CEO or the Board.

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 Group 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
Dr. Anwar Ali Al Mudhaf	Chairman
Sh. Abdullah J. Al Ahmed Al Sabah (representing Public Institute for Social Security)	Deputy Chairman
Jamal S. Al Kazemi	Director
Adel A. El-Labban	Director
Sanjeev Baijal	Director
Michael G. Essex	Director
Mohamed Tareq Mohamed Akbar	Director
Keith H. Gale	Director
Abdullah A. Al Raeesi	Director

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

Dr. Anwar Ali Al Mudhaf

Dr. Al Mudhaf joined the Board in March 2014. He is also the Chairman of the Corporate Governance Committee.

Qualifications & Experience: Dr. Al Mudhaf holds a Ph.D. in Finance from Peter F. Drucker Graduate School of Management, Claremont Graduate University, California, USA. He has more than 18 years' experience in banking and finance.

Current Positions: Chairman and Chief Executive Officer of Al-Razzi Holding Company; Chairman of Banco ABC Brasil S.A.; Chairman of Sama Educational Company; Director of the Board of Governors of the Oxford Institute for Energy Studies; Board Member of Arab Banking Corporation and Board Member of the Public Authority for Applied Education.

Former Positions: Dr. Al Mudhaf has formerly served as a Lecturer in Corporate Finance, Investment Management and Financial Institutions at Kuwait University; Chairman of the International Bank of Asia in Hong Kong; Board Member of the Public Institution for Social Security (**PIFSS**); Advisor to the Finance and Economic Affairs Committee at Kuwait's Parliament; Member of the Economic Task Force dealing with the implications of the 2008 global financial crisis on Kuwait; Vice Chairman of Al Mal Investment Company and a Board Member of Al Ahli Bank in Kuwait.

Sh. Abdullah J. Al Ahmed Al Sabah

Sheikh Al-Sabah joined the Board in March 2009. He is also the Chairman of the Compensation and Nominating Committee and the Chairman of the Board Executive Committee (**BEC**).

Qualifications & Experience: Sheikh Al Sabah holds a Bachelor of Arts degree from Brown University, USA and a Master's degree in Business Administration from Columbia University, USA. He has more than 27 years' experience in the banking industry and the investment sector.

Current Positions: Deputy Director General for Investment at PIFSS; Chairman of Housing Finance Company and Vice Chairman of Bank of London & Middle East.

Former Positions: Chairman of Kuwait Financing Services Co.; Board Member of Al Ahli Bank of Kuwait; Vice President of Wafra Investment Advisory Group and Board Member of Global Investment House.

Jamal S. Al Kazemi

Mr. Al Kazemi joined the Board in May 2004. He is also a Member of the Corporate Governance Committee and a Member of the Risk Committee

Qualifications & Experience: Mr. Al Kazemi holds a Diploma in applied Business Sciences (Accounting) from Commercial Institute of Kuwait. He has more than 35 years' experience in the commercial and investment sectors.

Current Positions: Director of Mobile Telecommunications Company K.S.C.P. (Zain).

Former Positions: Deputy Chairman of Marsa Alam Holding Company and Deputy General Manager of Kazema Engineering Projects WLL.

Adel A. El-Labban

Mr. El-Labban joined the Board in March 2002. He is also a Member of the Compensation and Nominating Committee and a Member of the BEC.

Qualifications & Experience: Mr. El-Labban holds both a Bachelor's and a Master's degree in Economics from the American University of Cairo. He has more than 37 years' experience in banking, investment sector, financing, risk management and internal controls in the MENA region with particular focus on the GCC countries and Egypt.

Current Positions: Group Chief Executive Officer and Managing Director of Ahli United Bank (Bahrain); First Deputy Chairman of Ahli Bank (Oman); Deputy Chairman of Ahli United Bank (Egypt); Deputy Chairman of United Bank for Commerce & Investment (Libya); Deputy Chairman of Commercial Bank of Iraq; Board Member of Ahli United Bank (UK) and Board Member of Bahrain Association of Banks.

Former Positions: Chief Executive Officer and Board Member of United Bank of Kuwait; Managing Director of Commercial International Bank of Egypt; Chairman of Commercial International Investment Company; Vice President - Corporate Finance at Morgan Stanley; Assistant Vice President of Arab Banking Corporation; Board Member of Bahrain Stock Exchange; Board Member of KMEFIC and Board Member of MEFIC.

Sanjeev Baijal

Mr. Baijal joined the Board in 2016, having previously been a member from 2005 to 2014. He is also a Member of the Audit and Compliance Committee.

Qualifications & Experience: Mr. Baijal is a qualified auditor who has previously held various positions at Ernst & Young, Bahrain and PricewaterhouseCoopers in India. He is a Member of the American Institute of Certified Public Accountants (AICPA), and an Associate Member of the Institute of Chartered Accountants of India (ACA) and has more than 32 years' experience in the fields of audit, accounting and finance.

Current Positions: Vice Chairman of Gulf Insurance and Gulf Takaful Company, Bahrain; Board Member of Ahli Bank, Oman and Deputy Chief Executive Officer for Finance and Strategic Development of Ahli United Bank, Bahrain.

Former Positions: Group Head of Finance, Ahli United Bank B.S.C., Bahrain; Financial Controller, Al-Ahli Commercial Bank.

Michael G. Essex

Mr. Essex joined the Board in March 2015. He is also a Member of the Compensation and Nominating Committee, a Member of the Audit and Compliance Committee and a Member of the Risk Committee.

Qualifications & Experience: Mr. Essex holds a Master's degree in Public Administration from Carleton University, Canada, a Bachelor's degree in Economics & Political Science from University of Western Ontario, Canada and an Executive Development Program Certificate from Harvard Business School, USA. He has more than 38 years' experience in the Asia/Pacific, Africa and MENA regions in banking, infrastructure, energy, industrial and service sectors in investment, portfolio management, risk and finance.

Current Positions: Board Director and Member of the Audit Committee at Ahli United Bank (Bahrain); Board Member and Member of the Audit & Risk Policy Committees at Ahli United Bank (Egypt); Member of the Investment Committee at APIS Growth Fund and Board Member of SBI Macquarie Bank India Infrastructure Fund.

Former Positions: Director, Investment and Advisory Operations, Middle East & North Africa region at International Finance Corporation (**IFC**); Deputy Director of IFC Global Industry & Service Investments; Managing Director of Corporate Banking at NZI Securities Ltd and Risk Supervisor for Asia at Bank of Nova Scotia.

Mohamed Tareq Mohamed Sadeq Mohamed Akbar

Mr. Akbar joined the Board in March 2015. He is also Chairman of the Audit and Compliance Committee.

Qualifications & Experience: Mr. Akbar is a Fellow Chartered Accountant from the Institute of Chartered Accountants in England and Wales. He has more than 35 years' experience in the fields of financial advisory consultancy, audit services and business development.

Current Positions: Managing Director of Keystone Consulting, Inc.; Independent Board Member of Al-Zayani Investments; Board Member of Golf Course Company and Board Member of Ahli United Bank (Bahrain).

Former Positions: MENA Area Leadership Team Member, Head of Advisory and Head of Accounts & Business Development at Ernst & Young Middle East & North Africa. Office Managing Partner of the Ernst & Young Bahrain practice responsible for assurance, advisory, tax and transaction service lines.

Keith H. Gale

Mr. Gale joined the Board in March 2015. He is also the Chairman of the Risk Committee and a Member of the BEC.

Qualifications & Experience: Mr. Gale holds a Bachelor's degree in Accounting & Finance from Lancaster University and has a fellowship certification in Chartered Accounting from the Institute of Chartered Accountants in England and Wales. He has more than 33 years' experience in the banking sector and risk management.

Current Positions: Deputy Group Chief Executive Officer - Risk, Legal and Compliance at Ahli United Bank (Bahrain); Board Member of Ahli Bank (Oman); Board Member of Ahli United Bank (Egypt) and Board Member of Ahli United Bank (UK).

Former Positions: Group Head of Risk Management at Ahli United Bank (Bahrain); Head of Credit and Risk at ABC International Bank PLC and Assistant Vice President of Arab Banking Corporation.

Abdullah A. Al Raeesi

Mr. Al Raeesi joined the Board in March 2015. He is also a Member of the Corporate Governance Committee and a Member of the Audit and Compliance Committee.

Qualifications & Experience: Mr. Al Raeesi has a Master's in Business Administration from the University of Hull, United Kingdom and is a senior banking professional with over 35 years' experience in managing retail banking, operations, finance, strategic planning, conventional and Islamic banking, mergers and acquisitions and restructuring for banking institutions in Bahrain, Kuwait, Qatar, Oman, Egypt, Libya, Iraq and the UK.

Current Positions: Deputy Group Chief Executive Officer - Retail Banking of Ahli United Bank (Bahrain) and Chairman of Ahli United Bank (Bahrain)'s Group IT Steering Committee, Assets and Liabilities Committee, Group Management Committee and Group Operations Risk Committee.

Former Positions: Board Member of Ahli Bank (Qatar); Board Member of Ahli United Bank (Egypt); Board Member of International Chamber of Commerce; Board Member of Benefit Company; Chairman of Ahli Man Investment Committee; Vice Chairman of Charity Committee of Ahli United Bank (Bahrain); Head of Business Consulting Group of Arthur Andersen and Assistant General Manager of Commercial Bank of Qatar.

Board committees

The Board has 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 Corporate Governance Committee

The Board Corporate Governance Committee (the **BCGC**) provides support to the Board in discharging its oversight responsibilities relating to good governance, including developing a set of corporate governance guidelines, overseeing the management and the Board committees and taking a leadership role in delineating the Group's corporate governance policies. Additionally, the BCGC maintains and updates the framework and manual for corporate governance and monitors its execution and implementation. The BCGC met twice in 2015.

The members of the BCGC are Dr. Al Mudhaf (Chairman), Mr. Al Kazemi and Mr. Al Raeesi.

Board Compensation and Nominating Committee

The Board Compensation and Nominating Committee (the **BCNC**) assists the Board in discharging its oversight responsibilities relating to managing the Group'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 BCNC 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 BCNC met twice in 2015.

The members of the BCNC are Sheikh Al Sabah (Chairman), Mr. El Labban and Mr. Essex.

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 Group'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 four times in 2015.

The members of the BRC are Mr. Gale (Chairman), Mr. Al Kazemi and Mr. Essex.

Board Audit and Compliance Committee

The Board Audit and Compliance Committee (the **BACC**) carries out its functions in accordance with the authorities and responsibilities vested in it by the Board with regard to the oversight of the Group's financial reporting, accounting principles, internal and external audit, compliance and internal control matters as well as liaison with the Group's external auditors. The BACC met four times in 2015.

The members of the BACC are Mr. Akbar (Chairman), Mr. Al Raeesi and Mr. Baijal.

Board Executive Committee

The Board Executive Committee (the **BEC**) assists the Board in discharging its responsibilities in two capacities: acting on behalf of the Board on matters typically reserved to the Board and discharging responsibilities delegated by the Board including managing credit, investment, liquidity and market risks in excess of the limits assigned to other committees. The BEC met three times in 2015.

The members of the BEC are Sheikh Al Sabah (Chairman), Mr. El Labban and Mr. Gale.

Executive management

The Group's executive management team is responsible for day-to-day supervision and control of the Group'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 Group. All significant policies are reviewed and approved by the Board.

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

Name and position	Brief CV
Richard W L Groves *CEO*	Mr. Groves joined the Bank in April 2015 as CEO. Prior to joining the Bank, Mr. Groves had international financial and banking experience, including senior management roles, with HSBC Group. These roles included Chief Executive Officer, HSBC Oman, Managing Director, The Saudi British Bank, and Chief Executive Officer HSBC Greece, in a career spanning over 30 years which also included assignments in Europe and Asia. He was also a Board Member of HSBC Bank Middle East Limited and HSBC Bank Egypt SAE. Mr. Groves holds a Bachelor's degree in Economic and Social History from the University of Hull, United Kingdom.
Moataz El-Rafie *Senior Deputy CEO - Banking Business Group*	Mr. El Rafie, currently Senior Deputy CEO and a Member of the Board of United Bank for Commerce & Investment S.A.C. Libya, has been with the Bank since December 2012. Prior to joining the Bank, Mr. El Rafie held senior positions, such as Adviser to the Chairman and Chief Executive Officer of Ahli Bank Qatar, General Manager – Corporate Banking & Treasury at Boubyan Bank and General Manager - Business Development at National Bank of Kuwait in a career spanning over 35 years. Mr. El Rafie has also held Board membership at Watani Bank of Egypt, United Bank of Credit and Investment – Libya and Boubyan Capital. Mr. El Rafie holds a Bachelor's degree in Business Administration from Cairo University. He is also a Chartered Financial Analyst.
Ahmed Zulficar *Senior Deputy CEO - Banking Support Group*	Mr. Zulficar joined the Bank as Deputy CEO – Risk, Finance and Operations in January 2007. He is a Board member of the United Bank for Commerce & Investment SAC (Libya) and the Commercial Bank of Iraq and the Chairman of KMEFIC. Prior to joining the Bank, Mr. Zulficar held various managerial positions in credit, marketing, risk, trade finance and operations in several banks, including National Bank of Kuwait. Mr. Zulficar holds a Bachelor of Commerce degree from Cairo University.
Jehad Soud Al-Humaidhi *Senior General Manager - IT & Operations*	Mrs. Al-Humaidhi joined the Bank in 1984 as an IT programmer and has held several managerial positions related to operations, administration, electronic systems, data processing and system development. Since 2016, she has held the position of Senior General Manger of IT & Operations. She is also a Board member of K-net Company, Kuwait. Mrs. Al-Humaidhi holds a Bachelor's degree in Mathematics and Economics from Kuwait University.
Hisham Zaghloul *Senior General Manager - Corporate Banking*	Mr. Zaghloul joined the Group in 2007. He has experience in corporate banking, treasury and trade finance, having worked for banks and financial institutions such as BNP Paribas (Egypt), Commercial International Bank (Egypt) and United Bank for Commerce & Investment (Libya). Mr. Zaghloul is a Board Member of Commercial Bank of Iraq and Vice Chairman of KMEFIC. Mr. Zaghloul holds a Bachelor's degree in Economics from Cairo University.
Hossam Al-Deen Gawdat	Mr. Gawdat joined the Bank in 2007 as the Head of Treasury. Prior to joining the Bank, he held treasury and investment positions with

General Manager - Treasury

National Bank of Kuwait (from 1999 until 2007) and with Riyad Bank in Saudi Arabia (from 1989 until 1999).

Mr. Gawdat holds a Bachelor's degree in Economics and Political Sciences from Cairo University.

Medhat Tawfik

General Manager - Private Banking & Wealth Management

Mr. Tawfik joined the Bank in 2005 as the Assistant General Manager of Private Banking and Wealth Management. Prior to joining the Bank, Mr. Tawfik held managerial positions in credit, accounts relationship and private banking with other financial institutions.

Mr. Tawfik holds a Bachelor's degree in Business Administration from the University of Texas and Master's degree in Marketing/Management from the Amber University, Texas.

Amgad Younes

General Manager - Finance

Mr. Younes joined the Bank in 2014 as General Manager, Finance. Previously he held senior positions in finance, strategy, planning, operations and technology with various banking organisations, including Abu Dhabi Islamic Bank and Barwa Bank.

Mr. Younes holds a Bachelor's degree in Accounting & Finance and a post-graduate accountancy certification from Cairo University. He holds a Master's degree in Business Administration from the American University in Dubai. He is a Certified Public Accountant (CPA) and a member of the American Institute of Certified Public Accountants in addition to being an International Certified Public Arab Accountant and a member of the Arab Institute of Certified Public Accountants. He also has certifications in Project Management, Islamic Finance Qualification from the Chartered Institute for Securities and Investments (UK) and in Business Management from the American Institute for Management.

Naqeeb Hamed Amin

General Manager - Human Resources

Mr. Amin joined the Bank in 2014 as Assistant General Manager - Human Resources. Prior to joining the Bank, he held senior management positions in the fields of human resources and sales in sectors such as petrochemical, telecommunications, medical research and IT.

He holds a Bachelor of Hotel and Tourism Administration degree from the University of South Carolina, USA and a Master's degree in Business Administration from the University of Oxford – Saïd Business School. He has also attended the Program for Leadership Development at Harvard Business School.

Tanu Goel

General Manager - Audit

Mr. Goel joined the Bank in 2006 as the Head of Audit. Prior to joining the Bank, he held senior positions in audit functions with Ahli United Bank Bahrain and KPMG.

Mr. Goel is a Certified Bank Auditor, a Certified Information System Auditor and a Financial Risk Manager. He holds a Bachelor of Commerce degree from the University of Mumbai, India and holds certifications from the Institute of Cost and Works Accountants of India and the Institute of Chartered Accountants of India.

Shabbir Shaikh

General Manager - Risk Management

Mr. Shaikh joined the Bank in 2006 as the Head of Risk Management. Prior to joining the Bank, he was the Head of Risk at Ahli United Bank (Bahrain) since January 2001. Prior to that, he was with Standard Chartered Bank (1996 – 2000) as Senior Credit Officer for Bahrain, Qatar, Oman and Saudi Arabia and Head of Corporate at its Bahrain and Karachi offices, respectively. He also held managerial positions in Treasury and Corporate Banking in American Express Bank, Société Generale and Bank Al Falah in Pakistan.

Mr. Shaikh holds a Bachelor's degree and a Master's degree in Business Administration from the University of Karachi.

Management Committees

The principal management committees are:

Senior Credit Committee

The SCC is headed by the Group CEO and Managing Director of AUB as Chairman. It has seven members drawn from the executive management of the Bank and AUB, including the Bank's CEO, Senior Deputy Chief Executive Officer – Banking Support Group and Senior Deputy Chief Executive Officer – Banking Group. The SCC approves risks in excess of limits assigned to individual executives or other committees, within the parameters set by the Board. The committee also reviews Bank and country exposures and makes appropriate recommendations to the Board, where required.

Credit Committee

The CC is headed by the CEO as Chairman, with the Senior Deputy Chief Executive Officer – Banking Support Group and the Senior Deputy Chief Executive Officer – Banking Group as Co-Deputy Chairmen and four other members drawn from the executive management of the Bank. The CC reviews and approves credit proposals which exceed individual credit authority limits, within the parameters set by the Board, provided that the proposal meets the Bank's credit criteria requirements.

Credit Classification and Evaluation Committee

The CCEC is headed by Senior Deputy Chief Executive Officer – Banking Support Group as Chairman with the General Manager – Risk Management as Deputy Chairman and four other members drawn from the executive management of the Bank, including the CEO and the Senior Deputy Chief Executive Officer – Banking Group. The CCEC studies and evaluates the Bank's classified accounts and its overall financing portfolio, including investments, and determines appropriate provisioning levels.

Risk Management Committee

The RMC is headed by Senior Deputy Chief Executive Officer – Banking Support Group as Chairman with the General Manager – Risk Management as Deputy Chairman and four other members drawn from the executive management of the Bank, including the Senior Deputy Chief Executive Officer – Banking Group and the General Manager, Finance. The RMC reviews the effectiveness of the Bank's overall risk management processes and procedures, amendments to the credit risk, market risk, operational risk and treasury policies, new products and information technology security, procedures, processes and framework. It also monitors compliance with financial regulatory ratios and corporate legislation and recommends to the Board changes in the Bank's policies and methodologies needed to identify, measure, manage and monitor the multiple dimensions of risks inherent in the Bank's business activities.

Asset and Liability Committee

The ALCO is headed by Senior Deputy Chief Executive Officer – Banking Group as Chairman with nine other members drawn from the executive management of the Bank, including the CEO, the Senior Deputy Chief Executive Officer – Banking Support Group and the General Managers for Finance, Treasury, Retail, Corporate, Private Banking and Risk. The ALCO meets monthly to review and approve strategies relating to the management of the Bank's assets and liabilities, including liquidity, profit rate and foreign exchange risks, cost of funds, cost allocation, deposit pricing matrix and strategic trading positions.

Business addresses and conflicts

The business address of each member of the Board and each member of executive management is Ahli United Bank, Head Office, Banking Complex Building, Mubarak Al Kabeer Street, P.O. Box 71, Safat, 12168 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 shall 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. Khaled M. Al-Mathkour	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. Khaled M. Al-Mathkour

Mr. Al-Mathkour holds a Ph.D. in Shari'a and Law from Al-Azhar University - Cairo. He is faculty member at Kuwait University in Comparative Fiqh and Shari'a Policy at the Shari'a and Islamic Studies College. He is Head of the Fatwa Committee at the Ministry of Awkaf and Islamic Affairs, State of Kuwait and the Head of the Higher Consulting Committee for the Application of Islamic Shari'a Principles - Amiri Diwan - State of Kuwait.

Mr. Al-Mathkour is member of the following organisations:

- the Scientific Committee for the Fiqh Encyclopedia at the Ministry of Awkaf and a member of the Fatwa and Supervision Panel;
- the Board of Directors of the International Islamic Authority for Information- Islamic World Union; and
- the International Islamic Charity Authority headquartered in Kuwait.

Mr. Al Mathkour is also a member of the Fatwa and Shari'a Supervision body in a number of Islamic banks and financial institutions.

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 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 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 Group's human resources policies are designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Group 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 30 June 2016, the Group employed 825 full-time staff as compared with 831 full-time staff as at 31 December 2015 and 748 full-time staff as 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 2015 was 64 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 at 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. On 16 October 2016, the Amir dissolved the National Assembly which had been elected in July 2013 for a term of four years. The constitution of Kuwait provides for new elections to take place within two months of the dissolution of the National Assembly.

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 7.67 per cent. in 2012, 1.04 per cent. in 2013 and 0.03 per cent. in 2014. The IMF estimates that Kuwait's real GDP will have increased by 0.90 per cent. in 2015. Kuwait has posted a budget surplus for each of the last 15 fiscal years through to 31 March 2015, although its approved budget for 2015/16 anticipates a deficit of KD 8.2 billion based on the assumed oil price used in the budget.

The IMF's data indicates that inflation in Kuwait, on an average consumer price measure, was 3.2 per cent. in 2012, 2.7 per cent. in 2013 and 2.9 per cent. in 2014. The IMF estimates that inflation in Kuwait will have been 3.4 per cent in 2015.

The oil and oil products sector is the most significant contributor to Kuwait's GDP. Oil and gas exports accounted for 61.8 per cent. of Kuwait's nominal GDP in 2013 and was projected to account for 56.6 per cent. of nominal GDP in 2014 and 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 of 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 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 government enacted Law No. 7 of 2010 (**Law No. 7**) and Executive Bylaws for Law No. 7 of 2010 Concerning Establishment of the Capital Markets Authority and Organization of Securities Activity (the **CMA Bylaws** and, together with the Law No. 7, the **Capital Markets Law**). 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 KSE, including licensing those who operate within the KSE such as funds, asset managers and brokers. In addition to the CMA's role in regulating all securities activities in Kuwait, the CMA has issued a comprehensive set of corporate governance rules which cover all aspects of a CMA-regulated corporate entity, including, but not limited to, the composition of the board, selection criteria of constituent members, risk management and corporate social responsibility.

CERTAIN BANKING REGULATIONS

All banks operating within Kuwait are subject to the supervision of the CBK, which is the primary regulator of banks and financial institutions in Kuwait, whilst the CMA exercises supervisory authority over all Kuwaiti entities (including banks and financial institutions) which are listed on the KSE or engage in securities activities as discussed further below. The CBK imposes the following regulations upon banks:

Legal form

Only joint-stock companies and branches of foreign banks licensed by the CBK may engage in the business of banking.

Liquidity

The CBK requires banks to maintain 18 per cent. of their KD customer deposits in the form of balances with the CBK. Islamic banks must maintain 18 per cent. of their KD customer deposits in the form of balances with the CBK, short-term international murabaha transactions or finance sukuk issued by the Islamic Development Bank or governments of the GCC member countries (provided that the sukuk are traded and 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.

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 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 loan does not exceed 70 per cent. of the total value of the contract. In all other cases, CBK consent is required for loans 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 loans to corporate borrowers should not exceed:

- 2.5 per cent. over the CBK's discount rate in the case of commercial loans with a maturity of one year or less; and
- 4 per cent. over the CBK's discount rate in the case of commercial loans 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 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 Management (which is to include the chief executive officer), the Risk Committee, Corporate Governance Committee, Compensation and Nominating Committee, Audit and Compliance 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 second largest Islamic bank in Kuwait in terms of total assets, customer deposits and financing assets as at 30 June 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 annually according to Kuwaiti law, to carry on banking activities. The Bank's commercial licence was last renewed in March 2016. 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 in January 2016 and the CBK issued its final report in relation to that inspection on 20 April 2016. 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 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 March 2016, the total assets of local banks in the Kuwaiti banking sector amounted to KD 59.8 billion and the total loans to Kuwaiti residents of those banks amounted to KD 33.7 billion (source: CBK).

The key performance indicators of the major Kuwaiti banks for the year ended 31 December 2015 are set out below (source: annual reports published on the company website of each bank listed below).

	Cost to income ratio	**Return on assets**	**Return on equity**	**Earnings per share**
	(%)	*(%)*	*(%)*	*(fils*)*
National Bank of Kuwait	32.2	1.2	10.1	56.0
Burgan Bank..	46.5	1.0	10.0	32.1
Gulf Bank	35.8	0.7	7.4	13.0
Commercial Bank of Kuwait	27.2	1.1	8.3	32.7
Al-Ahli Bank of Kuwait	32.0	0.8	5.5	19.0
The Bank	29.9	1.1	12.5	30.2
Boubyan Bank	42.9	1.2	11.6	17.1

Note:
* 1000 fils equals one Kuwaiti dinar.

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. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, shall not affect the Trustee's continuing role and obligations as trustee. Pursuant to the Declaration of Trust:

(a) upon the occurrence of a Bank Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 12.1 (*Bank Events*), the Delegate may at its discretion (acting on behalf of Certificateholders) or shall, if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction take one or more of the following steps: (i) institute any steps, actions or proceedings for the winding-up of the Bank and/or (ii) prove in the winding-up of the Bank and/or (iii) institute steps, actions or proceedings for the bankruptcy of the Bank; and/or (iv) claim in the liquidation of the Bank and/or (v) take such other steps, actions or proceedings which, under the laws of the State of Kuwait, have an analogous effect to the actions referred to in (i) to (iv) above, in each case for (subject to the provisos contained in Condition 12.3(a) (*Proceedings for Winding-up*)), all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents); and

(b) without prejudice to Conditions 12.1 (*Bank Events*) and 12.3 (*Winding-up, dissolution or liquidation*) and the provisions of clause 16 of the Declaration of Trust, the Trustee (or the Delegate) may at its discretion and the

Delegate shall, in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*) if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding and without further notice institute such steps, actions or proceedings against the Bank and/or the Trustee, as it may think fit to enforce any term or condition binding on the Bank or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of the Bank under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) including, without limitation, any failure by the Bank to procure the substitution of the Trustee in the circumstances described in Condition 12.2 (*Trustee Events*), and in no event shall the Bank, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it in accordance with the Transaction Documents.

A Transaction Account will be established in the name of the Trustee. Monies received in the Transaction Account will, *inter alia,* comprise payments of amounts payable under the Mudaraba Agreement immediately prior to each Periodic Distribution Date (see "*—Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in Condition 5.3 (*The Trust*).

Mudaraba Agreement

The Mudaraba Agreement will be entered into on or before the Issue Date between the Bank (as the Mudareb) and Ahli United 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 a reserve account (the **Mudaraba Reserve**) and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Trustee will be reduced accordingly; or (ii) is less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after re-crediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) and, if a shortfall still exists following such re-credit, it may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall. The Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date and to use such amounts for its own purposes provided that such amounts shall be repaid by it to the Mudaraba Reserve if so required to fund a shortfall.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Principal Paying Agent, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event in accordance with the notice periods set out in the Mudaraba Agreement. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final

Mudaraba Profit not paid as a result of either a Non-Payment Event or (in the case of any Rab-al-Maal Mudaraba Profit only) a Non-Payment Election and such non-payment in whole or in part, as applicable, in such circumstance will not constitute a Dissolution Event. If any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit is not paid as a consequence of a Non-Payment Election or a Non-Payment Event, then from the date of such Non-Payment Election or Non-Payment Event (the **Dividend Stopper Date**), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, declaring or paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until (i) the next following payment of Rab-al-Maal Mudaraba Profit or, (ii) as the case may be, Rab-al-Maal Final Mudaraba Profit following a Dividend Stopper Date, is made in full to the Trustee following such Non-Payment Election or Non-Payment Event (or an amount equal to that amount has been duly set aside or provided for in full for the benefit of the Trustee).

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

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

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

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

   (ii) upon the occurrence of a Capital Event.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (a) or (b)(i) above and the capital to be returned to the Trustee (the **Dissolution Mudaraba Capital**) which would be generated upon such liquidation is less than the Mudaraba Capital, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall, if it were to proceed with such final constructive liquidation, indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Trustee in which case there shall be a final constructive liquidation of the Mudaraba.

If the Mudareb were to exercise its option to liquidate in accordance with paragraph (b)(ii) above and the Dissolution Mudaraba Capital which would be generated upon such liquidation is less than the 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 Dissolution Mudaraba Capital 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, retention or deduction for, or on account of, Taxes, unless such withholding, retention 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, retention 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 the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile of a purchase of the Certificates, including, but not limited to, the consequences of receipt of payments under the Certificates and their disposal or redemption. 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 Kuwait Ministry of Finance (the **MOF**) (together, the **Taxation Laws**) as interpreted and implemented by the MOF's Department of Income Tax (the **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 may 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.

However, 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 principal and profit payments. Accordingly, a payer (such as the Bank) would be required to deduct five per cent. from every payment made by it to a payee (such as the Trustee), which amount would be released by the payer upon presentation to it by the payee of a tax clearance certificate from the DIT.

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 to make a deduction as specified above.

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 Certificateholders shall equal the amount which would have been receivable in the absence of such deduction.

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 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 payments on Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of Certificates nor will gains derived from the disposal of 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 or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. An instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$854. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

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 and the Obligor is a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands and Kuwait) 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. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Certificates.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented

in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Trustee and to payments they may receive in connection with the Certificates.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement (the **Subscription Agreement**) dated 24 October 2016, agreed with the Trustee and the Bank to sell to the Joint Lead Managers U.S.$200,000,000 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 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 dealer 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 dealer (whether or not participating in the offering) 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 or to any US person. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Trustee of any of its contents to any such U.S. person or other person within the United States, is prohibited.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or the Bank; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

Cayman Islands

Each Joint Lead Manager has represented and agreed that no invitation or offer, whether directly or indirectly, to subscribe for the Certificates has been or will be made to the public in the Cayman Islands.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(i) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the **DFSA**); and

(ii) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module.

State of Kuwait

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be marketed or sold by it in Kuwait unless (a) all necessary approvals from the CMA pursuant to Law No. 7 of 2010 and its executive bylaws (as amended) and the various Resolutions, Instructions and Announcements issued from time to time pursuant thereto or in connection therewith have been granted and (b) the Certificates are marketed or sold through persons or corporate entities authorised and licensed by the CMA to carry out such activities.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates, except on a private placement basis to persons in Bahrain who are "accredited investors".

For this purpose, an **accredited investor** means:

(i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(ii) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(iii) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kingdom of Saudi Arabia

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Certificates. Any investor in Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 10 of the Offer of Securities Regulations as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**), through a person authorised by the Capital Market Authority (the **CMA**) to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations. The Certificates may thus not be advertised, offered or sold to any person in Saudi Arabia other than to "Sophisticated Investors" under Article 10 of the KSA Regulations.

Each Joint Lead Manager has represented and agreed that any offer of Certificates to a Saudi Investor will be made in compliance with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a public offer pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 10 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the CMA and: (i) the Certificates are offered or sold to a Sophisticated Investor; (ii) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (iii) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

State of Qatar

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Certificates in Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Joint Lead Manager has represented and agreed that it will not offer or sell any Certificates, directly or indirectly, 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 25 October 2016. The total expenses related to the admission to trading are estimated at Euro 6,540.

Arthur Cox Listing Services Limited 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.$21,000.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 28 September 2016. Ahli United 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 29 September 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 150865166 and ISIN XS1508651665.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, LI 855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Bank or the Group since 30 June 2016 and there has been no material adverse change in the prospects of the Bank or the Group since 31 December 2015.

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the prospects of the Trustee, in each case since the date of its incorporation.

Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

Neither the Bank nor the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Bank is aware) during the 12 months preceding the date of the Prospectus that may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Auditors

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

The Bank's appointed auditors are EY Kuwait and Deloitte Kuwait. The business address of EY Kuwait is P.O. Box 74 Safat, 13001 Safat, Baitak Tower, Ahmed Al Jabar Street, Safat Square, Kuwait and the business address of Deloitte Kuwait is Ahmed Al-Jaber Street, Sharq, Dar Al-Awadi Complex, Floors 7 & 9, P.O. Box 20174, Safat 13062, Kuwait. Each of EY Kuwait and Deloitte Kuwait is regulated in Kuwait by the Kuwait Ministry of Commerce and Industry and the CMA and is a registered auditor licensed to act as an auditor in Kuwait by the Kuwait Association of Accountants and Auditors.

The consolidated financial statements of the Group as at and for the years ended 31 December 2015 and 31 December 2014 have been jointly audited by Deloitte Kuwait and EY Kuwait with license no. 62A and 68A respectively 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 Shari'a & Fatwa Supervisory Board of the Bank, the Shari'ah Supervisory Board of Crédit Agricole Corporate and Investment Bank and the Shari'a Supervisory Board of Citi Islamic Investment Bank E.C.

Shari'a and Fatwa Supervisory Board Members of the Bank

Sheikh Dr. Khaled M. Al-Mathkour

Mr. Al-Mathkour holds a Ph.D. in Shari'a and Law from Al-Azhar University - Cairo. He is faculty member at Kuwait University in Comparative Fiqh and Shari'a Policy at the Shari'a and Islamic Studies College. He is Head of the Fatwa Committee at the Ministry of Awkaf and Islamic Affairs, State of Kuwait and the Head of the Higher Consulting Committee for the Application of Islamic Shari'a Principles - Amiri Diwan - State of Kuwait.

Mr. Al-Mathkour is a member of the following organisations: the Scientific Committee for the Fiqh Encyclopedia at the Ministry of Awkaf and a member of the Fatwa and Supervision Panel; the Board of Directors of the International Islamic Authority for Information- Islamic World Union; and the International Islamic Charity Authority headquartered in Kuwait.

Mr. Al-Mathkour is also a member of the Fatwa and Shari'a Supervision body in a number of Islamic banks and financial institutions.

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.

Shari'ah Supervisory Board of Crédit Agricole Corporate and Investment Bank

Shaikh Nidham Yaquby

Dr. Yaquby 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 also has a PhD in Islamic Studies 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 A. 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 on the Shari'a boards of AAOIFI and is a member of the advisory board of Harvard Series on Islamic Law.

Dr. Mohd Daud Bakar

Dr. Bakar received his first degree in Shari'ah from University of Kuwait in 1988 and obtained his PhD from University of St. Andrews, United Kingdom in 1993. In 2002, he went on to complete his external Bachelor of Jurisprudence at University of Malaya. He is currently the Chairman of the Central Shari'ah Advisory Council of the Central Bank of Malaysia and a member of the Shari'ah Advisory Council of Securities Commission of Malaysia. He is also a member of the Shari'ah board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) (Bahrain), International Islamic Financial Market (IIFM) (Bahrain), Dow Jones Islamic Market Index (New York), Oasis Asset Management (Cape Town, South Africa), Unicorn Investment Bank (Bahrain), Financial Guidance (USA), BNP Paribas and in other financial institutions both locally and abroad. Dr. Bakar actively advises on capital market product structurings such as sukuks internationally. He has published more than 30 articles in various academic journals and presented more than 150 papers in various conferences both locally and abroad.

Shari'a Supervisory Board of Citi Islamic Investment Bank E.C.

Dr. Nazih Hammad

Dr. Nazih Hammad is a graduate of the Faculty of Shari'a at University of Damascus, Syria and holds a Ph. D. in Islamic Jurisprudence from Cairo University, Egypt. He has taught in the Faculty of Shari'a at Um Alqura University, Makkah for 17 years. In addition to advising Citi and other Islamic finance institutions and funds, he is a member of the Islamic Fiqh Academy, Auditing and Accounting Organisation for Islamic Financial Institutions, and Fiqh Islamic Council of North America. Dr. Nazih Hammad is the author of several research papers and books on Islamic jurisprudence and banking and finance.

Sheikh Nizam Yaquby

See biography above under "Shari'ah Supervisory Board of Crédit Agricole Corporate and Investment Bank".

Dr. Mohamed A. ElGari

See biography above under "Shari'ah Supervisory Board of Crédit Agricole Corporate and Investment Bank".

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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البنك الأهلي المتحد

ahli united bank

AHLI UNITED BANK K.S.C.P.

KUWAIT

INTERIM CONDENSED CONSOLIDATED

FINANCIAL INFORMATION

30 JUNE 2016 (UNAUDITED)

البنك الأهلي المتحد
ahli united bank

Ahli United Bank K.S.C.P.

Kuwait

Interim Condensed Consolidated Financial Information

30 June 2016

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Building a better working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF AHLI UNITED BANK K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Ahli United Bank K.S.C.P. (the "Bank") and its subsidiary (collectively the "Group") as at 30 June 2016, and the related interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of profit or loss and other comprehensive income for the three months and six months periods then ended, and the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and the executive regulation of Law No. 25 of 2012, or the Bank's Articles of Association and Memorandum of Incorporation, during the six months period ended 30 June 2016 that might have had a material effect on the business of the Bank or on its financial position.

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF AHLI UNITED BANK K.S.C.P. (continued)

Report on other Legal and Regulatory Requirements (continued)

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the six months period ended 30 June 2016 that might have had a material effect on the business of the Bank or on its financial position.

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

BADER A. AL WAZZAN
LICENCE NO. 62 A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

11 July 2016
Kuwait

Interim Condensed Consolidated Statement of Profit or Loss
For the period ended 30 June 2016 (Unaudited)

		Three months ended 30 June		*Six months ended 30 June*	
		2016	*2015*	***2016***	*2015*
	Notes	***KD'000***	*KD'000*	***KD'000***	*KD'000*
Financing income	3	**32,357**	29,850	**64,413**	59,085
Distribution to depositors	4	**(10,873)**	(7,356)	**(21,692)**	(15,078)
Net financing income		**21,484**	22,494	**42,721**	44,007
Net fees and commission income		**2,548**	2,448	**5,364**	5,672
Foreign exchange gains		**850**	1,077	**1,836**	2,167
Net gain on sale of investment properties		**-**	-	**2,949**	505
Net gain (loss) on sale of investments		**-**	(615)	**73**	(621)
Share of results from associate		**(83)**	44	**(220)**	(80)
Other income		**442**	557	**732**	701
Total operating income		**25,241**	26,005	**53,455**	52,351
Provision and impairment losses		**(6,302)**	(6,881)	**(10,008)**	(9,113)
Operating income after provision and impairment losses		**18,939**	19,124	**43,447**	43,238
Staff costs		**(5,231)**	(5,245)	**(10,338)**	(10,135)
Depreciation		**(546)**	(552)	**(1,323)**	(1,222)
Other operating expenses		**(2,652)**	(3,424)	**(4,808)**	(6,145)
Total operating expenses		**(8,429)**	(9,221)	**(16,469)**	(17,502)
PROFIT FROM OPERATIONS		**10,510**	9,903	**26,978**	25,736
Taxation	5	**(460)**	(473)	**(1,180)**	(1,184)
Net (profit) loss attributable to non-controlling interests		**(5)**	719	**(161)**	975
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO BANK'S EQUITY SHAREHOLDERS		**10,045**	10,149	**25,637**	25,527
Basic and diluted earnings per share attributable to the Bank's equity shareholders (fils)	6	**6.4**	6.5	**16.4**	16.4

The attached notes 1 to 17 form part of the interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income
For the period ended 30 June 2016 (Unaudited)

	Three months ended 30 June		*Six months ended 30 June*	
	2016	*2015*	***2016***	*2015*
	KD'000	*KD'000*	***KD'000***	*KD'000*
Profit for the period attributable to the Bank's equity shareholders	**10,045**	10,149	**25,637**	25,527
Net profit (loss) for the period attributable to non-controlling interests	**5**	(719)	**161**	(975)
Other comprehensive income (loss):				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Net movement in cumulative changes in fair values of investments available for sale	**552**	573	**402**	1,877
Exchange differences on translation of foreign operations	**25**	38	**(277)**	178
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**577**	611	**125**	2,055
Total comprehensive income for the period	**10,627**	10,041	**25,923**	26,607
Total comprehensive income attributable to Bank's equity shareholders	**10,544**	10,438	**25,890**	27,122
Total comprehensive income (loss) attributable to non- controlling interests	**83**	(397)	**33**	(515)
	10,627	10,041	**25,923**	26,607

The attached notes 1 to 17 form part of the interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position
As at 30 June 2016 (Unaudited)

	Notes	*30 June 2016 KD'000*	*(Audited) 31 December 2015 KD'000*	*30 June 2015 KD'000*
ASSETS				
Cash and balances with banks	7	**234,691**	344,455	195,987
Deposits with Central Bank of Kuwait		**387,228**	265,199	354,722
Deposits with other banks		**309,979**	376,812	349,703
Financing receivables	8	**2,773,557**	2,680,334	2,593,672
Investments available for sale	9	**155,045**	139,167	155,909
Investment in associate	10	**10,587**	-	10,352
Investment properties		**23,656**	29,572	32,386
Premises and equipment		**31,084**	30,954	30,679
Other assets and intangibles		**14,014**	14,816	29,879
Assets classified as held for sale	11	**12,451**	22,994	-
TOTAL ASSETS		**3,952,292**	3,904,303	3,753,289
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from banks and financial institutions		**888,758**	829,989	982,541
Deposits from customers		**2,638,653**	2,660,629	2,370,618
Other liabilities		**42,020**	49,351	47,093
Liabilities directly associated with assets held for sale	11	**3,193**	3,499	-
		3,572,624	3,543,468	3,400,252
EQUITY				
Share capital	12	**173,237**	157,488	157,488
Reserves		**245,678**	242,627	227,569
		418,915	400,115	385,057
Treasury shares		**(43,957)**	(43,957)	(43,957)
Attributable to Bank's equity shareholders		**374,958**	356,158	341,100
Non-controlling interests		**4,710**	4,677	11,937
		379,668	360,835	353,037
TOTAL LIABILITIES AND EQUITY		**3,952,292**	3,904,303	3,753,289

ahli united bank
1
HEAD OFFICE

Sh. Abdulla Jaber Al-Ahmad Al-Sabah
Vice Chairman

Richard Groves
Chief Executive Officer

The attached notes 1 to 17 form part of the interim condensed consolidated financial information.

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Ahli United Bank K.S.C.P.

Interim Condensed Consolidated Statement of Changes in Equity
For the period ended 30 June 2016 (Unaudited)

	Attributable to the Bank's equity shareholders												
			Reserves										
	Share capital KD'000	Share premium KD'000	Statutory reserve KD'000	General reserve KD'000	Retained earnings KD'000	Cumulative changes in fair values KD'000	Property revaluation reserve KD'000	Treasury shares reserve KD'000	Foreign currency translation reserve KD'000	Total reserves KD'000	Treasury shares KD'000	Non-controlling interests KD'000	Total KD'000
Balance as at 31 December 2015	157,488	12,883	69,962	22,660	118,189	7,792	10,014	974	153	242,627	(43,957)	4,677	360,835
Profit for the period	-	-	-	-	25,637	-	-	-	-	25,637	-	161	25,798
Other comprehensive income (loss) for the period	-	-	-	-	-	378	-	-	(125)	253	-	(128)	125
Total comprehensive income (loss) for the period	-	-	-	-	25,637	378	-	-	(125)	25,890	-	33	25,923
Dividend –2015 (Note 12)	-	-	-	-	(7,090)	-	-	-	-	(7,090)	-	-	(7,090)
Issue of bonus shares – 2015 (Note 12)	15,749	-	-	-	(15,749)	-	-	-	-	(15,749)	-	-	-
Balance as at 30 June 2016	**173,237**	**12,883**	**69,962**	**22,660**	**120,987**	**8,170**	**10,014**	**974**	**28**	**245,678**	**(43,957)**	**4,710**	**379,668**
Balance as at 31 December 2014	143,171	12,883	65,466	22,660	106,579	9,011	10,039	974	42	227,654	(43,957)	12,452	339,320
Profit (loss) for the period	-	-	-	-	25,527	-	-	-	-	25,527	-	(975)	24,552
Other comprehensive income for the period	-	-	-	-	-	1,506	-	-	89	1,595	-	460	2,055
Total comprehensive income (loss) for the period	-	-	-	-	25,527	1,506	-	-	89	27,122	-	(515)	26,607
Transfer on disposal	-	-	-	-	508	-	(508)	-	-	-	-	-	-
Dividend –2014 (Note 12)	-	-	-	-	(12,890)	-	-	-	-	(12,890)	-	-	(12,890)
Bonus shares – 2014 (Note 12)	14,317	-	-	-	(14,317)	-	-	-	-	(14,317)	-	-	-
Balance as at 30 June 2015	157,488	12,883	65,466	22,660	105,407	10,517	9,531	974	131	227,569	(43,957)	11,937	353,037

The attached notes 1 to 17 form part of the interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows
For the period ended 30 June 2016 (Unaudited)

	Note	*Six months ended 30 June* 2016 KD'000	2015 KD'000
OPERATING ACTIVITIES			
Profit for the period attributable to the Bank's equity shareholders		**25,637**	25,527
Net profit (loss) for the period attributable to non-controlling interests		**161**	(975)
Adjustments for:			
Net gain on sale of investment properties		**(2,949)**	(505)
Net (gain) loss on sale of investments		**(73)**	621
Net loss on sale of premises and equipment		**-**	21
Share of results from associate		**220**	80
Dividend income		**(516)**	(521)
Net income from investment properties		**(209)**	(191)
Depreciation		**1,323**	1,222
Provision and impairment losses		**10,008**	9,113
Operating profit before changes in operating assets and liabilities		**33,602**	34,392
Changes in operating assets / liabilities:			
Deposits with Central Bank of Kuwait		**(92,027)**	25,609
Deposits with other banks		**14,746**	136,628
Financing receivables		**(113,614)**	(120,064)
Other assets and intangibles		**10,662**	(2,386)
Deposits from banks and financial institutions		**58,769**	225,804
Deposits from customers		**(21,975)**	(83,139)
Other liabilities		**(7,958)**	(2,355)
Net cash (used in) from operating activities		**(117,795)**	214,489
INVESTING ACTIVITIES			
Purchase of investments available for sale		**(164,847)**	(109,405)
Sale and redemption of investments available for sale		**150,332**	106,322
Purchase of investment properties		**-**	(481)
Proceeds from sale of investment properties		**8,784**	945
(Purchase) sale of premises and equipment		**(1,959)**	7,051
Dividends received		**516**	521
Net income from investment properties		**209**	191
Net cash (used in) from investing activities		**(6,965)**	5,144
FINANCING ACTIVITIY			
Dividend paid to shareholders		**(7,090)**	(12,890)
Net cash used in financing activity		**(7,090)**	(12,890)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(131,850)**	206,743
Cash and cash equivalents at 1 January		**552,644**	268,000
CASH AND CASH EQUIVALENTS AT 30 JUNE	7	**420,794**	474,743

The attached notes 1 to 17 form part of the interim condensed consolidated financial information.

1 INCORPORATION AND ACTIVITIES

Ahli United Bank K.S.C.P. (the "Bank") is a public shareholding company incorporated in Kuwait in 1971 and is listed on Kuwait Stock Exchange. It is engaged in carrying out banking activities in accordance with Islamic Sharia'a and is regulated by the Central Bank of Kuwait ("CBK"). Its registered office is at Darwazat Al-Abdul Razzak, P. O. Box 71, Safat 12168, Kuwait.

The Bank has commenced operations as an Islamic bank from 1 April 2010. From that date, all activities are conducted in accordance with Islamic Sharia'a, as approved by the Bank's Fatwa and Sharia'a Supervisory Board.

The Bank is a subsidiary of Ahli United Bank B.S.C., a Bahraini bank (the "Parent"), listed on the Bahrain and Kuwait Stock Exchanges.

The Bank's principal subsidiary is Kuwait and Middle East Financial Investment Company K.S.C.P. ("KMEFIC"), a company incorporated in the State of Kuwait, listed on the Kuwait Stock Exchange and engaged in investment and portfolio management activities for its own account and for clients. The Bank held 50.15% effective interest in KMEFIC as at 30 June 2016 (31 December 2015: 50.18% and 30 June 2015: 50.18%).

The interim condensed consolidated financial information of the Bank and its subsidiary ("the Group") for the six months period ended 30 June 2016 were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 11 July 2016.

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 and cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012, the executive regulation of Law No. 25 of 2012 will continue until a new set of executive regulation is issued.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed financial information of the Bank has been prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting. The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the amendments and annual improvements to International Financial Reporting Standards (IFRSs), relevant to the Group which are effective for annual reporting period starting from 1 January 2016 and did not result in any material impact on the accounting policies, financial position or performance of the Group.

The annual consolidated financial statements for the year ended 31 December 2015 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the IAS 39: Financial instruments: Recognition and Measurement ("IAS 39") requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015. Further, results for the six months period ended 30 June 2016, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

The Central Bank of Kuwait and the Bank's Fatwa and Sharia'a Supervisory Board have approved a time frame upto 28 May 2017 to convert or dispose all remaining conventional investments and products of the Group to be Sharia'a compliant.

3 FINANCING INCOME

Financing income includes interest income amounting to KD 77 thousand (30 June 2015: KD 261 thousand) received from non-converted loans and advances granted before conversion to an Islamic Bank, which represents 0.1% (30 June 2015: 0.4%) of the total financing income for the six months ended 30 June 2016. Treatment of interest income is subject to resolutions of the Bank's Fatwa and Sharia'a Supervisory Board.

4 DISTRIBUTION TO DEPOSITORS

The Board of Directors of the Bank determines the depositors' share of profit based on the Bank's results for the three months period ended 30 June 2016.

5 TAXATION

	Six months ended 30 June	
	2016	*2015*
	KD'000	*KD'000*
Contribution to Kuwait Foundation for the Advancement of Sciences	**243**	250
National Labour Support Tax (NLST)	**672**	670
Zakat	**265**	264
	1,180	1,184

6 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for periods presented in the interim condensed consolidated statement of profit or loss are calculated as follows:

	Three months ended 30 June		*Six months ended 30 June*	
	2016	*2015*	***2016***	*2015*
Profit for the period attributable to the Bank's equity shareholders (KD' 000)	**10,045**	10,149	**25,637**	25,527
Weighted average number of shares outstanding during the period	**1,559,731,902**	1,559,731,902	**1,559,731,902**	1,559,731,902
Basic and diluted earnings per share (fils)	**6.4**	6.5	**16.4**	16.4

The weighted average number of shares outstanding during the period is calculated after adjusting for treasury shares. Earnings per share for the six months ended 30 June 2015 was 18.0 fils, before retroactive adjustment to the number of shares following the bonus issue (Note 12).

	Three months ended 30 June		*Six months ended 30 June*	
	2016	2015	**2016**	2015
Weighted average number of Bank's issued and paid up shares	**1,732,368,522**	1,732,368,522	**1,732,368,522**	1,732,368,522
Less: Weighted average number of treasury shares	**(172,636,620)**	(172,636,620)	**(172,636,620)**	(172,636,620)
	1,559,731,902	1,559,731,902	**1,559,731,902**	1,559,731,902

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim condensed consolidated statement of cash flows consists of the following:

	30 June 2016 KD'000	(Audited) 31 December 2015 KD'000	30 June 2015 KD'000
Cash and balances with banks	**234,691**	344,455	195,987
Deposits with Central banks and other banks - with an original maturity of seven days or less	**186,103**	208,189	278,756
	420,794	552,644	474,743

8 FINANCING RECEIVABLES

Financing receivables include loans and advances carried forward from prior periods before conversion to an Islamic Bank amounting to KD 1,492 thousand (31 December 2015: KD 2,008 thousand and 30 June 2015: KD 2,486 thousand) which represents 0.05% (31 December 2015: 0.1% and 30 June 2015: 0.1%) of net financing receivables.

9 INVESTMENTS AVAILABLE FOR SALE

Investments available for sale include non Sharia'a compliant investments carried forward from prior periods before conversion to an Islamic Bank.

The Bank is in the process of disposal of these investments within the time frame approved by the Bank's Fatwa and Sharia'a Supervisory Board.

10 INVESTMENT IN ASSOCIATE

During the current period, the Bank transferred equity interest in Middle East Financial Investment Company ("MEFIC") from Kuwait and Middle East Financial Investment Company K.S.C.P. ("KMEFIC") which is a subsidiary of the Bank. The Group determined that it exercises significant influence over MEFIC at the date of acquisition and consequently accounted for this transaction under IAS 28: Investment in Associate and Joint ventures ("IAS 28").

11 ASSETS HELD FOR SALE

The Board of Directors of the Bank on December 2015 approved to sell its entire equity interest in a non-converted asset and recorded this as assets held for sale as per IFRS 5.

The major classes of assets of the non-converted asset held for sale comprises of investments and liabilities comprise of accruals. The non-controlling interest disclosed in statement of financial position relates to the asset held for sale.

12 SHARE CAPITAL AND DIVIDEND

The Extraordinary General Meeting held on 31 March 2016 approved the Board of Directors' proposal to increase the authorised share capital from KD 157,488,047/500 to KD 250,000,000/- consisting of ordinary shares of 100 fils.

The shareholders' Annual General Assembly held on the same day, approved the audited consolidated financial statements of the Bank for the year ended 31 December 2015 and the distribution of cash dividend of 5 fils per share (2014: 10 fils per share) to the Bank's equity shareholders registered in Bank's records as of the date of Annual General Assembly Meeting and issuance of bonus shares of 10% (2014:10%) to Bank's equity shareholders on record at the date of regulatory approval.

13 TRANSACTIONS WITH RELATED PARTIES

The Group enters into transactions with the parent, subsidiaries, associates, major shareholders, directors and key management, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business. The terms of these transactions are approved by the Group's management.

The related party balances in the interim condensed consolidated financial information are as follows:

	30 June 2016 KD'000	(Audited) 31 December 2015 KD'000	30 June 2015 KD'000
Financing receivables	**9,259**	7,563	4,151
Credit cards	**40**	52	41
Deposits with other banks	**125,138**	108,711	71,664
Deposits from banks and financial institutions	**460,158**	376,941	408,340
Commitments and contingent liabilities	**32,710**	43,331	40,303
Islamic Forward Agreements	**2,593**	14,156	3,330

	30 June 2016 KD'000	(Audited) 31 December 2015 KD'000	30 June 2015 KD'000
Transactions			
Financing income	**540**	525	248
Distribution to depositors	**3,409**	5,004	2,444

During the current period, the Bank has acquired equity interest in MEFIC for a purchase consideration of KD 10,616 thousand from its subsidiary KMEFIC (Note 10).

14 COMMITMENTS AND CONTINGENT LIABILITIES

a) Financial instruments with contractual amounts representing credit risk:

	30 June 2016 KD'000	(Audited) 31 December 2015 KD'000	30 June 2015 KD'000
Acceptances	**37,563**	19,276	16,123
Letters of credit	**63,670**	91,806	115,137
Guarantees	**403,568**	388,919	352,281
	504,801	500,001	483,541

Irrevocable credit commitments to extend credit as at the statement of financial position date amounted to KD 50,638 thousand (31 December 2015: KD 8,237 thousand and 30 June 2015: KD 12,409 thousand).

b) The capital commitment for purchase of assets as at 30 June 2016 is KD 1,705 thousand (31 December 2015: KD 1,497 thousand and 30 June 2015: KD 1,682 thousand).

15 ISLAMIC FORWARD AGREEMENTS

In the ordinary course of business, the Bank enters into various types of transactions that involve financial instruments represented in forward foreign exchange agreements (Waad) to mitigate foreign currency risk. A Waad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Sharia'a.

The notional amount, disclosed gross, is the amount of a Waad's underlying asset/ liability and is the basis upon which changes in the value are measured.

The notional amounts indicate the volume of transactions outstanding at the period-end and are neither indicative of the market risk nor credit risk.

The table below shows the notional amounts of the Waad transactions:

Waad			*Notional amounts*			
	Assets (Positive)	*Liabilities (Negative)*	*Less than 1 month*	*1 to 3 months*	*3 to 12 months*	*Total*
	KD'000	*KD'000*	*KD'000*	*KD'000*	*KD'000*	*KD'000*
30 June 2016	**76**	**49**	**7,556**	**8,297**	**-**	**15,853**
31 December 2015 (Audited)	591	520	13,294	55,886	2,337	71,517
30 June 2015	95	39	10,455	14,412	991	25,858

16 SEGMENT REPORTING

The Group's operating segments are determined based on the reports reviewed by the Senior management that are used for strategic decisions. These segments are strategic business units having similar economic characteristics that offer different products and services. These operating segments are monitored separately by the Group for the purpose of making decisions about resource allocation and performance assessment.

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

- Retail and Commercial Banking - comprising a full range of banking operations covering credit and deposit services provided to customers. The Bank uses a common marketing and distribution strategy for its commercial banking operations.

- Treasury and Investment Management - comprising correspondent banking, clearing, money market, foreign exchange, Sukuk, other treasury and miscellaneous operations, proprietary investment, securities trading activities and fiduciary fund management activities.

Segment results include revenue and expenses directly attributable to a segment and an allocation of overhead cost.

The Group measures the performance of operating segments through segment profit or loss net of taxes in management and reporting systems.

16 SEGMENT REPORTING (continued)

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment. Segment information for the six months period ended 30 June 2016 and 2015 are as follows:

	Retail and Commercial Banking		*Treasury and Investment Management*		*Total*	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*
	KD'000	*KD'000*	***KD'000***	*KD'000*	***KD'000***	*KD'000*
Segment revenue	**38,613**	40,808	**14,842**	11,543	**53,455**	52,351
Segment result	**13,282**	18,316	**12,516**	6,236	**25,798**	24,552
Add: (Profit) loss attributable to non-controlling interests					**(161)**	975
Profit attributable to Bank's equity shareholders					**25,637**	25,527

	Retail and Commercial Banking		*Treasury and Investment Management*		*Others*		*Total*	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*	***2016***	*2015*
	KD'000	*KD'000*	***KD'000***	*KD'000*	***KD'000***	*KD'000*	***KD'000***	*KD'000*
Segment assets	**3,077,867**	2,902,745	**816,875**	790,001	**57,550**	60,543	**3,952,292**	3,753,289
Segment liabilities	**2,204,126**	2,166,661	**1,323,285**	1,186,498	**45,213**	47,093	**3,572,624**	3,400,252

17 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

Fair value measurement hierarchy for assets and liabilities as at 30 June 2016 is as follows:

30 June 2016	***Level: 1 KD'000***	***Level: 2 KD'000***	***Level: 3 KD'000***	***Total KD'000***
Assets measured at Fair Value				
Financial assets				
Investments available for sale	**138,853**	**7,069**	**8,983**	**154,905**
Islamic Forward Agreements				
Waad	**-**	**76**	**-**	**76**
	138,853	**7,145**	**8,983**	**154,981**
Liability measured at fair value				
Islamic Forward Agreements				
Waad	**-**	**49**	**-**	**49**
	-	**49**	**-**	**49**

17 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

31 December 2015	*Level: 1* *KD 000*	*Level: 2* *KD 000*	*Level: 3* *KD 000*	*Total* *KD 000*
Assets measured at fair value				
Financial assets				
Investments available for sale	118,934	11,110	8,983	139,027
Islamic Forward Agreements				
Waad	-	591	-	591
	118,934	11,701	8,983	139,618
Liability measured at fair value				
Islamic Forward Agreements				
Waad	-	520	-	520
	-	520	-	520

30 June 2015	*Level: 1* *KD 000*	*Level: 2* *KD 000*	*Level: 3* *KD 000*	*Total* *KD 000*
Assets measured at Fair Value				
Financial assets				
Investments available for sale	126,850	15,194	13,725	155,769
Islamic Forward Agreements				
Waad	-	95	-	95
	126,850	15,289	13,725	155,864
Liability measured at fair value				
Islamic Forward Agreements				
Waad	-	39	-	39
	-	39	-	39

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

Report on the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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.

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

BADER A. AL-WAZZAN
LICENCE NO. 62 A
DELOITTE & TOUCHE
AL WAZZAN & CO.

9 February 2016
Kuwait

ahli united bank

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2015

	Notes	2015 KD 000	2014 KD 000
Financing income	3	120,839	110,693
Distribution to depositors	4	(31,757)	(31,175)
Net financing income		89,082	79,518
Net fees and commission income	5	10,508	10,479
Foreign exchange gains		4,209	4,328
Net gain on sale of investment properties		3,831	-
Net gain on sale of investments		1,365	4,770
Share of results from associate	13	373	326
Other income	6	1,504	1,754
Total operating income		110,872	101,175
Provision and impairment losses	7	(24,779)	(20,089)
Operating income after provisions and impairment losses		86,093	81,086
Staff costs		(20,359)	(19,441)
Depreciation		(2,391)	(2,808)
Other operating expenses		(10,454)	(10,133)
Total operating expenses		(33,204)	(32,382)
PROFIT FROM OPERATIONS		52,889	48,704
Impairment loss on asset held for sale			
Attributable to Bank's equity shareholders	21	(7,928)	-
Attributable to non-controlling interests	21	(7,886)	-
Taxation	8	(2,006)	(2,172)
Directors' remuneration	22	(150)	(122)
Net loss attributable to non-controlling interests		7,886	598
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO Bank's EQUITY SHAREHOLDERS		42,805	47,008
Basic and diluted earnings per share attributable to the Bank's equity shareholders (fils)	9	30.2	33.2

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 KD 000	2014 KD 000
Net profit for the year attributable to the Bank's equity shareholders		42,805	47,008
Net loss for the year attributable to non-controlling interests		(7,886)	(598)
Other comprehensive loss:			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Net movement in cumulative changes in fair values of investments available for sale		(1,219)	(7,127)
Exchange differences on translation of foreign operations		222	192
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(997)	(6,935)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of freehold land	15	483	127
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		483	127
Other comprehensive loss for the year		(514)	(6,808)
Total comprehensive income attributable to Bank's equity Shareholders		42,180	40,513
Total comprehensive loss attributable to Non-controlling interests		(7,775)	(911)
		34,405	39,602

The attached notes 1 to 29 form part of these consolidated financial statements.

ahli united bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 KD 000	2014 KD 000
ASSETS			
Cash and balances with Banks	10	344,455	88,983
Deposits with Central Bank of Kuwait		265,199	345,329
Deposits with other Banks		376,812	421,594
Financing receivables	11	2,680,334	2,480,431
Investments available for sale	12	139,167	150,929
Investment in associate	13	-	9,857
Investment properties	14	29,572	32,842
Premises and equipment	15	30,954	38,973
Other assets and intangibles	16	14,816	27,990
Assets classified as held for sale	21	22,994	-
TOTAL ASSETS		3,904,303	3,596,928
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from Banks and other financial institutions		829,989	756,737
Deposits from customers	17	2,660,629	2,453,757
Other liabilities	18	49,351	47,114
Liabilities directly associated with assets held for sale	21	3,499	-
		3,543,468	3,257,608
EQUITY			
Share capital	19	157,488	143,171
Reserves	19	242,627	227,654
		400,115	370,825
Treasury shares	20	(43,957)	(43,957)
Attributable to Bank's equity shareholders		356,158	326,868
Non-controlling interests		4,677	12,452
		360,835	339,320
TOTAL LIABILITIES AND EQUITY		3,904,303	3,596,928

Dr. Anwar Ali Al-Mudhaf
Chairman

Richard Groves
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

	Attributable to Bank's equity shareholders											
		Reserves										
	Share capital KD 000	Share premium KD 000	Statutory reserve KD 000	General reserve KD 000	Retained earnings KD 000	Cumulative changes in fair values KD 000	Property revaluation reserve KD 000	Treasury shares reserve KD 000	Foreign currency translation reserve KD 000	Total reserves KD 000	Treasury shares KD 000	Non controlling interests KD 000	Total KD 000
Balance as at 1 January 2015	**143,171**	**12,883**	**65,466**	**22,660**	**106,579**	**9,011**	**10,039**	**974**	**42**	**227,654**	**(43,957)**	**12,452**	**339,320**
Profit (loss) for the year	-	-	-	-	42,805	-	-	-	-	42,805	-	(7,886)	34,919
Other comprehensive (loss) income for the year	-	-	-	-	-	(1,219)	483	-	111	(625)	-	111	(514)
Total comprehensive income (loss) for the year	-	-	-	-	42,805	(1,219)	483	-	111	42,180	-	(7,775)	34,405
Transfer on disposal	-	-	-	-	508	-	(508)	-	-	-	-	-	-
Dividend - 2014 (Note 19)	-	-	-	-	(12,890)	-	-	-	-	(12,890)	-	-	(12,890)
Bonus shares issued 2014- (Note 19)	14,317	-	-	-	(14,317)	-	-	-	-	(14,317)	-	-	-
Transfer to reserves (Note 19)	-	-	4,496	-	(4,496)	-	-	-	-	-	-	-	-
Balance as at 31 December 2015	**157,488**	**12,883**	**69,962**	**22,660**	**118,189**	**7,792**	**10,014**	**974**	**153**	**242,627**	**(43,957)**	**4,677**	**360,835**
Balance as at 1 January 2014	130,155	12,883	60,536	22,660	100,954	15,729	9,912	974	(54)	223,594	(43,957)	13,363	323,155
Profit (loss) for the year	-	-	-	-	47,008	-	-	-	-	47,008	-	(598)	46,410
Other comprehensive (loss) income for the year	-	-	-	-	-	(6,718)	127	-	96	(6,495)	-	(313)	(6,808)
Total comprehensive income (loss) for the year	-	-	-	-	47,008	(6,718)	127	-	96	40,513	-	(911)	39,602
Dividend - 2013 (Note 19)	-	-	-	-	(23,437)	-	-	-	-	(23,437)	-	-	(23,437)
Bonus shares issued 2013- (Note 19)	13,016	-	-	-	(13,016)	-	-	-	-	(13,016)	-	-	-
Transfer to reserves (Note 19)	-	-	4,930	-	(4,930)	-	-	-	-	-	-	-	-
Balance as at 31 December 2014	143,171	12,883	65,466	22,660	106,579	9,011	10,039	974	42	227,654	(43,957)	12,452	339,320

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED 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 attributable to the Bank's equity shareholders		42,805	47,008
Net loss for the year attributable to non-controlling interests		(7,886)	(598)
Adjustments for:			
Net gain on sale of investment properties		(3,831)	-
Net gain on sale of investments		(1,365)	(4,770)
Net loss on sale of premises and equipment		21	-
Share of results from associate	13	(373)	(326)
Dividend income	6	(1,115)	(1,346)
Net income from investment properties	6	(373)	(291)
Depreciation		2,391	2,808
Impairment loss on assets held for sale	21	15,814	-
Provision and impairment losses	7	24,779	20,089
Operating profit before changes in operating assets and liabilities		70,867	62,574
Changes in operating assets / liabilities:			
Deposits with Central Bank of Kuwait		40,129	(17,741)
Deposits with other Banks		113,955	(110,002)
Financing receivables		(227,081)	(359,185)
Other assets		1,291	2,078
Deposits from Banks and other financial institutions		73,252	56,332
Deposits from customers		206,872	360,748
Other liabilities		(10)	101
Net cash from (used in) operating activities		279,275	(5,095)
Investing activities			
Purchase of investments available for sale		(229,250)	(123,124)
Sale and redemption of investments available for sale		233,143	37,992
Purchase of investment properties		(3,645)	(196)
Proceeds from sale of investment properties		11,007	-
Sale/(Purchase) of premises and equipment		5,516	(2,303)
Net income from investment properties	6	373	291
Dividend from associate		-	428
Dividend income received	6	1,115	1,346
Net cash from (used in) investing activities		18,259	(85,566)
Financing activities			
Dividends paid to shareholders	19	(12,890)	(23,437)
Net cash used in financing activities		(12,890)	(23,437)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		284,644	(114,098)
Cash and Cash equivalents at 1 January		268,000	382,098
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	552,644	268,000

The attached notes 1 to 29 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

1. INCORPORATION AND ACTIVITIES

Ahli United Bank K.S.C.P. ("the Bank") is a public shareholding company incorporated in Kuwait in 1971 and is listed on the Kuwait Stock Exchange. It is engaged in carrying out Banking activities in accordance with Islamic Shari'ah and is regulated by the Central Bank of Kuwait ("CBK"). Its registered office is at Darwazat Al-Abdul Razzak, P.O. Box 71, Safat 12168, Kuwait.

The Bank commenced operations as an Islamic Bank from 1 April 2010. From that date, all activities are conducted in accordance with Islamic Shari'ah, as approved by the Bank's Fatwa and Shari'ah Supervisory Board.

The Bank is a subsidiary of Ahli United Bank B.S.C., a Bahraini Bank (the "Parent"), listed on the Bahrain and Kuwait Stock Exchanges.

The Bank's principal subsidiary is Kuwait and Middle East Financial Investment Company K.S.C.P. ("KMEFIC"), a company incorporated in the State of Kuwait, listed on the Kuwait Stock Exchange and engaged in investment and portfolio management activities for its own account and for clients. The Bank held 50.18% effective interest in KMEFIC as at 31 December :2014) 2015 50.18%).

The consolidated financial statements comprising the financial statements of the Bank and its subsidiary (the "Group") were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 9 February 2016 and are subject to the approval of the Ordinary General Assembly of the shareholders' of the Bank. The Ordinary General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of investments available for sale, freehold land, Islamic Forward Agreements and assets classified as held for sale.

The consolidated financial statements are presented in Kuwaiti Dinars («KD»), which is also the functional currency of the Bank, rounded to the nearest thousand except when otherwise indicated.

2.2 Statement of compliance

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

The Central Bank of Kuwait and the Bank's Fatwa and Shari'ah Supervisory Board had approved a time frame upto 29 May 2016 to convert all remaining conventional investments and products of the Group to be vi'ah compliant.

2.3 Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of the following new or amended IFRS applicable to the Group.

IFRS 3 Business Combinations (Amendment)

The amendment is applied prospectively for annual periods beginning on or after 1 January 2015 and clarify that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies (continued)

IFRS 8 Operating Segments (Amendment)

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2015 and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria and, thus, this amendment did not impact the Group's accounting policy.

IAS 24 Related Party Disclosures (Amendment)

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any material management services from other entities.

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 Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property (Amendment)

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.

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

2.4 New and revised IASB Standards, but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group 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 Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

IFRS 15 – Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group do not expect any significant impact on adoption of this standard.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in consolidated statement of profit or loss. Any investment retained is recognised at fair value.

2.6 Financial instruments

Classification

As per IAS 39, the Group classifies its financial instruments as "investments at fair value through profit or loss", "loans and receivables", "investments available for sale" or "financial liability other than at fair value through profit or loss". Management determines the appropriate classification of each instrument at the time of acquisition.

(i) Investments at fair value through profit or loss

These are financial assets that are either financial assets held for trading or those designated as investments at fair value through profit or loss upon initial recognition. A financial asset is classified in this category only if they are acquired principally for the purpose of generating profit from short-term fluctuation in price or if so designated by the management in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis. This includes all derivative financial instruments, other than those designated as effective hedging instruments.

(ii)Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash and balances with Banks, deposits with Central Bank of Kuwait, deposits with other Banks, financing receivables, and certain other assets are classified as "loans and receivables.

On conversion to an Islamic Bank, the Bank offers Shari'ah compliant products and services such as Murabaha, Musawamah, Wakala and Ijara.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

Murabaha is the sale of commodities, real estate and certain other assets at cost plus an agreed profit mark-up whereby the seller informs the purchaser of the cost of the product purchased and the amount of profit to be recognized.

Musawamah is an agreement under which negotiations between a buyer and a seller preclude the disclosure of sellers cost.

Wakala is an agreement whereby the Group provides a sum of money to a customer under an agency arrangement, 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.

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 instalments. Ijara could end by transferring the ownership of the asset to the lessee.

(iii)Investments available for sale

These are financial assets either designated as "available for sale" or are not classified as fair value through profit or loss, loans and receivables, and held to maturity.

(iv)Financial liabilities other than at fair value through profit or loss

Financial liabilities which are not held for trading are classified as "other than at fair value through profit or loss". Deposits from Banks and other financial institutions, deposits from customers and certain other liabilities are classified as "financial liabilities other than at fair value through profit or loss".

Financial liabilities include depositors' accounts created by Murabaha, Mudaraba and Wakala contracts.

Recognition and de-recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of profit or loss or in the consolidated statement of profit or loss and other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (in whole or in part) is derecognised either when: (i) the contractual rights to receive the cash flows from the asset have expired or (ii) the Group has retained its 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 (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2015

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

Measurement

All financial assets and liabilities are initially measured at fair value of the consideration given plus transaction costs except for financial assets classified as investments at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

On subsequent measurement financial assets classified as “investments at fair value through profit or loss” are measured and carried at fair value. Realised and unrealised gains / losses arising from changes in fair value are included in the consolidated statement of profit or loss. “Loans and receivables” are carried at amortised cost using effective yield method, less any provision for impairment. Those classified as “investments available for sale” are subsequently measured at fair value until the investment is sold or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated statement of profit or loss for the year.

“Financial liabilities other than at fair value through profit or loss” are subsequently measured at amortised cost.

Impairment of financial assets

At each reporting date, the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired, if and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence exists, the asset or group of financial assets is written down to its recoverable amount. The recoverable amount of a profit-bearing instrument is estimated based on the net present value of future cash flows discounted at original profit rates, and of equity instrument is determined with reference to market rates or appropriate valuation models. For variable profit rate bearing instruments, the net present value of future cash flows is discounted at the current effective profit rate determined under the contract.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of impairment loss is recognised in the consolidated statement of profit or loss.

The Group assesses whether objective evidence of impairment exists on an individual basis for each individually significant financing and collectively for others. The main criteria that the Group uses to determine that there is objective evidence of impairment includes whether any payment of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty’s business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral, Bankruptcy, other financial reorganization, and economical or legal reasons. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

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

Financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the “Provision for impairment” in the consolidated statement of profit or loss.

For equity instruments classified as investments available for sale, impairment losses are not reversed through the consolidated statement of profit or loss; any increase in the fair value subsequent to the recognition of impairment loss, is recognised in the consolidated statement of profit or loss and other comprehensive income. For Sukuk classified as investments available for sale, if in a subsequent year, the fair value of the Sukuk increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss; the impairment loss is reversed through the consolidated statement of profit or loss.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
2.6 Financial instruments (continued)

General provision
In accordance with the Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically. In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non-cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral during the reporting period.

The minimum general provision in excess of the present 1% for cash facilities and 0.5% for non-cash facilities is retained as a general provision until further directives from the CBK.

Fair values 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 to by the Group.

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 — Quoted (unadjusted) market 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 and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

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.

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

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Financial instruments (continued)

Fair values measurement (continued)

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

Offsetting

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

2.7 Islamic Forward Agreements

Islamic Forward Agreements are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

In the ordinary course of business, the Group enters into various types of transactions that involve financial instruments represented in forward foreign exchange agreements (Waad) to mitigate foreign currency risk. A Waad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Shari'ah.

The notional amount, disclosed gross, is the amount of a Waad's underlying asset/ liability and is the basis upon which changes in the value of Waad's are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For those contracts classified as cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in fair value reserve are transferred to the consolidated statement of profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is amortized in the consolidated statement of profit or loss on a straight line basis over the life of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium received and the best estimate of net cash flow required to settle any financial obligation arising as a result of the guarantee.

2.9 Renegotiated financing receivables

Where considered appropriate, the Group seeks to restructure past due financing receivables. This may involve extending the payment arrangements and the agreement of new financing conditions including enhancing collateral position. Management continuously reviews renegotiated financing receivables, if any, to ensure that all criteria are met and that future payments are likely to occur. Once the terms have been renegotiated, the facility is neither considered past due nor impaired.

2.10 Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, the investment in associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of profit or loss and other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit attributable to equity holders of an associate is shown on the face of the consolidated statement of profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of profit or loss.

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

2.11 Investment properties

Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the Group are classified as investment properties.

Investment properties are measured at cost less accumulated depreciation (based on an estimated useful life of forty years using the straight line method) and accumulated impairment.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the period of retirement or when sale is completed.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Investment properties (continued)

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The fair value measurement 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.

2.12 Premises and equipment

Freehold land is initially recognised at cost and not depreciated. After initial recognition freehold land is carried at the revalued amount, which is the fair value at the date of revaluation. The revaluation is carried out periodically by professional property evaluators. The resultant revaluation surplus or deficit is recognised in the consolidated statement of profit or loss and other comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised revaluation surplus is recognised in the consolidated statement of profit or loss. To the extent that a revaluation surplus reverses a revaluation decrease previously recognised in the consolidated statement of profit or loss, the increase is recognised in the consolidated statement of profit or loss. Upon disposal, the revaluation reserve relating to the freehold land sold is transferred to retained earnings.

Buildings, other premises and equipment are stated at cost, less accumulated depreciation and impairment losses if any. Depreciation of buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	40 to 45 years
Other premises and equipment	2 to 5 years

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

Expenditure incurred to replace a component of an item of premises and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of premises and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

2.13 Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Group is committed to a sale plan, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell unless the items presented in the disposal group are not part of the measurement scope as defined in IFRS 5 Non-current Assets held for Sale and Discontinued Operations.

2.14 Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with indefinite useful lives are not amortised but are tested annually for impairment and adjusted for the same, if any.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates 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.

2.16 End of service indemnity

Provision is made for employees' end of service indemnity in accordance with the local laws based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the reporting date.

2.17 Treasury shares

Treasury shares consist of the Bank's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the general reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, treasury shares reserve account and retained earnings. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.18 Cash and cash equivalents

Cash and cash equivalents include cash and balances with Central Bank of Kuwait, deposits with Banks with original maturity not exceeding seven days.

2.19 Revenue recognition

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

(i) Financing income

For all financial instruments measured at amortised cost, profit bearing financial assets classified as available for-sale, financing income is recorded using the effective profit rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

Once a financial instrument categorised as "loans and receivables" is written down to its estimated recoverable amount, related income is thereafter recognised on the unimpaired portion based on the original effective profit rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Revenue recognition (continued)

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time are accrued over that period

Fee income arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income is recognised when right to receive payment is established.

(iv) Rental income is recognised on an accrual basis.

2.20 Taxation

National Labour Support Tax (NLST)

The Bank calculates NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions 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 have been 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 Board of Directors' remuneration and 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 Law No. 46 of 2006 and the Ministry of Finance resolution No. 2007/58 effective from 10 December 2007.

2.21 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.

2.22 Foreign currency

Foreign currency transactions are recorded at the rate of exchange prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currencies outstanding at the year-end are translated into Kuwaiti Dinars at the rates of exchange prevailing at reporting date. Any resultant gains or losses are taken to the consolidated statement of profit or loss.

Non-monetary items 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. Translation difference on non-monetary investments at fair value through profit or loss are reported as part of the fair value gain or loss in the consolidated statement of profit or loss, whilst those for available for sale non-monetary assets are included in the consolidated statement of profit or loss and other comprehensive income, unless it is part of an effective hedging strategy, using exchange rates when the fair value was determined.

Translation differences arising on net investments in foreign operations are taken to the consolidated statement of profit or loss and other comprehensive income.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

2.24 Contingencies

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

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. Provisions for contingent liabilities are recognized when the outflow of resources is probable.

2.25 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

2.26 Significant accounting judgement, estimates and assumptions

The preparation of consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as the fair value changes reported in other comprehensive income.

Judgements are made in the classification of financial instruments based on management's intention at acquisition, i.e. whether it should be classified as financial assets at fair value through profit or loss or available for sale. In making these judgements, the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance.

Such judgements also determine whether the financial instruments are subsequently measured at amortised cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of profit or loss or directly in equity. Judgements are also made in determination of the objective evidence that a financial asset is impaired. The Group treats investments available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

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

In accordance with the accounting principles contained in the International Financial Reporting Standards, management is required to make estimates and assumptions that may affect the carrying values of financing receivables, unquoted equity instruments classified as investments available for sale and intangible assets.

Estimates are made regarding the amount and timing of future cash flows when measuring the level of provisions required for non-performing financing receivables as well as for impairment provisions for investments available for sale and intangible assets. Estimates are also made in determining the useful lives of buildings and other premises and equipment and fair values of financial assets and derivatives that are not quoted in an active market.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
2.26 Significant accounting judgement, estimates and assumptions (continued)

Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such provisions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying amounts of financing receivables, unquoted instruments classified as investments available for sale and intangible assets for the year.

3. FINANCING INCOME

Financing income includes interest income amounting to KD 323 thousand (2014: KD 95 thousand) received from non-converted loans and advances granted before conversion to an Islamic Bank, which represents 0.3% (2014: 0.1%) of the total financing income. Treatment of interest income is subject to resolutions of the Bank's Fatwa and Shari'ah Supervisory Board.

4. DISTRIBUTION TO DEPOSITORS

The Board of Directors of the Bank determines and distributes the depositors' share of profit based on the Bank's results at the end of each quarter.

5. NET FEES AND COMMISSION INCOME

	2015 KD 000	2014 KD 000
Investment management fees	1,823	2,054
Credit related fees and commission	9,271	8,476
Brokerage fees	961	1,462
Total fees and commission income	12,055	11,992
Fees and commission expense	(1,547)	(1,513)
Net fees and commission income	10,508	10,479

6. OTHER INCOME

	2015 KD 000	2014 KD 000
Dividend income	1,115	1,346
Net income from investment properties	373	291
Other income	16	117
	1,504	1,754

7. PROVISION AND IMPAIRMENT LOSSES

	2015 KD 000	2014 KD 000
Financing receivables (Note 11)	**25,185**	45,161
Recoveries from written off financing receivables	**(2,343)**	(25,485)
Non-cash credit facilities (Note 11)	**318**	(1,941)
Investments available for sale	**1,593**	1,463
Investment properties (Note 14)	**(157)**	1,100
Others	**183**	(209)
	24,779	20,089

8. TAXATION

	2015 KD 000	2014 KD 000
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**412**	450
National Labour Support Tax (NLST)	**1,145**	1,235
Zakat	**449**	487
	2,006	2,172

9. BASIC AND DILUTED EARNINGS PER SHARE

	2015	2014
Profit for the year attributable to the Bank's equity shareholders (KD 000)	**42,805**	47,008
Weighted average number of shares outstanding during the year	**1,417,938,093**	1,417,938,093
Basic and diluted earnings per share attributable to the Bank's equity shareholders (fils)	**30.2**	33.2

The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares as follows:

	2015	2014
Weighted average number of Bank's issued and paid up shares	**1,574,880,475**	1,574,880,475
Less: Weighted average number of treasury shares	**(156,942,382)**	(156,942,382)
	1,417,938,093	1,417,938,093

Earnings per share was 36.5 fils for the year ended 31 December 2014 before retroactive adjustment to the number of shares following the bonus issue (Note 19).

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

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows consists of the following:

	2015 KD 000	2014 KD 000
Cash and balances with Banks	344,455	88,983
Deposits with Central Banks and other Banks -with an original maturity of seven days or less	208,189	179,017
	552,644	268,000

11. FINANCING RECEIVABLES

Financing receivables comprise Islamic Shari'ah compliant facilities extended to the customers of the Bank in the form of financing contracts. Wherever necessary, financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk.

Financing receivables include loans and advances carried forward from prior periods before conversion to an Islamic Bank amounting to KD 2,008 thousand (2014: KD 3,982 thousand) which represents 0.1% (2014: 0.2%) of net financing receivables. The Bank is in the process of converting these facilities to comply with Islamic Shari'ah.

The movement in provision for impairment of financing receivables by class of financial assets is as follows:

	Retail financing	Commercial financing	Total
	KD 000	KD 000	KD 000
At 1 January 2015	10,486	78,952	89,438
Charge for the year (Note 7)	2,846	22,339	25,185
Amounts written off	(3,734)	(10,500)	(14,234)
Transferred to assets classified as held for sale	-	(3,512)	(3,512)
At 31 December 2015	9,598	87,279	96,877
At 1 January 2014	9,247	77,594	86,841
Charge for the year (Note 7)	4,670	40,491	45,161
Amounts written off	(3,431)	(39,133)	(42,564)
At 31 December 2014	10,486	78,952	89,438

As at 31 December 2015, non-performing financing receivables on which income has been suspended from recognition amounted to KD 67,993 thousand (2014: KD 76,038 thousand).

The available specific provision on cash facilities is KD 10,456 thousand (2014: KD 13,362 thousand).

The provision charge/(recovery) for the year on non-cash facilities is KD 318 thousand [(2014: KD 1,941 thousand)]. The available provision on non-cash facilities of KD 6,058 thousand (2014: KD 5,740 thousand) is included in other liabilities (Note 18).
The policy of the Group for calculation of the impairment provision for financing receivables complies in all material respects with the provision requirements of Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities has been made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

12. INVESTMENTS AVAILABLE FOR SALE

	2015 KD 000	2014 KD 000
Sukuk	121,809	114,197
Equity securities and funds		
- Quoted	4,572	12,587
- Unquoted	12,786	24,145
	139,167	150,929

Investments available for sale include unquoted equity instruments carried at cost of KD 140 thousand (2014: KD 140 thousand).

13. INVESTMENT IN AN ASSOCIATE

The Group has 30% (2014: 30%) interest in Middle East Financial Investment Company, an unquoted company incorporated in Kingdom of Saudi Arabia engaged in investment activities.

The share in assets, liabilities and results of the associate for the year ended is as follows:

	2015 KD 000	2014 KD 000
Share of associate's statement of financial position:		
Current assets	3,763	3,941
Non-current assets	7,165	6,412
Non-current assets		
Current liabilities	(403)	(307)
Non-current liabilities	(66)	(189)
Transferred to assets classified as held for sale (Note 21)	(10,459)	-
Net assets	-	9,857
Share of associate's results:		
Operating income	667	498
Profit for the year	373	326

14. INVESTMENT PROPERTIES

These represents properties acquired by the Group and is recognized at cost. Investment properties were revalued by independent valuers using market comparable approach that reflects recent transaction prices for similar properties and is therefore classified under level 2 of the fair value hierarchy. In estimating the fair value of investment properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The fair value of the investment properties at the reporting date is KD 33,069 thousand (2014: KD 36,911 thousand)

Movement for the year is as follows:

	2015 KD 000	2014 KD 000
At 1 January	32,842	33,906
Addition	3,205	196
Disposals	(6,474)	-
Reversal of impairment/(charge)	157	(1,100)
Depreciation charged for the year	(158)	(160)
At 31 December	29,572	32,842

15. PREMISES AND EQUIPMENT

Premises and equipment includes a revaluation increase of KD 483 thousand (2014: increase of KD 127 thousand) in the value of freehold land based on valuations determined by independent valuation experts. Freehold land was revalued by independent valuers using significant valuation inputs based on observable market data and is classified under level 2 of the fair value hierarchy.

16. OTHER ASSETS AND INTANGIBLES

	2015 KD 000	2014 KD 000
Financing profit receivable	8,982	5,443
Stock exchange brokerage licence	-	12,500
Positive fair value of Islamic Forward Agreements (Note 24)	591	146
Others	5,243	9,901
	14,816	27,990

Stock exchange brokerage license is classified as intangible asset with an indefinite life and is transferred to assets classified as held for sale (Note 21).

17. DEPOSITS FROM CUSTOMERS

Depositors' accounts are deposits received from customers under current account, saving investment accounts, and fixed term investments accounts. The depositors' accounts of the Bank comprise the following:

(i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hassan from depositors to the Bank under Islamic Shari'ah. Investing such Qard Hassan is made at the discretion of the Board of Directors of the Bank, the results of which are attributable to the equity shareholders of the Bank.

(ii) Investment deposit accounts include savings accounts, fixed term deposit accounts, and open term deposit accounts.

Saving Investment Accounts
These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time.

Fixed-Term Deposit Investment Accounts
These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits mature monthly, quarterly, semi-annually, or annually.

Open –Term Deposit Investment Accounts
These are open-term deposits and are treated as annual deposits renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit.

Funds utilized in investments for each investment deposit are computed using ratios identified in the contracts for opening of these accounts with clients. The Bank guarantees to pay the remaining un-invested portion of these investment deposits. Accordingly, this portion is considered Qard Hassan from depositors to the Bank, on the grounds of Islamic Shari'ah.

The fair values of deposits from customers do not differ significantly from their carrying values.

18. OTHER LIABILITIES

	2015 KD 000	2014 KD 000
Depositors' profit share payable	9,605	9,509
Provision for staff indemnity and passage	3,196	4,783
Provision for non-cash credit facilities (Note 11)	6,058	5,740
Negative fair value of Islamic Forward Agreements (Note 24)	520	493
Account payables, accruals and others	29,972	26,589
	49,351	47,114

19. EQUITY

i) The authorised, issued and fully paid share capital as at 31 December 2015 comprises 1,574,880,475 ordinary shares (31 December 2014: 1,431,709,523 shares) of 100 fils each.

ii) The Board of Directors of the Bank has proposed bonus shares of 10 % (2014: bonus shares of 10%) and cash dividend of 5% amounting to 5 fils per share (2014: 10 fils). The proposed bonus shares are subject to the approval of the shareholders at the Bank's Annual General Assembly. The bonus shares for the year ended 31 December 2014 were approved by the Bank's Annual General Assembly held on 29 March 2015.

iii) The Bank is required by the Companies' Law and the Bank's Articles of Association to transfer 10% of the profit for the year attributable to the Bank's equity shareholders before KFAS, NLST, Zakat and Directors' remuneration to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the statutory reserve equals 50% of the paid up share capital. The Bank has transferred KD 4,496 thousand (2014: KD 4,930 thousand) to statutory reserve. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of up to 5% of share capital in years when retained earnings are not sufficient for the payment of such dividend.

iv) The Articles of Association of the Bank requires that an amount of not less than 10% of the profit for the year attributable to the Bank's equity shareholders before KFAS, NLST, Zakat and Directors' remuneration should be transferred annually to a general reserve account. The Board of Directors have resolved to discontinue such transfer from the year ended 31 December 2007 onwards, which was approved by the shareholders at the Bank's Annual General Assembly on 6 March 2008. General reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank.

v) The balances of share premium and treasury shares reserve are not available for distribution. The balance in the property revaluation reserve is not available for distribution unless the relevant assets are derecognised.

The cost of the Bank's own shares purchased, including directly attributable costs, is recognised in equity. In accordance with the instructions of the Central Bank of Kuwait and Annual General Assembly the Bank may purchase treasury shares up to 10% of its paid up share capital.

20. TREASURY SHARES

There was no purchase or sale of treasury shares during the current year.

	2015	2014
Number of treasury shares	156,942,382	142,674,893
Treasury shares as a percentage of total shares issued	9.97 %	9.97%
Cost of treasury shares (KD 000)	43,957	43,957
Market value of treasury shares (KD 000)	81,610	88,458

Amount equivalent to cost of treasury shares has been retained out of reserves as non-distributable throughout the holding period of the treasury shares.

21. ASSETS HELD FOR SALE

The board of directors of the Bank on December 2015 approved to sell its entire equity interest in a non-converted asset and recorded this as assets held for sale as per IFRS 5.

The major classes of assets of the non-converted asset held for sale comprises of investments and liabilities comprise of accruals. The non-controlling interest disclosed in statement of Financial position relates to the asset held for sale.

Fair value less cost to sell for asset classified as held for sale is lower than the carrying amount of the related assets and liabilities and therefore Group has recorded an impairment provision against the assets held for sale as at 31 December 2015 and the amount attributable to non-controlling interests is KD 7,886 thousand.Net assets classified as held for sale is after impairment provision and inter-group eliminations.

22. TRANSACTIONS WITH RELATED PARTIES

The Group enters into transactions with the parent, associate, major shareholders, directors and key management, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business. The terms of these transactions are approved by the Group's management.

The year -end balances and transactions included in the consolidated financial statements are as follows:

	Number of directors and executive officers		Number of parties related to directors and executive officers		Amount	
	2015	2014	**2015**	2014	**2015**	2014
					KD 000	KD 000
Directors						
Financing receivables	**-**	1	**1**	3	**7,425**	7,993
Deposits from customers	**2**	3	**1**	4	**222**	1,059
Commitments and contingent liabilities	**-**	1	**1**	2	**3,799**	3,982
Key management						
Financing receivables	**1**	2	**1**	1	**138**	112
Credit Cards	**10**	11	**1**	1	**52**	64
Deposits from customers	**11**	11	**2**	2	**1,062**	1,049

	2015 KD 000		2014 KD 000	
	Parent	**Other related parties**	Parent	Other related parties
Deposits with other Banks	**90,165**	**18,546**	76,221	19,422
Deposits from Banks and other financial institutions	**54,917**	**322,024**	12,375	351,634
Commitments and contingent liabilities	**36,832**	**2,700**	34,357	2,382
Islamic Forward Agreements	**14,156**	**-**	4,291	266
Transactions				
Financing income	**301**	**224**	465	480
Distribution to depositors	**116**	**4,888**	94	4,126

	2015 KD 000	2014 KD 000
Directors:		
Board of Directors' remuneration	**150**	122
Key management compensation:		
Salaries and other short term benefits	**2,191**	1,599
Post-employment benefits	**248**	241
	2,589	1,962

Board of Directors' remuneration is subject to approval of shareholders in the Annual General Assembly.

23. COMMITMENTS AND CONTINGENT LIABILITIES

a) Credit- related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Group's customers.

Letters of credit (including standby letters of credit), guarantees and acceptances commit the Group to make payments on behalf of customers upon failure of the customers to perform under the terms of the contract.

Commitment to extend credit represents contractual commitments to financing and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The Group has the following credit related commitments:

	2015 KD 000	2014 KD 000
Acceptances	19,276	16,800
Letters of credit	91,806	117,720
Guarantees	388,919	339,093
	500,001	473,613

Irrevocable credit commitments to extend credit at the reporting date amounted to KD 8,237 thousand (2014: KD 11,287 thousand).

b) Capital commitment

The capital commitment for purchase of assets as at 31 December 2015 is KD 1,497 thousand (2014: KD 1,425 thousand).

24. ISLAMIC FORWARD AGREEMENT

In the ordinary course of business, the Bank enters into various types of transactions that involve financial instruments represented in forward foreign exchange agreements (Waad) to mitigate foreign currency risk. A Waad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Shari'ah.

The notional amount, disclosed gross, is the amount of a Waad's underlying asset/ liability and is the basis upon which changes in the value of Waad's are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

The table below shows the fair value and notional amounts of the Waad transactions:

	Assets (Positive)	Liabilities (Negative)	Less than 1 month	1 to 3 months	3 to 12 months	Total
	KD 000	KD 000	KD 000	KD 000	KD 000	KD 000
2015	591	520	13,294	55,886	2,337	71,517
2014	146	493	15,844	5,243	30,693	51,780

Most of the Group's Islamic Forward Agreement relate to deals with customers, which are normally matched by entering into reciprocal deals with counterparties.

25. FAIR VALUES MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

Fair value measurement hierarchy for assets and liabilities as at 31 December 2015 is as follows:

	Level: 1 KD 000	Level KD 000	Level: 3 KD 000	Total KD 000
2015				
Assets measured at fair value				
Financial assets				
Investments available for sale	118,934	11,110	8,983	139,027
Islamic Forward Agreements				
Waad	-	591	-	591
	118,934	11,701	8,983	139,618
Liability measured at fair value				
Islamic Forward Agreements				
Waad	-	520	-	520
	-	520	-	520
2014				
Assets measured at fair value				
Financial assets				
Investments available for sale	122,791	15,118	12,880	150,789
Islamic Forward Agreements				
Waad	-	146	-	146
	122,791	15,264	12,880	150,935
Liability measured at fair value				
Islamic Forward Agreements				
Waad	-	493	-	493
	-	493	-	493

Investments classified under level 1 are valued based on the quoted bid price. Equity securities and funds classified under level 2 are valued based on market multiples and declared NAV's. Equity securities and funds classified under level 3 are valued based on discounted cash flows and dividend discount models. The movement in level 3 is mainly on account of transfer to assets held for sale.

The significant inputs for valuation of equity securities classified under level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value.

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5 per cent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

Other financial assets and liabilities are carried at amortized cost and the carrying values 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 interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using based on discounted cash flows, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summaries the maturity profile of the Group's assets and liabilities analysed according to remaining contractual maturity:

2015	Up to 3 months	3 to 12 months	Over 1 year	Total
ASSETS				
Cash and balances with Banks	344,455	-	-	344,455
Deposits with Central Bank of Kuwait	150,406	114,793	-	265,199
Deposits with other Banks	376,812	-	-	376,812
Financing receivables	1,460,320	627,310	592,704	2,680,334
Investments available for sale	70,561	7,167	61,439	139,167
Investment properties	-	-	29,572	29,572
Premises and equipment	-	-	30,954	30,954
Other assets and intangibles	13,248	1,556	12	14,816
Assets classified as held for sale	-	22,994	-	22,994
TOTAL ASSETS	2,415,802	773,820	714,681	3,904,303
LIABILITIES				
Deposits from Banks and other financial Institutions	633,862	170,814	25,313	829,989
Deposits from customers	2,142,583	500,555	17,491	2,660,629
Other liabilities	40,024	7,394	1,933	49,351
Liabilities directly associated with assets held for sale	-	3,499	-	3,499
TOTAL LIABILITIES	2,816,469	682,262	44,737	3,543,468
NET LIQUIDITY GAP	(400,667)	91,558	669,944	360,835
2014				
ASSETS				
Cash and balances with Banks	88,983	-	-	88,983
Deposits with Central Bank of Kuwait	208,714	136,615	-	345,329
Deposits with other Banks	421,594	-	-	421,594
Financing receivables	1,492,673	433,951	553,807	2,480,431
Investments available for sale	69,426	8,438	73,065	150,929
Investment in associate	-	-	9,857	9,857
Investment properties	-	-	32,842	32,842
Premises and equipment	-	-	38,973	38,973
Other assets and intangibles	10,980	1,670	15,340	27,990
Total assets	2,292,370	580,674	723,884	3,596,928
LIABILITIES				
Deposits from Banks and other financial Institutions	547,230	209,507	-	756,737
Deposits from customers	1,906,562	542,051	5,144	2,453,757
Other liabilities	29,180	9,703	8,231	47,114
Total liabilities	2,482,972	761,261	13,375	3,257,608
Net liquidity gap	(190,602)	(180,587)	710,509	339,320

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

STRATEGY IN USING FINANCIAL INSTRUMENTS

As an Islamic commercial Bank, the Bank's activities are principally related to the sourcing of funds through Shari'ah compliant financial instruments, within the guidelines prescribed by the Central Bank of Kuwait (CBK) and deploying these funds in Shari'ah compliant financing and investment activities, to earn a profit. The profit is shared between the shareholders and profit sharing deposit account holders, as per the Bank's policies approved by the Board of Directors and Fatwa and Shari'ah Supervisory Board. The funds raised vary in maturity between short and long term and are mainly in Kuwaiti Dinars, apart from major foreign currencies and GCC currencies. While deploying the funds, the Bank focuses on the safety of the funds and maintaining sufficient liquidity to meet all claims that may fall due. Safety of shareholder and depositor funds is further enhanced by diversification of financing activities across economic and geographic sectors, and types of financed parties.

RISK MANAGEMENT

The use of financial instruments also brings with it associated inherent risks. The Group recognises the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the Group's strategic objectives.

The strategy of the Group is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Group's major risk-based lines of business. The Group continuously reviews its risk management policies and practices to ensure that it is not subject to large asset valuation and earnings volatility.

Group's objectives, policies and process for managing its risk are explained in detail in the Pillar 3 disclosures of the Annual Report. The following sections describe the several risks inherent in the Banking process, their nature, techniques used to minimise the risks, their significance and impact on profit and loss and equity due to future expected changes in market conditions.

A. 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. The Group attempts to control risk by monitoring credit exposures, limiting transactions with reputable counterparties, and continually assessing the creditworthiness of counterparties.

Concentration 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.

Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments, affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains collateral, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained include charges over Bank deposits and balances, listed securities acceptable to the Group, real estate, plant and equipment, inventory and trade receivables.

Management monitors the market value of collateral on a daily basis for quoted shares and periodically for others, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
As at 31 December 2015

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)
RISK MANAGEMENT (CONTINUED)
A. CREDIT RISK (CONTINUED)

The table below shows the net maximum exposure net of provision to credit risk for the components of the statement of financial position and off-balance sheet items without taking account of any collateral and other credit enhancements.

	Net maximum exposure 2015 KD 000	Net maximum exposure 2014 KD 000
Credit risk exposures relating to consolidated statement of financial position items:		
Balances with Banks	328,339	73,060
Deposits with the Central Bank of Kuwait	265,199	345,329
Deposits with other Banks	376,812	421,594
Financing receivables	2,680,334	2,480,431
Investments available for sale	121,809	114,197
Other assets	13,620	11,603
Assets classified as held for sale	2,937	-
	3,789,050	3,446,214
Credit risk exposures relating to off - balance sheet items: (Note 23a)		
Acceptances, letters of credit, and guarantees	500,001	473,613
Irrevocable credit commitments	8,237	11,287
	508,238	484,900

The gross maximum credit exposure to a single client or counterparty as of 31 December 2015 was KD 45,559 thousand (2014: KD 40,518 thousand) and credit exposure net of eligible collateral to the same counterparty Nil (2014: Nil).

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (CONTINUED)

Geographical and industry-wise concentration of assets and off balance sheet items are as follows:

	Assets representing credit risk	Commitments Representing credit risk
2015		
Geographic region:	**KD 000**	**KD 000**
Kuwait	**3,149,594**	**389,335**
Other GCC	**288,612**	**86,840**
Europe	**46,158**	**17,926**
North America	**233,719**	**1,314**
Other countries	**70,967**	**12,823**
	3,789,050	**508,238**
Industry sector:		
Trading and manufacturing	**522,821**	**185,603**
Banks and financial institutions	**1,156,529**	**109,456**
Construction and real estate	**1,331,914**	**148,440**
Other	**777,786**	**64,739**
	3,789,050	**508,238**
2014		
Geographic region:		
Kuwait	3,063,525	368,768
Other GCC	229,954	86,518
Europe	29,131	8,359
North America	59,450	1,481
Other countries	64,154	19,774
	3,446,214	484,900
Industry sector:		
Trading and manufacturing	478,842	187,118
Banks and financial institutions	1,011,886	102,914
Construction and real estate	1,273,177	134,863
Other	682,309	60,005
	3,446,214	484,900

Credit quality of the financial assets is managed by the Group with a combination of external and internal ratings mechanism. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The credit quality of class of assets with underlying credit risks are as follows:

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)
RISK MANAGEMENT (CONTINUED)
A. CREDIT RISK (CONTINUED)

Neither past due nor impaired	(KD 000)			
2015	**High grade**	**Standard grade**	**Closely monitored**	**Total**
Balances with Banks	328,339	-	-	328,339
Deposits with Central Bank of Kuwait	265,199	-	-	265,199
Deposits with other Banks	376,812	-	-	376,812
Financing receivables	2,412,617	120,167	66,280	2,599,064
Investments available for sale	121,809	-	-	121,809
Other assets	13,620	-	-	13,620
Assets classified as held for sale	-	2,937	-	2,937
	3,518,396	123,104	66,280	3,707,780
2014				
Balances with Banks	73,060	-	-	73,060
Deposits with Central Bank of Kuwait	345,329	-	-	345,329
Deposits with other Banks	421,594	-	-	421,594
Financing receivables	2,240,104	150,573	11,343	2,402,020
Investments available for sale	114,197	-	-	114,197
Other assets	11,603	-	-	11,603
	3,205,887	150,573	11,343	3,367,803

Financial assets by class that are past due but not impaired:	Past due up to 60 days	Past due 61 to 90 days	Total
2015	KD 000	KD 000	KD 000
Financing receivables			
-Retail financing	19,625	2,736	22,361
-Commercial financing	1,372	-	1,372
	20,997	2,736	23,733
Fair value of collateral			5,794
2014			
Financing receivables			
-Retail financing	14,431	811	15,242
-Commercial financing	493	-	493
	14,924	811	15,735
Fair value of collateral			12,937

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (CONTINUED)

Financial assets by class that are impaired:	Gross exposure	Impairment provision	Fair value of collateral
2015			
Financing receivables			
-Retail financing	5,413	1,905	-
-Commercial financing	62,580	8,551	109,215
	67,993	10,456	109,215
2014			
Financing receivables			
-Retail financing	9,917	2,107	-
-Commercial financing	66,121	11,255	125,118
	76,038	13,362	125,118

The factors the Group considered in determining impairment are disclosed in Note 2 - Significant accounting policies.

Renegotiated financing receivables:

The Group has not renegotiated any financial asset in 2014) 2015: Nil) that would otherwise be past due or impaired.

B. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can also be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents, and readily marketable securities.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations including profit share. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment earlier than the contractual date and the table also does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Over 5 years KD 000	Total KD 000
2015						
Deposits from Banks and other financial institutions	521,290	112,899	172,199	25,922	-	832,310
Deposits from customers	1,207,010	938,135	504,562	17,640	-	2,667,347
Other liabilities	25,342	14,682	7,394	1,933	-	49,351
Liabilities directly associated with assets held for sale	-	-	3,499	-	-	3,499
	1,753,642	1,065,716	687,654	45,495	-	3,552,507

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

B. LIQUIDITY RISK (CONTINUED)

Analysis of financial liabilities by remaining contractual maturities (continued)

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Over 5 years KD 000	Total KD 000
2014						
Deposits from Banks and other financial institutions	312,926	234,726	211,775	-	-	759,427
Deposits from customers	1,257,466	651,073	545,317	5,147	-	2,459,003
Other liabilities	26,543	2,637	9,703	8,231	-	47,114
	1,596,935	888,436	766,795	13,378	-	3,265,544

The table below shows the contractual expiry by maturity of the Group's credit related contingent liabilities and commitments as disclosed in Note 23:

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Over 5 years KD 000	Total KD 000
2015						
Credit related contingent liabilities	**20,752**	**65,448**	**210,422**	**196,979**	**6,400**	**500,001**
Irrevocable credit commitments	**-**	**-**	**-**	**37**	**8,200**	**8,237**
	20,752	**65,448**	**210,422**	**197,016**	**14,600**	**508,238**
2014						
Credit related contingent liabilities	12,472	56,705	234,132	166,479	3,825	473,613
Irrevocable credit commitments	-	-	-	-	11,287	11,287
	12,472	56,705	234,132	166,479	15,112	484,900

C. MARKET RISK

The Group defines market risk as the uncertainty in future earnings on the Group's on and off balance sheet positions resulting from changes in market variables such as interest rate risk, currency risk and equity price risk.

C.1 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the underlying financial instruments. The Group is not exposed to interest rate risk since in accordance with Islamic Shari'ah the Bank does not charge interest except on non-converted loans and advances. The sensitivity of net interest income for one year on these loans is not considered to be significant.

Changes in interest rates may, however affect the fair value of financial assets available for sale. Change in the interest rates by 25 basis point, with all other variables held constant will affect the equity by KD 301 thousand (2014: KD 384 thousand).

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

C. MARKET RISK (CONTINUED)

C.2 CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The Group had the following net exposures denominated in foreign currencies.

The effect on profit before tax, as a result of change in currency rate, with all other variables held constant is shown below:

		Effect on profit before tax	
Currency	Change in currency rate in %	2015 KD 000	2014 KD 000
US Dollars	+5%	2	(201)

Sensitivity to currency rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant. There is no significant impact on the equity.

C.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equity investments decrease as a result of the changes in the level of equity indices and the value of the individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity as a result of a change in the fair value of the equity instruments at 31 December due to a reasonable possible change in the equity indices, with all other variables held as constant is as follows:

		Effect on equity	
Market indices	Changes in equity price in %	2015 KD 000	2014 KD 000
Kuwait Index	+5%	375	558
MSCI Index	+5%	-	138

Sensitivity to equity price movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

C.4 PREPAYMENT RISK

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

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

D. OPERATIONAL RISK

The Group has a set of policies and procedures approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the Banking and financial activities of the Group. Operational risk is managed by the Risk Management Division. This Division ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Global Risk Management.

The Group manages operational risks in line with the Central Bank of Kuwait instructions dated14 November 1996 regarding general guidelines for internal control systems and directives issued on 13 October 2003 regarding "Sound Practices for the Management and Control of Operational Risks".

28. SEGMENT REPORTING

The Group's operating segments are determined based on the reports reviewed by the Chief Operating decision maker that are used for strategic decisions. These segments are strategic business units having similar economic characteristics that offer different products and services. These operating segments are monitored separately by the Group for the purpose of making decisions about resource allocation and performance assessment.

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

- Retail and Commercial Banking – comprising a full range of Banking operations covering credit and deposit services provided to customers. The Bank uses a common marketing and distribution strategy for its commercial Banking operations.

- Treasury and Investment Management – comprising correspondent Banking, clearing, money market, foreign exchange, sukuk, other treasury and miscellaneous operations, proprietary investment, securities trading activities and fiduciary fund management activities.

Segment results include revenue and expenses directly attributable to a segment and an allocation of cost of funds to segments based on the daily weighted average balance of segment assets.

The Group measures the performance of operating segments through measure of segment profit or loss net of taxes in management and reporting systems.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment.

	Retail and Commercial Banking		Treasury and Investment Management		Total	
	2015	2014	2015	2014	2015	2014
	KD 000	KD 000	KD 000	KD 000	KD 000	KD 000
Segment revenue	82,076	75,801	28,796	25,374	110,872	101,175
Segment result	30,166	29,463	4,753	16,947	34,919	46,410
Add: Loss attributable to non-controlling interests					7,886	598
					42,805	47,008

28. SEGMENT REPORTING (CONTINUED)

	Retail and Commercial Banking		Treasury and Investment Management		Others		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	KD 000	KD 000	KD 000	KD 000	KD 000	KD 000	KD 000	KD 000
Segment assets	2,990,296	2,793,110	845,243	736,868	68,764	66,950	3,904,303	3,596,928
Segment liabilities	2,195,277	2,054,596	1,295,341	1,155,898	52,850	47,114	3,543,468	3,257,608

The Group primarily operates in Kuwait.

29. CAPITAL MANAGEMENT

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

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

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

	2015 KD'000	2014 KD'000
Risk weighted assets	2,495,987	2,082,622
Total Capital required	311,998	249,915
Capital available		
Tier 1 capital	357,304	314,685
Tier 2 capital	29,906	24,948
Total capital	387,210	339,633
Tier 1 capital adequacy ratio	14.32%	15.11%
Total capital adequacy ratio	15.51%	16.31%

The Group's financial leverage ratio for the year ended 31 December 2015 is calculated in accordance with CBK circular number 2/BS/ 2014/342 dated 21 October 2014 is shown below:

	2015 KD'000	2014 KD'000
Tier 1 capital	357,304	314,685
Total exposure	5,115,461	4,786,084
Financial leverage ratio	6.98%	6.57%

البنك الأهلي المتحد
ahli united bank

AHLI UNITED BANK K.S.C.P.

KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

الرئيس الأهلي المتحد
ahli united bank

Ahli United Bank K.S.C.P.
Kuwait

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ahli United Bank K.S.C.P (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss, consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 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.

Report on Other Legal and Regulatory Requirements

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

WALEED A. AL OSAIMI	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62 A
EY	DELOITTE & TOUCHE
AL-AIBAN, AL-OSAIMI & PARTNERS	AL WAZZAN & CO.

21 January 2015
Kuwait

Ahli United Bank K.S.C.P.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2014

	Notes	2014 KD 000	2013 KD 000
Financing income	3	**110,693**	97,076
Distribution to depositors	4	**(31,175)**	(19,236)
Net financing income		**79,518**	77,840
Net fees and commission income	5	**10,479**	10,803
Foreign exchange gains		**4,328**	4,192
Net gain on sale of investment properties		**-**	2,378
Net gain on sale of investments		**4,770**	1,548
Share of results from associate	13	**326**	567
Other income	6	**1,754**	1,385
Total operating income		**101,175**	98,713
Provision and impairment losses	7	**(20,089)**	(23,266)
Operating income after provisions and impairment losses		**81,086**	75,447
Staff costs		**(19,441)**	(18,524)
Depreciation		**(2,808)**	(2,976)
Other operating expenses		**(10,133)**	(8,961)
Total operating expenses		**(32,382)**	(30,461)
PROFIT FROM OPERATIONS		**48,704**	44,986
Taxation and Zakat	8	**(2,172)**	(1,990)
Directors' remuneration	21	**(122)**	(75)
PROFIT FOR THE YEAR		**46,410**	42,921
Attributable to:			
Bank's equity shareholders		**47,008**	42,459
Non-controlling interests		**(598)**	462
		46,410	42,921
Basic and diluted earnings per share attributable to the Bank's equity shareholders (fils)	9	**36.5**	32.9

The attached notes 1 to 28 form part of these consolidated financial statements.

Ahli United Bank K.S.C.P.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 KD 000	2013 KD 000
Profit for the year		**46,410**	42,921
Other comprehensive (loss) income:			
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:			
Net movement in cumulative changes in fair values of investments available for sale		**(7,127)**	2,123
Exchange differences on translation of foreign operations		**192**	19
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		**(6,935)**	2,142
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of freehold land	15	**127**	1,893
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**127**	1,893
Other comprehensive (loss) income for the year		**(6,808)**	4,035
Total comprehensive income for the year		**39,602**	46,956
Total comprehensive (loss) income attributable to:			
Bank's equity shareholders		**40,513**	46,159
Non-controlling interests		**(911)**	797
		39,602	46,956

The attached notes 1 to 28 form part of these consolidated financial statements.

Ahli United Bank K.S.C.P.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 KD 000	2013 KD 000
ASSETS			
Cash and balances with banks	10	**88,983**	180,965
Deposits with Central Bank of Kuwait		**345,329**	377,589
Deposits with other banks		**421,594**	283,707
Financing receivables	11	**2,480,431**	2,140,922
Investments available for sale	12	**150,929**	69,023
Investment in associate	13	**9,857**	9,908
Investment properties	14	**32,842**	33,906
Premises and equipment	15	**38,973**	39,214
Other assets and intangibles	16	**27,990**	29,742
TOTAL ASSETS		**3,596,928**	3,164,976
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions		**756,737**	700,405
Deposits from customers	17	**2,453,757**	2,093,009
Other liabilities	18	**47,114**	48,407
		3,257,608	2,841,821
EQUITY			
Share capital	19	**143,171**	130,155
Reserves	19	**227,654**	223,594
		370,825	353,749
Treasury shares	20	**(43,957)**	(43,957)
Attributable to Bank's equity shareholders		**326,868**	309,792
Non-controlling interests		**12,452**	13,363
		339,320	323,155
TOTAL LIABILITIES AND EQUITY		**3,596,928**	3,164,976

Dr. Anwar Ali Al-Mudhaf
Chairman

Sh. Abdulla Jaber Al-Ahmad Al-Sabah
Vice Chairman

The attached notes 1 to 28 form part of these consolidated financial statements.

Ahli United Bank K.S.C.P.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to Bank's equity shareholders												
		Reserves											
	Share capital KD 000	Share premium KD 000	Statutory reserve KD 000	General reserve KD 000	Retained earnings KD 000	Cumulative changes in fair values KD 000	Property revaluation reserve KD 000	Treasury shares reserve KD 000	Foreign currency translation reserve KD 000	Total reserves KD 000	Treasury shares KD 000	Non controlling interests KD 000	Total KD 000
Balance as at 1 January 2014	130,155	12,883	60,536	22,660	100,954	15,729	9,912	974	(54)	223,594	(43,957)	13,363	323,155
Profit (loss) for the year	-	-	-	-	47,008	-	-	-	-	47,008	-	(598)	46,410
Other comprehensive (loss) income for the year	-	-	-	-	-	(6,718)	127	-	96	(6,495)	-	(313)	(6,808)
Total comprehensive income (loss) for the year	-	-	-	-	47,008	(6,718)	127	-	96	40,513	-	(911)	39,602
Dividend - 2013 (Note 19)	-	-	-	-	(23,437)	-	-	-	-	(23,437)	-	-	(23,437)
Bonus shares issued -2013 (Note 19)	13,016	-	-	-	(13,016)	-	-	-	-	(13,016)	-	-	-
Transfer to reserves (Note 19)	-	-	4,930	-	(4,930)	-	-	-	-	-	-	-	-
Balance as at 31 December 2014	**143,171**	**12,883**	**65,466**	**22,660**	**106,579**	**9,011**	**10,039**	**974**	**42**	**227,654**	**(43,957)**	**12,452**	**339,320**
Balance as at 1 January 2013	118,323	12,883	56,087	22,660	93,952	13,931	8,019	974	(63)	208,443	(43,957)	12,572	295,381
Profit for the year	-	-	-	-	42,459	-	-	-	-	42,459	-	462	42,921
Other comprehensive income for the year	-	-	-	-	-	1,798	1,893	-	9	3,700	-	335	4,035
Total comprehensive income for the year	-	-	-	-	42,459	1,798	1,893	-	9	46,159	-	797	46,956
Dividend - 2012	-	-	-	-	(19,176)	-	-	-	-	(19,176)	-	-	(19,176)
Bonus shares issued - 2012	11,832	-	-	-	(11,832)	-	-	-	-	(11,832)	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-	-	(6)	(6)
Transfer to reserves (Note 19)	-	-	4,449	-	(4,449)	-	-	-	-	-	-	-	-
Balance as at 31 December 2013	130,155	12,883	60,536	22,660	100,954	15,729	9,912	974	(54)	223,594	(43,957)	13,363	323,155

The attached notes 1 to 28 form part of these consolidated financial statements.

Ahli United Bank K.S.C.P.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 KD 000	2013 KD 000
OPERATING ACTIVITIES			
Profit for the year		**46,410**	42,921
Adjustments for:			
Net gain on sale of investment properties		**-**	(2,378)
Net gain on sale of investments		**(4,770)**	(1,548)
Share of results from associate	13	**(326)**	(567)
Dividend income	6	**(1,346)**	(1,100)
Net income from investment properties	6	**(291)**	(180)
Depreciation		**2,808**	2,976
Provision and impairment losses	7	**20,089**	23,266
Operating profit before changes in operating assets and liabilities		**62,574**	63,390
Changes in operating assets / liabilities:			
Deposits with Central Bank of Kuwait		**(17,741)**	45,032
Deposits with other banks		**(110,002)**	(27,035)
Financing receivables		**(359,185)**	(430,830)
Other assets		**2,078**	470
Deposits from banks and other financial institutions		**56,332**	199,789
Deposits from customers		**360,748**	296,714
Other liabilities		**101**	3,930
Net cash (used in) from operating activities		**(5,095)**	151,460
INVESTING ACTIVITIES			
Purchase of investments available for sale		**(123,124)**	(20,865)
Sale and redemption of investments available for sale		**37,992**	2,195
Purchase of investment properties		**(196)**	(15,829)
Proceeds from sale of investment properties		**-**	17,163
Purchase of premises and equipment		**(2,303)**	(1,292)
Net income from investment properties	6	**291**	180
Dividend from associate		**428**	-
Dividend income received	6	**1,346**	1,100
Net cash used in investing activities		**(85,566)**	(17,348)
FINANCING ACTIVITIES			
Dividends paid to shareholders	19	**(23,437)**	(19,176)
Net cash used in financing activities		**(23,437)**	(19,176)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(114,098)**	114,936
Cash and cash equivalents at 1 January		**382,098**	267,162
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	**268,000**	382,098

The attached notes 1 to 28 form part of these consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

Ahli United Bank K.S.C.P. ("the Bank") is a public shareholding company incorporated in Kuwait in 1971 and is listed on the Kuwait Stock Exchange. It is engaged in carrying out banking activities in accordance with Islamic Sharia'a and is regulated by the Central Bank of Kuwait ("CBK"). Its registered office is at Darwazat Al-Abdul Razzak, P.O. Box 71, Safat 12168, Kuwait.

The Bank has commenced operations as an Islamic bank from 1 April 2010. From that date, all activities are conducted in accordance with Islamic Sharia'a, as approved by the Bank's Fatwa and Sharia'a Supervisory Board.

The Bank is a subsidiary of Ahli United Bank B.S.C., a Bahraini bank (the "Parent"), listed on the Bahrain and Kuwait Stock Exchanges.

The Bank's principal subsidiary is Kuwait and Middle East Financial Investment Company K.S.C.P. ("KMEFIC"), a company incorporated in the State of Kuwait, listed on the Kuwait Stock Exchange and engaged in investment and portfolio management activities for its own account and for clients. The Bank held 50.18% effective interest in KMEFIC as at 31 December 2014 (2013: 50.18%).

The consolidated financial statements comprising the financial statements of the Bank and its subsidiary (the "Group") were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 21 January 2015 and are subject to the approval of the Ordinary General Assembly of the shareholders' of the Bank. The Ordinary General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are prepared under the historical cost convention except for the re-measurement at fair value of investments available for sale, freehold land and Islamic Forward Agreements.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is also the functional currency of the Bank, rounded to the nearest thousand except when otherwise indicated.

2.2 Statement of compliance

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

The Central Bank of Kuwait and the Bank's Fatwa and Sharia'a Supervisory Board had approved a time frame upto 31 March 2014 to convert all remaining conventional investments and products of the Group to be Sharia'a compliant. The Bank has applied for extension of the time frame to CBK and is awaiting its final approval.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the adoption of the following new standards and interpretations effective as of 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, since the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)
These amendments are effective for annual 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 Group.

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 CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual 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.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.4 New and revised IASB Standards, but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group 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 Group'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 Group's financial statements, when adopted.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and revised IASB Standards, but not yet effective (continued)

IFRS 15 – Revenue from Contracts with customers
IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Bank is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard.

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in consolidated statement profit or loss. Any investment retained is recognised at fair value.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments

Classification

As per IAS 39, the Group classifies its financial instruments as "investments at fair value through profit or loss", "loans and receivables", "investments available for sale" or "financial liability other than at fair value through profit or loss". Management determines the appropriate classification of each instrument at the time of acquisition.

(i) Investments at fair value through profit or loss

These are financial assets that are either financial assets held for trading or those designated as investments at fair value through profit or loss upon initial recognition. A financial asset is classified in this category only if they are acquired principally for the purpose of generating profit from short-term fluctuation in price or if so designated by the management in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis. This includes all derivative financial instruments, other than those designated as effective hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash and balances with banks, deposits with Central Bank of Kuwait, deposits with other banks, financing receivables, and certain other assets are classified as "loans and receivables.

On conversion to an Islamic bank, the Bank offers Sharia'a compliant products and services such as Murabaha, Musawamah, Wakala and Ijara.

Murabaha is the sale of commodities, real estate and certain other assets at cost plus an agreed profit mark up whereby the seller informs the purchaser of the cost of the product purchased and the amount of profit to be recognized.

Musawamah is an agreement under which negotiations between a buyer and a seller preclude the disclosure of sellers cost.

Wakala is an agreement whereby the Group provides a sum of money to a customer under an agency arrangement, 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.

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 instalments. Ijara could end by transferring the ownership of the asset to the lessee.

(iii) Investments available for sale

These are financial assets either designated as "available for sale" or are not classified as fair value through profit or loss, loans and receivables, and held to maturity.

(iv) Financial liabilities other than at fair value through profit or loss

Financial liabilities which are not held for trading are classified as "other than at fair value through profit or loss". Deposits from banks and other financial institutions, deposits from customers and certain other liabilities are classified as "financial liabilities other than at fair value through profit or loss".

Financial liabilities include depositors' accounts created by Murabaha, Mudaraba and Wakala contracts.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

Recognition and de-recognition
A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of profit or loss or in the consolidated statement of profit or loss and other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (in whole or in part) is derecognised either when: (i) the contractual rights to receive the cash flows from the asset have expired or (ii) the Group has retained its 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 (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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

Measurement
All financial assets and liabilities are initially measured at fair value of the consideration given plus transaction costs except for financial assets classified as investments at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

On subsequent measurement financial assets classified as "investments at fair value through profit or loss" are measured and carried at fair value. Realised and unrealised gains / losses arising from changes in fair value are included in the consolidated statement of profit or loss. "Loans and receivables" are carried at amortised cost using effective yield method, less any provision for impairment. Those classified as "investments available for sale" are subsequently measured at fair value until the investment is sold or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated statement of profit or loss for the year.

"Financial liabilities other than at fair value through profit or loss" are subsequently measured at amortised cost.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

Impairment of financial assets

At each reporting date, the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired, if and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence exists, the asset or group of financial assets is written down to its recoverable amount. The recoverable amount of a profit-bearing instrument is estimated based on the net present value of future cash flows discounted at original profit rates, and of equity instrument is determined with reference to market rates or appropriate valuation models. For variable profit rate bearing instruments, the net present value of future cash flows is discounted at the current effective profit rate determined under the contract.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of impairment loss is recognised in the consolidated statement of profit or loss.

The Group assesses whether objective evidence of impairment exists on an individual basis for each individually significant financing and collectively for others. The main criteria that the Group uses to determine that there is objective evidence of impairment includes whether any payment of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral, bankruptcy, other financial reorganization, and economical or legal reasons. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

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

Financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If,in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the "Provision for impairment" in the consolidated statement of profit or loss.

For equity instruments classified as investments available for sale, impairment losses are not reversed through the consolidated statement of profit or loss; any increase in the fair value subsequent to the recognition of impairment loss, is recognised in the consolidated statement of profit or loss and other comprehensive income. For Sukuk classified as investments available for sale, if in a subsequent year, the fair value of the Sukuk increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss; the impairment loss is reversed through the consolidated statement of profit or loss.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

Impairment of financial assets (continued)
General provision
In accordance with the Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically. In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral during the reporting period.

The minimum general provision in excess of the present 1% for cash facilities and 0.5% for non cash facilities is retained as a general provision until further directives from the CBK.

Fair values 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 to by the Group.

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 — Quoted (unadjusted) market 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 and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

Fair values measurement (continued)
For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

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.

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

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

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

2.7 Islamic Forward Agreements
Islamic Forward Agreements are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

In the ordinary course of business, the Group enters into various types of transactions that involve financial instruments represented in forward foreign exchange agreements (Waad) to mitigate foreign currency risk. A Waad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Sharia'a.

The notional amount, disclosed gross, is the amount of a Waad's underlying asset/ liability and is the basis upon which changes in the value of Waad's are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Islamic Forward Agreements (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For those contracts classified as cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in fair value reserve are transferred to the consolidated statement of profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

2.8 Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is amortized in the consolidated statement of profit or loss on a straight line basis over the life of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium received and the best estimate of net cash flow required to settle any financial obligation arising as a result of the guarantee.

2.9 Renegotiated financing receivables

Where considered appropriate, the Group seeks to restructure past due financing receivables. This may involve extending the payment arrangements and the agreement of new financing conditions including enhancing collateral position. Management continuously reviews renegotiated financing receivables, if any, to ensure that all criteria are met and that future payments are likely to occur. Once the terms have been renegotiated, the facility is neither considered past due nor impaired.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, the investment in associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of profit or loss and other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit attributable to equity holders of an associate is shown on the face of the consolidated statement of profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of profit or loss.

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

2.11 Investment properties

Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the Group are classified as investment properties.

Investment properties are measured at cost less accumulated depreciation (based on an estimated useful life of forty years using the straight line method) and accumulated impairment.

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the period of retirement or when sale is completed.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Premises and equipment

Freehold land is initially recognised at cost and not depreciated. After initial recognition freehold land is carried at the revalued amount, which is the fair value at the date of revaluation. The revaluation is carried out periodically by professional property evaluators. The resultant revaluation surplus or deficit is recognised in the consolidated statement of profit or loss and other comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised revaluation surplus is recognised in the consolidated statement of profit or loss. To the extent that a revaluation surplus reverses a revaluation decrease previously recognised in the consolidated statement of profit or loss, the increase is recognised in the consolidated statement of profit or loss. Upon disposal, the revaluation reserve relating to the freehold land sold is transferred to retained earnings.

Buildings, other premises and equipment are stated at cost, less accumulated depreciation and impairment losses if any. Depreciation of buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	40 to 45 years
Other premises and equipment	2 to 5 years

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

Expenditure incurred to replace a component of an item of premises and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of premises and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

2.13 Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with indefinite useful lives are not amortised but are tested annually for impairment and adjusted for the same, if any

2.14 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates 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.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Impairment of non-financial assets (continued)

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.

2.15 End of service indemnity

Provision is made for employees' end of service indemnity in accordance with the local laws based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the reporting date.

2.16 Treasury shares

Treasury shares consist of the Bank's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the general reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, treasury shares reserve account and retained earnings. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash and balances with Central Bank of Kuwait, deposits with banks with original maturity not exceeding seven days.

2.18 Revenue recognition

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

(i) Financing income

For all financial instruments measured at amortised cost, profit bearing financial assets classified as available for-sale, financing income is recorded using the effective profit rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

Once a financial instrument categorised as "loans and receivables" is written down to its estimated recoverable amount, related income is thereafter recognised on the unimpaired portion based on the original effective profit rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

2 SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue recognition (continued)

(ii) Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time are accrued over that period

- Fee income arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income is recognised when right to receive payment is established.

(iv) Rental income is recognised on an accrual basis.

2.19 Taxation

National Labour Support Tax (NLST)
The Bank calculates NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions 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 have been 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 Board of Directors' remuneration and 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 Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

2.20 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.

2.21 Foreign currency
Foreign currency transactions are recorded at the rate of exchange prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currencies outstanding at the year-end are translated into Kuwaiti Dinars at the rates of exchange prevailing at reporting date. Any resultant gains or losses are taken to the consolidated statement of profit or loss.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Foreign currency(continued)

Non-monetary items 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. Translation difference on non-monetary investments at fair value through profit or loss are reported as part of the fair value gain or loss in the consolidated statement of profit or loss, whilst those for available for sale non-monetary assets are included in the consolidated statement of profit or loss and other comprehensive income, unless it is part of an effective hedging strategy, using exchange rates when the fair value was determined.

Translation differences arising on net investments in foreign operations are taken to the consolidated statement of profit or loss and other comprehensive income.

2.22 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

2.23 Contingencies

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

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. Provisions for contingent liabilities are recognized when the outflow of resources is probable.

2.24 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

2.25 Significant accounting judgement, estimates and assumptions

The preparation of consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as the fair value changes reported in other comprehensive income.

Judgements are made in the classification of financial instruments based on management's intention at acquisition, i.e. whether it should be classified as financial assets at fair value through profit or loss or available for sale. In making these judgements, the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance.

Such judgements also determine whether the financial instruments are subsequently measured at amortised cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of profit or loss or directly in equity. Judgements are also made in determination of the objective evidence that a financial asset is impaired. The Group treats investments available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

In accordance with the accounting principles contained in the International Financial Reporting Standards, management is required to make estimates and assumptions that may affect the carrying values of financing receivables, unquoted equity instruments classified as investments available for sale and intangible assets.

2. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Significant accounting judgement, estimates and assumptions (continued)

Estimates are made regarding the amount and timing of future cash flows when measuring the level of provisions required for non-performing financing receivables as well as for impairment provisions for investments available for sale and intangible assets. Estimates are also made in determining the useful lives of buildings and other premises and equipment and fair values of financial assets and derivatives that are not quoted in an active market.

Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such provisions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying amounts of financing receivables, unquoted instruments classified as investments available for sale and intangible assets for the year.

3. FINANCING INCOME

Financing income includes interest income amounting to KD 95 thousand (2013: KD 477 thousand) received from non-converted loans and advances granted before conversion to an Islamic Bank, which represents 0.1% (2013: 0.5%) of the total financing income. Treatment of interest income is subject to resolutions of the Bank's Fatwa and Sharia'a Supervisory Board.

4. DISTRIBUTION TO DEPOSITORS

The Board of Directors of the Bank determines and distributes the depositors' share of profit based on the Bank's results at the end of each quarter.

5. NET FEES AND COMMISSION INCOME

	2014 KD 000	2013 KD 000
Investment management fees	**2,054**	2,100
Credit related fees and commission	**8,476**	7,754
Brokerage fees	**1,462**	2,081
Total fees and commission income	**11,992**	11,935
Fees and commission expense	**(1,513)**	(1,132)
Net fees and commission income	**10,479**	10,803

6. OTHER INCOME

	2014 KD 000	2013 KD 000
Dividend income	**1,346**	1,100
Net income from investment properties	**291**	180
Other income	**117**	105
	1,754	1,385

7. PROVISION AND IMPAIRMENT LOSSES

	2014 KD 000	2013 KD 000
Financing receivables (Note 11)	**45,161**	21,130
Recoveries from written off financing receivables	**(25,485)**	(3,140)
Non-cash credit facilities (Note 11)	**(1,941)**	3,537
Investments available for sale	**1,463**	1,383
Investments properties (Note 14)	**1,100**	-
Others	**(209)**	356
	20,089	23,266

8. TAXATION AND ZAKAT

	2014 KD 000	2013 KD 000
Contribution to Kuwait Foundation for the Advancement of Sciences	**450**	396
National Labour Support Tax (NLST)	**1,235**	1,141
Zakat	**487**	453
	2,172	1,990

9. BASIC AND DILUTED EARNINGS PER SHARE

	2014	2013
Profit for the year attributable to the Bank's equity shareholders (KD 000)	**47,008**	42,459
Weighted average number of shares outstanding during the year	**1,289,034,630**	1,289,034,630
Basic and diluted earnings per share (fils)	**36.5**	32.9

The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares as follows:

	2014	2013
Weighted average number of Bank's issued and paid up shares	**1,431,709,523**	1,431,709,523
Less: Weighted average number of treasury shares	**(142,674,893)**	(142,674,893)
	1,289,034,630	1,289,034,630

Earnings per share was 36.2 fils for the year ended 31 December 2013 before retroactive adjustment to the number of shares following the bonus issue (Note 19).

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

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows consists of the following:

	2014	2013
	KD 000	KD 000
Cash and balances with banks	**88,983**	180,965
Deposits with Central banks and other banks -with an original maturity of seven days or less	**179,017**	201,133
	268,000	382,098

11. FINANCING RECEIVABLES

Financing receivables comprise Islamic Sharia'a compliant facilities extended to the customers of the Bank in the form of financing contracts. Wherever necessary, financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk.

Financing receivables include loans and advances carried forward from prior periods before conversion to an Islamic Bank amounting to KD 3,982 thousand (2013: KD 17,654 thousand) which represents 0.2% (2013: 0.8%) of net financing receivables. The Bank is in the process of converting these facilities to comply with Islamic Sharia'a.

The movement in provision for impairment of financing receivables by class of financial assets is as follows:

	Retail financing KD 000	**Commercial financing KD 000**	**Total KD 000**
At 1 January 2014	**9,247**	**77,594**	**86,841**
Charge for the year (Note 7)	**4,670**	**40,491**	**45,161**
Amounts written off	**(3,431)**	**(39,133)**	**(42,564)**
At 31 December 2014	**10,486**	**78,952**	**89,438**
At 1 January 2013	16,900	61,558	78,458
Charge for the year (Note 7)	3,246	17,884	21,130
Amounts written off	(10,899)	(1,848)	(12,747)
At 31 December 2013	9,247	77,594	86,841

As at 31 December 2014, non-performing financing receivables on which income has been suspended from recognition amounted to KD 76,038 thousand (2013: KD 66,121 thousand).

The available specific provision on cash facilities is KD 13,362 thousand (2013: KD 15,392 thousand).

The provision (recovery)/charge for the year on non-cash facilities is (KD 1,941 thousand) [2013: KD 3,537 thousand]. The available provision on non-cash facilities of KD 5,740 thousand (2013: KD 7,681 thousand) is included in other liabilities (Note 18).

11. FINANCING RECEIVABLES (continued)

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

12. INVESTMENTS AVAILABLE FOR SALE

	2014 KD 000	2013 KD 000
Sukuk	**114,197**	17,716
Equity securities and funds		
- Quoted	**12,587**	25,296
- Unquoted	**24,145**	26,011
	150,929	69,023

Investments available for sale include unquoted equity instruments carried at cost of KD140 thousand (2013: KD 224 thousand).

13. INVESTMENT IN AN ASSOCIATE

The Group has 30% (2013: 30%) interest in Middle East Financial Investment Company, an unquoted company incorporated in Kingdom of Saudi Arabia engaged in investment activities.

The share in assets, liabilities and results of the associate for the year ended is as follows:

	2014 KD 000	2013 KD 000
Share of associate's statement of financial position:		
Current assets	**3,941**	1,839
Non-current assets	**6,412**	11,615
Current liabilities	**(307)**	(3,373)
Non-current liabilities	**(189)**	(173)
Net assets	**9,857**	9,908
Share of associate's results:		
Operating income	**1,661**	2,278
Profit for the year	**326**	567

14. INVESTMENT PROPERTIES

These represents properties acquired by the Group and is recognized at cost. Investment properties were revalued by independent valuers using market comparable approach that reflects recent transaction prices for similar properties and is therefore classified under level 2 of the fair value hierarchy. In estimating the fair value of investment properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The fair value of the investment properties at the reporting date is KD 36,911 thousand (2013: KD 35,985 thousand).

Movement for the year is as follows:

	2014 KD 000	2013 KD 000
At 1 January	**33,906**	32,176
Addition/ Transferred	**196**	16,733
Disposals	**-**	(14,895)
Impairment	**(1,100)**	-
Depreciation charged for the year	**(160)**	(108)
At 31 December	**32,842**	33,906

15. PREMISES AND EQUIPMENT

Premises and equipment includes a revaluation increase of KD 127 thousand (2013: increase of KD 1,893 thousand) in the value of freehold land based on valuations determined by independent valuation experts. Freehold land was revalued by independent valuers using significant valuation inputs based on observable market data and is classified under level 2 of the fair value hierarchy.

16. OTHER ASSETS AND INTANGIBLES

	2014 KD 000	2013 KD 000
Financing profit receivable	**5,443**	7,091
Stock exchange brokerage licence	**12,500**	12,500
Positive fair value of Islamic Forward Agreements (Note 23)	**146**	274
Others	**9,901**	9,877
	27,990	29,742

Stock exchange brokerage license is classified as intangible asset with an indefinite life.

17. DEPOSITS FROM CUSTOMERS

Depositors' accounts are deposits received from customers under current account, saving investment accounts, and fixed term investments accounts. The depositors' accounts of the Bank comprise the following:

i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hassan from depositors to the Bank under Islamic Sharia'a. Investing such Qard Hassan is made at the discretion of the Board of Directors of the Bank, the results of which are attributable to the equity shareholders of the Bank.

ii) Investment deposit accounts include savings accounts, fixed term deposit accounts, and open term deposit accounts.

Saving Investment Accounts
These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time.

Fixed-Term Deposit Investment Accounts
These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits mature monthly, quarterly, semi-annually, or annually.

Open –Term Deposit Investment Accounts
These are open-term deposits and are treated as annual deposits renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit.

Funds utilized in investments for each investment deposit are computed using ratios identified in the contracts for opening of these accounts with clients. The Bank guarantees to pay the remaining un-invested portion of these investment deposits. Accordingly, this portion is considered Qard Hassan from depositors to the Bank, on the grounds of Islamic Sharia'a.

The fair values of deposits from customers do not differ significantly from their carrying values.

18. OTHER LIABILITIES

	2014 **KD 000**	2013 KD 000
Depositors' profit share payable	**9,509**	5,519
Provision for staff indemnity and passage	**4,783**	4,385
Provision for non-cash credit facilities (Note 11)	**5,740**	7,681
Negative fair value of Islamic Forward Agreements (Note 23)	**493**	151
Account payables, accruals and others	**26,589**	30,671
	47,114	48,407

19. EQUITY

i) The authorised, issued and fully paid share capital as at 31 December 2014 comprises 1,431,709,523 ordinary shares (31 December 2013: 1,301,554,112 shares) of 100 fils each.

ii) The Board of Directors of the Bank has proposed bonus shares of 10% (2013: bonus shares of 10%) and cash dividend of 10% amounting to 10 fils per share (2013: 20 fils). The proposed bonus shares are subject to the approval of the shareholders at the Bank's Annual General Assembly. The bonus shares for the year ended 31 December 2013 were approved by the Bank's Annual General Assembly held on 27 March 2014.

iii) The Bank is required by the Companies' Law and the Bank's Articles of Association to transfer 10% of the profit for the year attributable to the Bank's equity shareholders before KFAS, NLST, Zakat and Directors' remuneration to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the statutory reserve equals 50% of the paid up share capital. The Bank has transferred KD 4,930 thousand (2013: KD 4,449 thousand) to statutory reserve. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of up to 5% of share capital in years when retained earnings are not sufficient for the payment of such dividend.

iv) The Articles of Association of the Bank requires that an amount of not less than 10% of the profit for the year attributable to the Bank's equity shareholders before KFAS, NLST, Zakat and Directors' remuneration should be transferred annually to a general reserve account. The Board of Directors have resolved to discontinue such transfer from the year ended 31 December 2007 onwards, which was approved by the shareholders at the Bank's Annual General Assembly on 6 March 2008. General reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the bank.

v) The balances of share premium and treasury shares reserve are not available for distribution. The balance in the property revaluation reserve is not available for distribution unless the relevant assets are derecognised.

The cost of the Bank's own shares purchased, including directly attributable costs, is recognised in equity. In accordance with the instructions of the Central Bank of Kuwait and Annual General Assembly the Bank may purchase treasury shares up to 10% of its paid up share capital.

20. TREASURY SHARES

There was no purchase or sale of treasury shares during the current year.

	2014	2013
Number of treasury shares	**142,674,893**	129,704,449
Treasury shares as a percentage of total shares issued	**9.97%**	9.97%
Cost of treasury shares (KD 000)	**43,957**	43,957
Market value of treasury shares (KD 000)	**88,458**	90,793

Amount equivalent to cost of treasury shares has been retained out of reserves as non-distributable throughout the holding period of the treasury shares.

21. TRANSACTIONS WITH RELATED PARTIES

The Group enters into transactions with the parent, associate, major shareholders, directors and key management, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business. The terms of these transactions are approved by the Group's management.

The year-end balances included in the consolidated financial statements are as follows:

	Number of directors and executive officers		Number of parties related to directors and executive officers		Amount	
					KD 000	KD 000
	2014	2013	2014	2013	2014	2013
Directors						
Financing receivables	1	1	3	3	7,993	12,022
Deposits from customers	3	2	4	5	1,059	1,727
Commitments and contingent liabilities	1	-	2	2	3,982	711
Key management						
Financing receivables	2	1	1	-	112	47
Credit Cards	11	10	1	1	64	61
Deposits from customers	11	6	2	1	1,049	440

	2014 KD 000		2013 KD 000	
	Parent	Other related parties	Parent	Other related parties
Deposits with other banks	76,221	19,422	79,997	11,875
Deposits from banks and other financial institutions	12,375	351,634	7,734	321,916
Commitments and contingent liabilities	34,357	2,382	20,558	160
Islamic Forward Agreements	4,291	266	6,086	18
Transactions				
Financing income	465	480	130	729
Distribution to depositors	94	4,126	68	3,690

The transactions included in the consolidated statement of profit or loss are as follows:

	2014 KD 000	2013 KD 000
Directors:		
Board of Directors' remuneration	122	75
Key management compensation:		
Salaries and other short term benefits	1,599	1,349
Post employment benefits	241	204
	1,962	1,628

Board of Directors' remuneration is subject to approval of shareholders in the Annual General Assembly.

22. COMMITMENTS AND CONTINGENT LIABILITIES

a) Credit- related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Group's customers.

Letters of credit (including standby letters of credit), guarantees and acceptances commit the Group to make payments on behalf of customers upon failure of the customers to perform under the terms of the contract.

Commitment to extend credit represents contractual commitments to financing and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The Group has the following credit related commitments:

	2014 **KD 000**	2013 KD 000
Acceptances	**16,800**	9,993
Letters of credit	**117,720**	85,087
Guarantees	**339,093**	311,642
	473,613	406,722

Irrevocable credit commitments to extend credit at the reporting date amounted to KD 11,287 thousand (2013: KD 2,738 thousand).

b) Capital commitment

The capital commitment for purchase of assets as at 31 December 2014 is KD 1,425 thousand (2013: KD 2,233 thousand).

23. ISLAMIC FORWARD AGREEMENT

In the ordinary course of business, the Bank enters into various types of transactions that involve financial instruments represented in forward foreign exchange agreements (Waad) to mitigate foreign currency risk. A Waad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Sharia'a.

The notional amount, disclosed gross, is the amount of a Waad's underlying asset/ liability and is the basis upon which changes in the value of Waad's are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

23. ISLAMIC FORWARD AGREEMENT (continued)

The table below shows the fair value and notional amounts of the Waad transactions:

Waad	Assets (Positive) KD 000	Liabilities (Negative) KD 000	Notional amounts Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	Total KD 000
2014	**146**	**493**	**15,844**	**5,243**	**30,693**	**51,780**
2013	274	151	10,536	21,471	7,577	39,584

Most of the Group's Islamic Forward Agreement relate to deals with customers, which are normally matched by entering into reciprocal deals with counterparties.

24. FAIR VALUES MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

Fair value measurement hierarchy for assets and liabilities as at 31 December 2014 is as follows:

2014	Level: 1 KD 000	Level: 2 KD 000	Level: 3 KD 000	Total KD 000
Assets measured at fair value				
Financial assets				
Investments available for sale	**122,791**	**15,118**	**12,880**	**150,789**
Islamic Forward Agreements				
Waad	**-**	**146**	**-**	**146**
	122,791	**15,264**	**12,880**	**150,935**
Liability measured at fair value				
Islamic Forward Agreements				
Waad	**-**	**493**	**-**	**493**
	-	**493**	**-**	**493**
2013				
Assets measured at fair value				
Financial assets				
Investments available for sale	39,038	15,804	13,957	68,799
Islamic Forward Agreements				
Waad	-	274	-	274
	39,038	16,078	13,957	69,073
Liability measured at fair value				
Islamic Forward Agreements				
Waad	-	151	-	151
	-	151	-	151

24. FAIR VALUES MEASUREMENT (continued)

Investments classified under level 1 are valued based on the quoted bid price. Equity securities and funds classified under level 2 are valued based on market multiples and declared NAV's. Equity securities and funds classified under level 3 are valued based on discounted cash flows and dividend discount models.

The significant inputs for valuation of equity securities classified under level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value.

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5 per cent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

Other financial assets and liabilities are carried at amortized cost and the carrying values 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 interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using based on discounted cash flows, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summaries the maturity profile of the Group's assets and liabilities analysed according to remaining contractual maturity:

2014	Up to 3 months KD 000	3 to 12 months KD 000	Over 1 year KD 000	Total KD 000
ASSETS				
Cash and balances with banks	88,983	-	-	88,983
Deposits with Central Bank of Kuwait	208,714	136,615	-	345,329
Deposits with other banks	421,594	-	-	421,594
Financing receivables	1,492,673	433,951	553,807	2,480,431
Investments available for sale	69,426	8,438	73,065	150,929
Investment in associate	-	-	9,857	9,857
Investment properties	-	-	32,842	32,842
Premises and equipment	-	-	38,973	38,973
Other assets and intangibles	10,980	1,670	15,340	27,990
Total assets	2,292,370	580,674	723,884	3,596,928
LIABILITIES				
Deposits from banks and other financial Institutions	547,230	209,507	-	756,737
Deposits from customers	1,906,562	542,051	5,144	2,453,757
Other liabilities	29,180	9,703	8,231	47,114
Total liabilities	2,482,972	761,261	13,375	3,257,608
Net liquidity gap	(190,602)	(180,587)	710,509	339,320

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

2013	Up to 3 months KD 000	3 to 12 months KD 000	Over 1 year KD 000	Total KD 000
ASSETS				
Cash and balances with banks	180,965	-	-	180,965
Deposits with Central Bank of Kuwait	172,590	97,116	107,883	377,589
Deposits with other banks	241,399	42,308	-	283,707
Financing receivables	1,319,804	280,001	541,117	2,140,922
Investments available for sale	1,722	2,391	64,910	69,023
Investment in associate	-	-	9,908	9,908
Investment properties	-	-	33,906	33,906
Premises and equipment	-	-	39,214	39,214
Other assets and intangibles	13,582	830	15,330	29,742
Total assets	1,930,062	422,646	812,268	3,164,976
LIABILITIES				
Deposits from banks and other financial Institutions	465,145	235,260	-	700,405
Deposits from customers	1,612,282	475,934	4,793	2,093,009
Other liabilities	33,874	3,373	11,160	48,407
Total liabilities	2,111,301	714,567	15,953	2,841,821
Net liquidity gap	(181,239)	(291,921)	796,315	323,155

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Strategy in using financial instruments

As an Islamic commercial bank, the Bank's activities are principally related to the sourcing of funds through Sharia'a compliant financial instruments, within the guidelines prescribed by the Central Bank of Kuwait (CBK) and deploying these funds in Sharia'a compliant financing and investment activities, to earn a profit. The profit is shared between the shareholders and profit sharing deposit account holders, as per the Bank's policies approved by the Board of Directors and Fatwa and Sharia'a Supervisory Board. The funds raised vary in maturity between short and long term and are mainly in Kuwaiti Dinars, apart from major foreign currencies and GCC currencies. While deploying the funds, the Bank focuses on the safety of the funds and maintaining sufficient liquidity to meet all claims that may fall due. Safety of shareholder and depositor funds is further enhanced by diversification of financing activities across economic and geographic sectors, and types of financed parties.

RISK MANAGEMENT

The use of financial instruments also brings with it associated inherent risks. The Group recognises the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the Group's strategic objectives.

The strategy of the Group is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Group's major risk-based lines of business. The Group continuously reviews its risk management policies and practices to ensure that it is not subject to large asset valuation and earnings volatility.

Group's objectives, policies and process for managing its risk are explained in detail in the Pillar 3 disclosures of the Annual Report. The following sections describe the several risks inherent in the banking process, their nature, techniques used to minimise the risks, their significance and impact on profit and loss and equity due to future expected changes in market conditions.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

A. 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. The Group attempts to control risk by monitoring credit exposures, limiting transactions with reputable counterparties, and continually assessing the creditworthiness of counterparties.

Concentration 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.

Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments, affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains collateral, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained include charges over bank deposits and balances, listed securities acceptable to the Group, real estate, plant and equipment, inventory and trade receivables.

Management monitors the market value of collateral on a daily basis for quoted shares and periodically for others, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The table below shows the net maximum exposure net of provision to credit risk for the components of the statement of financial position and off-balance sheet items without taking account of any collateral and other credit enhancements.

	Net maximum exposure 2014 KD 000	Net maximum exposure 2013 KD 000
Credit risk exposures relating to consolidated statement of financial position items:		
Balances with banks	**73,060**	165,633
Deposits with the Central Bank of Kuwait	**345,329**	377,589
Deposits with other banks	**421,594**	283,707
Financing receivables	**2,480,431**	2,140,922
Investments available for sale	**114,197**	17,716
Other assets	**11,603**	12,793
	3,446,214	2,998,360
Credit risk exposures relating to off - balance sheet items: (Note 22a)		
Acceptances, letters of credit, and guarantees	**473,613**	406,722
Irrevocable credit commitments	**11,287**	2,738
	484,900	409,460

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

The gross maximum credit exposure to a single client or counterparty as of 31 December 2014 was KD 40,518 thousand (2013: KD 35,023 thousand) and credit exposure net of eligible collateral to the same counterparty Nil (2013: Nil).

Geographical and industry-wise concentration of assets and off balance sheet items are as follows:

2014	**Assets representing credit risk KD 000**	**Contingencies & Commitments representing credit risk KD 000**
Geographic region:		
Kuwait	**3,063,525**	**368,768**
Other GCC	**229,954**	**86,518**
Europe	**29,131**	**8,359**
North America	**59,450**	**1,481**
Other countries	**64,154**	**19,774**
	3,446,214	**484,900**

	Assets representing credit risk KD 000	**Contingencies & Commitments Representing credit risk KD 000**
Industry sector:		
Trading and manufacturing	**478,842**	**187,118**
Banks and financial institutions	**1,011,886**	**102,914**
Construction and real estate	**1,273,177**	**134,863**
Other	**682,309**	**60,005**
	3,446,214	**484,900**

2013	Assets representing credit risk KD 000	Contingencies & Commitments representing credit risk KD 000
Geographic region:		
Kuwait	2,646,183	304,141
Other GCC	254,404	69,481
Europe	7,276	5,558
North America	86,236	1,580
Other countries	4,261	28,700
	2,998,360	409,460

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

	Assets representing credit risk KD 000	Contingencies & Commitments Representing credit risk KD 000
Industry sector:		
Trading and manufacturing	469,435	167,456
Banks and financial institutions	886,789	95,597
Construction and real estate	1,039,237	111,994
Other	602,899	34,413
	2,998,360	409,460

Credit quality of the financial assets is managed by the Group with a combination of external and internal ratings mechanism. It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The credit quality of class of assets with underlying credit risks are as follows:

Neither past due nor impaired	**(KD 000)**			
2014	**High grade**	**Standard grade**	**Closely monitored**	**Total**
Balances with banks	**73,060**	**-**	**-**	**73,060**
Deposits with Central Bank of Kuwait	**345,329**	**-**	**-**	**345,329**
Deposits with other banks	**421,594**	**-**	**-**	**421,594**
Financing receivables	**2,240,104**	**150,573**	**11,343**	**2,402,020**
Investments available for sale	**114,197**	**-**	**-**	**114,197**
Other assets	**11,603**	**-**	**-**	**11,603**
	3,205,887	**150,573**	**11,343**	**3,367,803**

	(KD 000)			
2013	High grade	Standard grade	Closely monitored	Total
Balances with banks	165,633	-	-	165,633
Deposits with Central Bank of Kuwait	377,589	-	-	377,589
Deposits with other banks	283,707	-	-	283,707
Financing receivables	1,906,086	144,480	28,993	2,079,559
Investments available for sale	17,716	-	-	17,716
Other assets	12,793	-	-	12,793
	2,763,524	144,480	28,993	2,936,997

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

Financial assets by class that are past due but not impaired:

2014	**Past due up to 60 days KD 000**	**Past due 61 to 90 days KD 000**	**Total KD 000**
Financing receivables			
-Retail financing	**14,431**	**811**	**15,242**
-Commercial financing	**493**	**-**	**493**
	14,924	**811**	**15,735**
Fair value of collateral			**12,937**

2013	Past due up to 60 days KD 000	Past due 61 to 90 days KD 000	Total KD 000
Financing receivables			
-Retail financing	8,778	1,150	9,928
-Commercial financing	498	208	706
	9,276	1,358	10,634
Fair value of collateral			4,847

Financial assets by class that are impaired:

2014	**Gross exposure KD 000**	**Impairment provision KD 000**	**Fair value of collateral KD 000**
Financing receivables			
-Retail financing	**9,917**	**2,107**	**-**
-Commercial financing	**66,121**	**11,255**	**125,118**
	76,038	**13,362**	**125,118**

2013	Gross exposure KD 000	Impairment provision KD 000	Fair value of collateral KD 000
Financing receivables			
-Retail financing	4,497	1,772	-
-Commercial financing	61,624	13,620	42,050
	66,121	15,392	42,050

The factors the Group considered in determining impairment are disclosed in Note 2 - Significant accounting policies.

Renegotiated financing receivables:

The Group has not renegotiated any financial asset in 2014 (2013: Nil) that would otherwise be past due or impaired.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

B. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can also be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents, and readily marketable securities.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations including profit share. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment earlier than the contractual date and the table also does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month KD 000	**1 to 3 months KD 000**	**3 to 12 months KD 000**	**1 to 5 years KD 000**	**Over 5 years KD 000**	**Total KD 000**
2014						
Deposits from banks and other financial institutions	**312,926**	**234,726**	**211,775**	**-**	**-**	**759,427**
Deposits from customers	**1,257,466**	**651,073**	**545,317**	**5,147**	**-**	**2,459,003**
Other liabilities	**26,543**	**2,637**	**9,703**	**8,231**	**-**	**47,114**
	1,596,935	**888,436**	**766,795**	**13,378**	**-**	**3,265,544**

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Over 5 years KD 000	Total KD 000
2013						
Deposits from banks and other financial institutions	381,106	84,272	237,278	-	-	702,656
Deposits from customers	1,035,912	577,378	478,696	4,802	-	2,096,788
Other liabilities	32,251	1,623	3,373	11,160	-	48,407
	1,449,269	663,273	719,347	15,962	-	2,847,851

The table below shows the contractual expiry by maturity of the Group's credit related contingent liabilities and commitments as disclosed in Note 22:

	Less than 1 month KD 000	**1 to 3 months KD 000**	**3 to 12 months KD 000**	**1 to 5 years KD 000**	**Over 5 years KD 000**	**Total KD 000**
2014						
Credit related contingent liabilities	**12,472**	**56,705**	**234,132**	**166,479**	**3,825**	**473,613**
Irrevocable credit commitments	**-**	**-**	**-**	**11,287**	**-**	**11,287**
	12,472	**56,705**	**234,132**	**177,766**	**3,825**	**484,900**
2013						
Credit related contingent liabilities	21,593	61,534	148,721	173,724	1,150	406,722
Irrevocable credit commitments	-	-	-	2,738	-	2,738
	21,593	61,534	148,721	176,462	1,150	409,460

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

C. MARKET RISK

The Group defines market risk as the uncertainty in future earnings on the Group's on and off balance sheet positions resulting from changes in market variables such as interest rate risk, currency risk and equity price risk.

C.1 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the underlying financial instruments. The Group is not exposed to interest rate risk since in accordance with Islamic Sharia'a the Bank does not charge interest except on non-converted loans and advances. The sensitivity of net interest income for one year on these loans is not considered to be significant.

Changes in interest rates may, however affect the fair value of financial assets available for sale. Change in the interest rates by 25 basis point, with all other variables held constant will affect the equity by KD 384 thousand (2013: KD 64 thousand).

C.2 CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The Group had the following net exposures denominated in foreign currencies.

The effect on profit before tax, as a result of change in currency rate, with all other variables held constant is shown below:

Currency	Change in currency rate in %	Effect on profit before tax 2014 KD 000	2013 KD 000
US Dollars	+5%	**(201)**	(642)

Sensitivity to currency rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant. There is no significant impact on the equity.

C.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equity investments decrease as a result of the changes in the level of equity indices and the value of the individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity as a result of a change in the fair value of the equity instruments at 31 December 2014 due to a reasonable possible change in the equity indices, with all other variables held as constant is as follows:

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

C. MARKET RISK (continued)

C.3 EQUITY PRICE RISK (continued)

Market indices	Changes in equity price %	Effect on equity 2014 KD 000	Effect on equity 2013 KD 000
Kuwait Index	+5%	**558**	1,533
MSCI Index	+5%	**138**	101

Sensitivity to equity price movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant.

C.4 PREPAYMENT RISK

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

D OPERATIONAL RISK

The Group has a set of policies and procedures approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Group. Operational risk is managed by the Risk Management Division. This Division ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Global Risk Management.

The Group manages operational risks in line with the Central Bank of Kuwait instructions dated 14 November 1996 regarding general guidelines for internal control systems and directives issued on 13 October 2003 regarding "Sound Practices for the Management and Control of Operational Risks".

27. SEGMENT REPORTING

The Group's operating segments are determined based on the reports reviewed by the Chief Operating decision maker that are used for strategic decisions. These segments are strategic business units having similar economic characteristics that offer different products and services. These operating segments are monitored separately by the Group for the purpose of making decisions about resource allocation and performance assessment.

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

- Retail and Commercial Banking – comprising a full range of banking operations covering credit and deposit services provided to customers. The Bank uses a common marketing and distribution strategy for its commercial banking operations.

- Treasury and Investment Management – comprising correspondent banking, clearing, money market, foreign exchange, sukuk, other treasury and miscellaneous operations, proprietary investment, securities trading activities and fiduciary fund management activities.

27. SEGMENT REPORTING (continued)

Segment results include revenue and expenses directly attributable to a segment and an allocation of cost of funds to segments based on the daily weighted average balance of segment assets.

The Group measures the performance of operating segments through measure of segment profit or loss net of taxes in management and reporting systems.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment.

	Retail and Commercial Banking		Treasury and Investment Management		Total	
	2014	2013	**2014**	2013	**2014**	2013
	KD 000	KD 000	**KD 000**	KD 000	**KD 000**	KD 000
Segment revenue	**75,801**	74,879	**25,374**	23,834	**101,175**	98,713
Segment result	**29,463**	29,385	**16,947**	13,536	**46,410**	42,921
Add: Loss (profit) attributable to non-controlling interests					**598**	(462)
					47,008	42,459

	Retail and Commercial Banking		Treasury and Investment Management		Others		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	KD 000	KD 000	**KD 000**	KD 000	**KD 000**	KD 000	**KD 000**	KD 000
Segment assets	**2,793,110**	2,461,031	**736,868**	635,011	**66,950**	68,934	**3,596,928**	3,164,976
Segment liabilities	**2,054,596**	1,784,002	**1,155,898**	1,009,412	**47,114**	48,407	**3,257,608**	2,841,821

The Group primarily operates in Kuwait.

28. CAPITAL MANAGEMENT

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

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios (Basel III) 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:

28. CAPITAL MANAGEMENT (continued)

	2014 KD'000
Risk weighted assets	2,082,622
Capital required	270,741
Capital available	
Tier 1 capital	314,685
Tier 2 capital	24,948
Total capital	339,633
Tier 1 capital adequacy ratio	15.11%
Total capital adequacy ratio	16.31%

For the year ended 31 December 2013, the Group followed Basel II regulations and the Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/BS/184/2005 dated 21 December 2005 are shown below.

	2013 KD'000
Risk weighted assets	1,670,898
Capital required	200,508
Capital available	
Tier 1 capital	264,945
Tier 2 capital	31,748
Total capital	296,693
Tier 1 capital adequacy ratio	15.86%
Total capital adequacy ratio	17.76%

The Group's financial leverage ratio for the year ended 31 December 2014 is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2014 KD'000
Tier 1 capital	314,685
Total exposure	4,786,084
Financial leverage ratio	6.57%

The Group has disclosed the financial leverage ratio for the first time in consolidated financial statement for the year ended 31 December 2014.

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