ANNUAL REPORT 2017

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بنك الخليج
GULF BANK

H.H. Sheikh
Sabah Al Ahmed Al Jaber Al Sabah
(The Amir of the State of Kuwait)

H.H. Sheikh
Nawaf Al Ahmed Al Jaber Al Sabah
(The Crown Prince)

H.H. Sheikh
Jaber Al Mubarak Al Hamad Al Sabah
(The Prime Minister)

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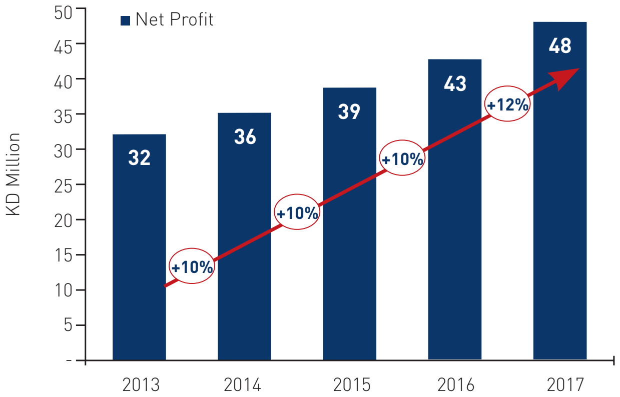
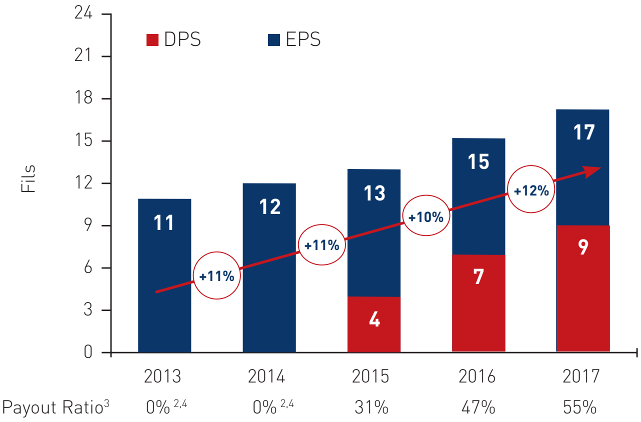
Head Office:
Mubarak Al Kabeer Street, P. O. Box 3200, Safat 13032, Kuwait, Tel: 22449501

KEY
HIGHLIGHTS

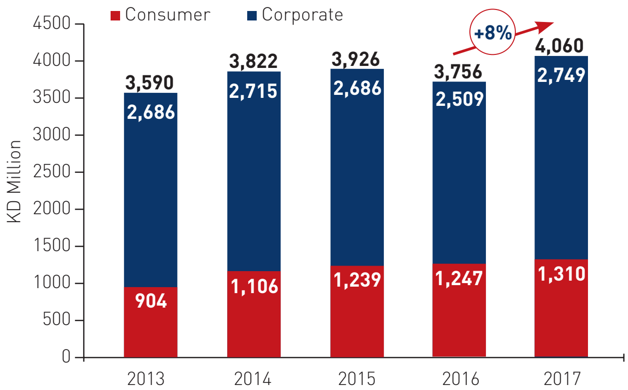
1. Fourth straight year of double-digit net profit growth[1]



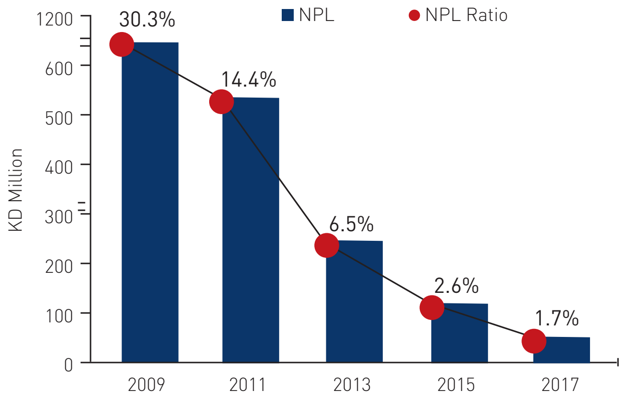
2. Dividend distribution more than doubled over last two years



3. Loans reached an all-time high for the Bank & both business segments (Corporate & Consumer)



4. Non-Performing loans ratio fell to 1.7%



5. Affirmation of Bank's 'A' ratings, and positive outlook from S&P Global Ratings & Capital Intelligence

		2016	2017
Moody's	Long Term	A3	A3
	Outlook	Stable	Stable
S&P Global Ratings	Long Term	A-	A-
	Outlook	Stable	Positive
Fitch Ratings	Long Term	A+	A+
	Outlook	Stable	Stable
	Viability Rating	bb	bb+
Capital Intelligence	Financial Strength	BBB+	BBB+
	Outlook	Stable	Positive

1. *Net income growth 2014: 10.3%; 2015: 9.9%; 2016:10.1%; 2017:11.8%*
2. *2013 and 2014 earning per share and growth are adjusted to take account for bonus shares issued in both years.*
3. *2017 dividend payout ratio is subject to Annual General Assembly approval.*
4. *In 2013 and 2014, bonus shares of 5% were distributed.*

CHAIRMAN'S MESSAGE

Omar Kutayba Alghanim
Chairman

Dear Shareholders,

On behalf of the Board Directors, I am pleased to present to you Gulf Bank's Annual Report for 2017. The Bank has surpassed strategic milestones in its transformation, and is moving solidly and pragmatically forward on the path of growth. In a highly competitive banking industry and challenging financial environment, the Bank has achieved double-digit net income growth for the fourth consecutive year.

Gulf Bank recorded a net profit of KD48 million, an increase of 12% over the previous year. In addition, the Bank achieved a 13% increase in Net Interest Income to KD132 million and an 11% increase in Operating Profit before Provisions/ Impairment Losses to KD117 million, compared to 2016.

Our loan portfolio quality continued to improve as non-performing loans (NPLs) declined to KD73 million or 1.7% of total loans compared to KD93 million or 2.4% at the end of 2016. Coverage of non-performing loans was 414% by the end of 2017.

Resilient Balance Sheet

The Bank continues to enjoy a strong capital adequacy ratio of 17.8%, which is well above the regulatory requirement of 14%. The assets of the Bank grew by 4% to KD5,683 million, while total shareholders' equity was up 5% to KD601 million. Gross Customer loans ended the year at KD4,060 million, an increase of 8% over the prior year-end period.

In terms of profitability, the Bank's earnings per share for the year ending 2017 was 17 fils, compared to 15 fils for the year ending 2016. The return on average assets was 0.86% compared to 0.78% in 2016, and the return on average equity was 8.3% compared to 7.8% for the previous year.

In response to the Bank's ongoing positive performance, the Board of Directors has recommended a cash dividend of 9 fils per share, an increase of 29% over the cash dividend of 7 fils that was distributed last year.

"Positive" Credit Rating Outlook

Gulf Bank continues to be well recognized in terms of its credit worthiness and financial strength internationally. During the annual credit rating review of the Bank by the leading international rating agencies, Gulf Bank was able to achieve three positive rating actions during 2017: i) S&P Global Ratings and ii) Capital Intelligence, both upgraded the outlook of the bank from "Stable" to "Positive", while iii) Fitch Ratings upgraded the Viability rating of Gulf Bank from bb to bb+.

During the year, Moody's Investors service affirmed Gulf Bank's A3 rating and "Stable" outlook in its credit opinion update issued in May 2017. Similarly, Fitch Ratings affirmed in October 2017 the Bank's Rating at A+ issuer default rating and "Stable" outlook while upgrading its Viability rating to bb+. S&P Global Rating has revised the outlook of the bank to "Positive" from "Stable" and affirmed the bank's counterparty credit rating at A-/A-2 in June 2017. On the Tier II debt issuance of Gulf Bank, Capital Intelligence has affirmed the rating of the bond at BBB with "Stable' outlook in May 2017 and affirmed the overall bank rating at BBB+, with an upgraded "Positive" outlook in December 2017.

Keys to Growth Across Segments

Gulf Bank's solid performance across its business segments is based on providing services that appeal to all our customers, both corporate and retail. In corporate banking, the transaction banking platform that was introduced last year has enable the automation and streamlining of numerous processes, whereby saving time and reducing operational risk for our clients. In order to further serve our corporate clients and their employees, we've made the Bank's range of retail products more easily accessible at their workplaces.

On the retail side, we continue to develop our mobile and online banking services to meet the needs of our growing digital customer base. Our customer loyalty program 'Gulf Rewards' continues to expand its partnerships and offerings, and is steadily increasing its market share. Following much research into the needs of our retail clients, the Bank launched WISE Investment, which is Kuwait's first digital and advisory portfolio management service. WISE has simplified investing in global markets and is customized to each customer's risk appetite and goals, with the Bank's trained staff adding the human touch to the digital service.

The Bank has also introduced new services at five of our 57 branches to better serve customers with special needs. ATMs have been customized and select staff have been trained to communicate in sign language.

Setting Standards for Corporate Social Responsibility and Human Capital

Gulf Bank continues to be a leader in corporate social responsibility initiatives and remains strongly committed to giving back to our beloved country and to all the people of Kuwait. The CSR program is focused on education and youth, entrepreneurship, health and fitness, as well as promoting Kuwait's rich culture and heritage. As in previous years, we have produced a separate report on our corporate social responsibility program, but below you will find highlights.

INJAZ – Kuwait

The Bank continues to be a lead sponsor of INJAZ-Kuwait, which delivers Arabic and English language education programs on entrepreneurial and leadership skills to help youth build successful careers. The Bank holds the distinction of being the company with the highest number of staff volunteers participating in the program, with more than 250 staff volunteering their time to help INJAZ reach high school and university students in Kuwait.

Ajyal Graduate Development Program

The Bank's flagship Ajyal Graduate Development Program, carried out in cooperation with the Institute of Banking Studies, is now entering its fourth year of developing human capital. The program identifies and nurtures young Kuwaiti talent early in their careers and, through an intensive program of trainings helps prepare them for future leadership positions in banking and within Kuwait's financial sector.

Fikra Program

The Bank continues to sponsor Fikra program, as part of its commitment to supporting youth and economic development in the country. The Fikra program, now in its third edition, is an intensive entrepreneurship training program that provides aspiring entrepreneurs with the technical skills and business knowledge needed to launch their own businesses.

Initiatives for the Holy Month of Ramadan

Each year the Bank conducts a series of initiatives as part of its Ramadan campaign. Entitled 'Change Your Thoughts' this year's Ramadan commercial focused on promoting kindship and strengthening family ties and was narrated by Kuwaiti screen legend – Saad Al Faraj. The Bank also partnered with SAVECO supermarket and the Kuwait Food Bank to deliver foodstuff boxes to families in need. Furthermore, Bank employees carried out numerous visits to children in hospitals to celebrate girga'an with them.

Memorial Pearl Diving Journey

The Memorial Pearl Diving Journey is a key sponsorship in the Bank's commitment to preserving the heritage of Kuwait. Youth from Gulf countries come to Kuwait to participate in this two-week event which recreates the pearl diving journey's of our ancestors, reminding today's youth of the hardships and challenges faced by our ancestors before the discovery of oil.

Gulf Bank 642 Marathon Supports UNHCR's Voice Refugees

In its third year, the 'Gulf Bank 642 Marathon' highlights the importance of health and fitness. This year's event was exceptionally well attended and put Kuwait firmly on the international sporting map, as the event is internationally accredited and appears in the international calendar of marathon races. Open to all, the event has four race distances (5km, 10km, 21km, 42km) to appeal to all levels of fitness. Participants included individuals, families and teams from various backgrounds and over 130 nationalities.

For the second consecutive year, the Bank partnered with the UNHCR (United Nations High Commissioner on Refugees), also known as the UN Refugee Agency, and its 'Voices for Refugees' initiative. This is an online awareness campaign to stand with refugees and make their voices heard and humanize their plight. Following the event, the Bank and its partner Pro Vision Sports Mangement, donated KD10,000 to UNHCR.

Awards

Gulf Bank's performance continues to be strongly recognized on local, regional, and international levels. The Bank kicked off the year by setting an international Guinness World Records achievement for 'the largest prize linked to a bank account payout' for its Al Danah account prize of One Million KD. Regionally, the Bank was awarded: 'Best Mobile Banking Experience in the Middle East' from Arabian Business magazine; 'Credit Risk Technology Implementation of Year in the Middle East' from the Asian Banker; and 'Best Customer Service Provider in the Middle East' from International Banker. Locally, the Bank's human resources training program won 'Best Training Program in Kuwait' from the Manpower and Government Restructuring Program. The Bank won 'Excellence in VIP Customer Service' from the Public Relations and Customer Service Awards. And, with regard to its Ramadan television commercial the Bank won 'Most Influential Commercial' at the Advertising Creativity Awards at the Arab Media Forum.

Appreciation

Gulf Bank's success depends on the dedication and commitment of so many people and institutions and to them I am deeply appreciative. I strongly thank HH The Amir Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, HH The Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al Sabah, and HH The Prime Minister Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah for their wise leadership and vision for Kuwait. I extend my sincere gratitude to our Shareholders, Board of Directors, the Central Bank of Kuwait, and the Capital Markets Authority for their ongoing leadership, support, and guidance throughout the year

On behalf of Gulf Bank, I would like to thank our valued customers for their continued trust in the Bank as their loyalty is at the core of our success. Finally, I would like to thank our staff for their dedicated service and for being part of the Gulf Bank family.

Omar Kutayba Alghanim
Chairman

AWARDS

Largest Prize Linked to Bank Account Payout in the World – Al Danah Account KD One Million Prize Guinness World Records	**Best Mobile Banking Experience in the Middle East** Arabian Business Magazine
Best Digital Bank 2016 – Kuwait World Finance	**Best Retail Bank – Kuwait** Banker Middle East – CPI Financial
Best Mobile Banking Application 2016 – Kuwait World Finance	**Straight Through Processing Excellence Award** Citibank
Best Treasury and Cash Management Provider - Kuwait Global Finance	**Best Retail Bank - Kuwait** International Finance Magazine
Best Training Program in Kuwait for 2016 Manpower and Government Restructuring Program - Kuwait	**Best Mobile Banking Application - Kuwait** International Finance Magazine
Excellence in VIP Customer Service - Kuwait Public Relations and Customer Service Awards	**Best Innovation in Banking (Mobile Banking) – Kuwait** Banker Middle East - CPI Financial
Best Innovation in Retail Banking (Mobile Banking) – Kuwait International Banker	**Best Customer Service Provider in Middle East** International Banker

Credit Risk Technology Implementation of the Year in the Middle East
Asian Banker

BOARD OF **DIRECTORS**

BOARD OF DIRECTORS

Omar Kutayba Alghanim
Chairman

Ali Morad Behbehani
Deputy Chairman

Sayer Bader Al-Sayer
Board Member

Basel AlRashied AlBader
Board Member

Omar Hamad Al-Essa
Board Member

Jasem Mustafa Boodai
Board Member

Khalid Faisal Al-Mutawa
Board Member

Bader Nasser Al-Kharafi
Board Member

Bader Abdulmohsen El-Jeaan
Board Member

Omar Kutayba Alghanim

Chairman, Board of Directors
Chairman, Board Corporate Governance Committee

Date of Appointment:

Chairman, March 16, 2013 – present
Deputy Chairman: March 17, 2012 – March 15, 2013
Board Member: April 11, 2009 - March 16, 2012

Academic Qualifications:

- Master of Business Administration, June 2002, Harvard Business School, Harvard University, Boston, MA, USA
- Bachelor of Business Administration, June 1997, Stern School of Business, New York University, NY, USA

Experience:

- Alghanim Industries, Kuwait
  Chief Executive Officer, 2005 – present
  Executive Director, 2004 – 2005
  General Manager, 2002 – 2004
- Asiya Investments, Kuwait
  Chairman, 2005 – 2013
  Member, Investment Committee, 2005 – 2013
- AI International, New York
  Board Member, 2002 – present
- Perella Weinberg Partners, New York
  Founding Member, 2006 – present
- Morgan Stanley, London
  Financial Analyst, ME Coverage, 1999 – 2000
  Financial Analyst, M&A, 1998 – 1999
- INJAZ, Kuwait
  Founder and Chairman of the Board, 2005 – present
- INJAZ AL-ARAB, Jordan
  Co-Founder and Board Member, 2005 – present
- Harvard Business School
  Member of the MENA and Central Asia Advisory Board (MCAB), 2015 – present
- UNHCR
  MENA Advisory Council Member, 2016 – present
- New Vision for Arab Employment (World Economic Forum)
  Chair of the MENA Regional Business Council, November 2014 – present

Ali Morad Behbehani

Deputy Chairman
Deputy Chairman, Board Risk Committee

Date of Appointment:
Deputy Chairman: March 15, 2013
Board Member: April 11, 2009

Academic Qualifications:
BA, English Literature, Kuwait University

Experience:
- Chairman - Kuwait Insurance Company
- Board Member - National Industries Company
- President of Morad Yousuf Behbehani Group
- Board Member - The Kuwaiti Danish Dairy Company (K.D.D.)
- Formerly Board Member of Kuwait National Cinema Company (S.A.K.)
- Formerly Board Member of Kuwait Pipe Industries Company

Sayer Bader Al-Sayer

Board Member
Member of Board Corporate Governance Committee

Date of Appointment:
March 17, 2012

Academic Qualifications:
Degree in Engineering, Scotland

Experience:
- Executive Deputy Vice Chairman of Al Sayer Group of Companies, Kuwait 1978 to date
- Member of the Board of Kuwait Chamber of Commerce and Industry, Kuwait
  2010 to date
- Member of the Board of Miami International Holdings, Inc., Miami-USA
  2012 to date
- Formerly Member of the Board of FIM Bank, Malta
  1994 - 2002
- Formerly Member of the Board of Lebanon Invest, Lebanon
  1994 – 2002
- Formerly Member of the Board of Bank of Kuwait and Middle East, Kuwait
  2002 – 2003
- Formerly Advisor to the Board of Audi Bank, Lebanon
  2003 - 2013

Basel AlRashied AlBader

Board Member
Deputy Chairman, Board Audit Committee

Date of Appointment:

October, 2017

Academic Qualifications:

- Bachelor in Accounting, College of Business Administration. Kuwait University
- Certified Management Accountant (CMA), Institute of Management Accountants, USA,
- Certified Financial Manager (CFM), Institute of Management Accountants, USA,
- Certified Investments and Derivatives Auditor (CIDA) Investment Training and Consulting Institute, USA,
- Diploma in International Financial Reporting Standards (IFRS)
  E&Y Academy of Business, Kuwait
- Registered Auditor, Ministry of Commerce and Industry, Kuwait, (Non-practitioner)

Experience:

- Kuwait Investment Authority,
  Chief Investment Accountant, Investment Accounts Dept. (Jan 2015 – Present)
- Kuwait Telecommunication Company –VIVA
  Internal Audit Senior Manager, in-charge of Internal Audit Dept. (Mar 2013 – Dec 2014)
- Gulf Investment House
  Accountant till Senior Manager, Financial Control Dept. (May 2003 – Feb 2013)

Omar Hamad Al-Essa

Board Member
Chairman of Internal Board Audit Committee
Member of Board Nomination & Remuneration Committee

Date of Appointment:

April 11, 2009

Academic Qualifications:

BA in law, Faculty of Law, Kuwait University, Kuwait

Experience:

- Formerly Chairman of the Kuwait Bar Association
- Formerly President of the Admission Committee of the Kuwait Bar Association
- Formerly President of the Arbitration Center of the Kuwait Bar Association
- Formerly President of the Development and Training Committee of the Kuwait Bar Association
- Formerly Vice Chairman of the Kuwait Bar Association
- Formerly Secretary of the Kuwait Bar Association
- Owner of The Law Office of Al-Essa & Partners
- Head of the Kuwaitization Group at the Workforce Restructuring Program and the Executive Branch of the Government
- Chairman of Kuwaiti Touristic Enterprises Company, Egypt
- Formerly Member of the Board of Arabi Company
- Appointed adviser to the Public Authority compensation for Iraqi invasion
- Member of the board of Kuwaiti Association for Learning Differences – 2015
- Founder Member of Kuwait transparency Society
- Founder Member of Kuwaiti Association for Protecting Public Funds

Jassim Mustafa Boodai

Board Member
Chairman, Board Nomination & Remuneration Committee

Date of Appointment:
March 17, 2012

Experience:
- Chairman of Integrated Holding Company K.C.S.C. Kuwait
- Formerly Board Member of Kuwait Insurance Company, Kuwait
- Formerly Vice Chairman of Kuwait China Investment Company, Kuwait
- Formerly Chief Operating Officer of Boodai Corporation, Kuwait
- Formerly Vice Chairman of Hilal Cement Company, Kuwait
- Formerly Chairman of Transport & Warehousing Group Company, Kuwait

Khalid Faisal Al-Mutawa

Board Member
Member of Board Audit Committee

Date of Appointment:
March, 2015

Academic Qualifications:
Bachelor of Science in Political Sciences and Business Administration, Northeastern University, Boston, Massachusetts, USA

Experience:
- Deputy CEO of Ali Abdulwahab Al Mutawa Commercial Co. (AAW)
- Proud Board Member of INJAZ-Kuwait (part of Injaz Al-Arab, JA WORLDWIDE)
- Former Vice Chairman of the International Franchise Advisory Council in Nexcen Franchising
- Former Chairman and Managing Director of Bonyan Real Estate Company
- Former Board Member of Bayan Investment Company
- Former Board Member of Metal and Recycling Company
- Former Board Member of Villa Moda Lifestyle
- Former Chairman and Managing Director of Dar Al Dhabi Holding (DAD Holding)

Bader Nasser Al-Kharafi

Board Member
Deputy Chairman, Board Corporate Governance Committee
Member of Board Risk Committee

Date of Appointment:
March 17, 2012

Academic Qualifications:
Master of Business Administration, London Business School, London, England
Bachelor's Degree, Mechanical Engineering, Kuwait University, Kuwait

Experience:
- Vice Chairman & Group CEO of Mobile Telecommunications Company K.S.C (Zain Group), Kuwait
- Member of the Board of Atheer Telecom Iraq Limited (Zain Iraq), Iraq
- Managing Director of Al-Khatem (Zain Iraq)
- Vice Chairman of Sudanese Mobile Telephone Co (Zain Sudan), Sudan
- Chairman of Mobile Interim Com (MIC2) S.A.L Lebanon
- Director of Group Executive Committee of Mohammed Abdulmohsin AlKharafi & Sons W.L.L. , Kuwait
- Chairman and Head of Investment Committee of Gulf Cables and Electrical Industries Company, Kuwait
- Middle East Advisory Board Member of Coutts & Co.
- Member of the Board of Refreshment Trading Company (Coca-Cola), Kuwait
- Member of the Board of Foulath Holding B.S.C., Bahrain
- Member of the Board of Bahrain Steel B.S.C. (EC), Bahrain
- Member of the Board of United Stainless Steel Company (USCO), Bahrain
- Vice Chairman of Diamond International Motors Company (Mitsubishi cars), Egypt
- Chairman of EMAK-Paper Manufacturing, Egypt
- Chairman of Arab Aluminum Company SAE, Egypt
- Chairman of MAK Holding Industry, Egypt
- Chairman of EMAK Brake Systems, Egypt
- Chairman of National Paper Company, Egypt
- Member of the Board of Kuwait-British Friendship Society
- Vice Chairman of Injaz Kuwait, Kuwait
- Member of Industrial Advisory Board, Mechanical Engineering, Kuwait University, Kuwait

Bader Abdulmohsen El-Jeaan

Board Member
Chairman, Board Risk Committee
Deputy Chairman, Board Nomination & Remuneration Committee

Date of Appointment:
March 16, 2013

Academic Qualifications:
- Bachelor's in Economics, Harvard University, United States
- Master of Art in Law, Oxford University, United Kingdom

Experience:
- Founder and Senior Partner, Meysan Partners, Kuwait
- Member, Board of Directors of the Kuwait Investment Authority
- Member, Board of Directors of National Real Estate Company
- Formerly, Director and Senior Executive Officer, Carlyle MENA Investment Advisors, United Arab Emirates
- Formerly, Group General Counsel and Member of Senior Management Board, Agility Logistics, Kuwait
- Formerly, Attorney, Shearman & Sterling, New York/Abu Dhabi
- Formerly, Vice President, Private Equity, Kuwait Investment Office, London

MANAGEMENT

Executive Management Responsibility Statement

Gulf Bank's Executive Management is responsible for ensuring the Bank's activities are in line with its corporate strategy, risk appetite and policies approved by the Board of Directors. The Executive Management team is appointed by the Board of Directors to carry out their respective roles in running the operations of the Bank. The team includes the Chief Executive Officer, heads of business and support departments and any other persons who may be considered key to the successful running of the Bank.

The Bank ensures that all members of the Executive Management have suitable academic and professional qualifications, relevant experience and personal integrity to run the Bank's business. Executive Management is provided with ongoing training to ensure they remain up-to-date with the best practices in the banking and finance industry.

Executive Management is responsible for contributing to sound corporate governance of the Bank through their personal conduct and leadership by example. They should also be supportive of and committed to a culture conducive to corporate governance and risk management.

Executive Management is responsible for assigning tasks to Bank employees and promoting an organization structure which supports accountability and transparency. They must also ensure that Bank's compliance and risk functions have adequate autonomy and that separation of tasks is practiced without causing any conflicts.

Executive Management also provides the Board of Directors with financial and administrative reports, at agreed intervals. These reports must comply with the principles of transparency and objectivity. The Board shall rely on the expertise of Executive Management in the implementation of the Board's resolutions.

Executive Management ensures staff receives adequate direction to fulfill their role in carrying out the day- to-day activities of the Bank in a safe and prudent manner. This includes ensuring suitable policies and procedures are in place and are communicated to all relevant staff and made available on an ongoing basis. Executive Management has established, as part of the Bank's governance practices, a rigorous management framework to ensure that regulatory compliance and risk management form an embedded part of the assessment of the Bank's decision making process.

Antoine Daher

Chief Executive Officer

Date of Joining Gulf Bank:
July 7, 2013

Experience:

- 20+ years of experience in international and local banking sector.
- Previously Deputy CEO of Gulf Bank in charge of Wholesale Banking and Investments.
- Previously worked at NBK heading the Domestic Corporate Banking Group, and National Citi Bank in Ohio focusing on structured finance and corporate banking.
- Holds BSC in Civil Engineering from Cleveland State University & MBA from Case Western Reserves University, Ohio, USA.

Kevin Smith

Chief Financial Officer
Acting General Manager - Treasury

Date of Joining Gulf Bank:
August 12, 2015

Experience:

- 30+years in Finance.
- Previously worked as CFO at GE, Novartis, Citibank, Tokyo Star Bank, and Standard Chartered Bank.
- Holds B.S. in Finance from University of Maryland USA and M.S. in Management from Purdue University USA

Khaled Al-Mutawa

General Manager - International Banking & Investments

Date of Joining Gulf Bank:
June 18, 1989

Experience:
- 28+ years in international banking & investment at Gulf Bank.
- Chairman of the Management Credit Committee. Served on the Board of CINET from 2001-2008 and 2011-2014.
- Holds a B.A. in Economics from the University of Southern California and "GCE O Levels" from the University of London.
- Attended several Executive Courses at Harvard University.

Ahmed AlDuwaisan

General Manager - Corporate Banking

Date of Joining Gulf Bank:
September 1, 2001

Experience:
- 15+ years in Corporate Banking.
- Previously Deputy GM of remedial and structured workouts and Deputy GM of financial markets at Gulf Bank.
- Holds BSc in Mechanical Engineering, Northeastern University in Boston, USA and Executive MBA, American University, Beirut.

Vikram Issar

General Manager - Consumer Banking

Date of Joining Gulf Bank:
March 24, 2013

Experience:

- 26 + years in retail and consumer banking.
- Previously worked as COO at Standard Chartered Bank.
- Holds B. Com (Honours), S.R.C.C. from Delhi University, a Chartered Accountant from India and Leadership Program from Said Business School in the Oxford University, U.K.

Nabil B. Abdel-Malek

General Manager - Legal Affairs and General Counsel

Date of Joining Gulf Bank:
February 1, 2015

Experience:

- 30+ years in law.
- Previously worked as General Counsel with Agility Public Warehousing Company. He has a law firm in Lebanon that is retained by international banks and represented the Lebanese Government and banks in major arbitrations.
- Holds BA and MA in Economics, and EMBA from the American University of Beirut, and a Masters of Law from the Lebanese University.
- Completed the Ph. D program in Economics at North Carolina State University, USA.

Raghunandan S Menon

General Manager - Chief Risk Officer

Date of Joining Gulf Bank:
May 15, 2016

Experience:
- 30+ years in Banking.
- Previously served in senior risk and related positions at Standard Chartered Bank in London, New York, Singapore and Mumbai.
- Holds BCom from University of Madras, MBA from XLRI, India, Associate Cost & Management Accountant, India and Chartered Associate of Indian Institute of Bankers.

Mona Mansour

General Manager - Customer Service Delivery

Date of Joining Gulf Bank:
August 15, 2004

Experience:
- 30+ years in Banking.
- Previously worked at NBK for 20 years with diversified experience in IT, cards, customer services & operations.
- Holds BSc in Business Administration from Kuwait University & Emerging Leaders Program certificate from London Business School, UK. A Board member at KNET.

Hussam Mustafa

General Manager - Chief Internal Auditor

Date of Joining Gulf Bank:
August 10, 2014

Experience:

- 23+ years in audit & risk management.
- Previously worked at the Central Bank of Jordan, UAE Sovereign Fund and banks.
- Holds BSc in Accounting, from Yarmouk University, Jordan and Several recognized Internal Audit certifications.

Salma Hajjaj

General Manager - Human Resources

Date of Joining Gulf Bank:
February 1, 2013

Experience:

- 30+ years in Human Resources.
- Previously worked at various key HR positions in the oil sector in both KPC and KPI as well as in Gulf Investment Corporation.
- Holds BSc in Mathematics from Kuwait University and a MA in Organizational Management from the University of Phoenix in Arizona.
- She is a member of the Arabian Society for Human Resources (ASHRM) board of trustees
- She is a member of the Advisory Board of college of Business and Administration of GUST
- She is a member of the Board of INJAZ a nonprofit organization for the development of the youth
- She won the MENA region 'HR Executive of the Year' Award at the Human Assets Expansion Summit held in Dubai 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

As of or for the year ended December 31, 2017 (in KD millions, except per share and ratio data)

KEYMETRICS

(in KD millions)	**2017**	2016	%change
Net interest income	**132**	117	13%
Operating income	**181**	169	8%
Net profit	**48**	43	12%
Gross loans and advances to customers	**4,060**	3,756	8%
Total assets	**5,683**	5,467	4%
Deposits	**4,459**	4,220	6%
Total stock holders' equity	**601**	573	5%
Ending number of net outstanding shares (millions)	**2,910**	2,910	-
Earnings per share (fils)	**17**	15	12%
Dividends per share (fils)	**9***	7	29%
Dividend pay out ratio	**55%**	47%	15%
Cost to income ratio	**35.4%**	37.5%	-5%
Pre-provision return on beginning equity	**20.4%**	19.6%	4%
Return on average equity	**8.3%**	7.8%	6%
Return on average assets	**0.86%**	0.78%	10%
Tier 1 capital ratio	**14.2%**	14.7%	-3%
Capital adequacy ratio	**17.8%**	18.5%	-4%

*Subject to approval by the shareholders' assembly

FINANCIAL SUMMARY

In the year ended 31-December-2017, Gulf Bank reported net profit of KD48 million, KD5.1 million (12%) higher than 2016. This is the fourth-straight year of double digit net profit growth for the Bank.

The Bank's 2017 net profit growth of KD5.1 million was mainly driven by higher operating profit of KD11.6 million offset partially by higher provisions / impairment losses of KD6.3 million. Earnings per share grew 12% from 15 fils to 17 fils per share.

The Bank's assets increased by 4% to KD5,683 million, deposits increased by 6% to KD4,459 million, and total shareholders' equity increased by 5% to KD601 million.

The Board of Directors has recommended the distribution of a cash dividend of 9 fils per share on the outstanding issued share capital as of 31 December 2017 (7 fils per share in 2016). This represents an increase of 29% over the previous year and more than double the level two years ago. Since the dividend is subject to approval by the shareholders' assembly, the Bank's capital adequacy ratio as of 31 December 2017 has not been adjusted to reflect the dividend. If adjusted for dividends, the capital adequacy ratio would be 17.2%.

The return on average assets improved 8 basis points to 0.86% while the pre-provision return on beginning equity held stable at 20%.

The Bank enjoys a strong capital adequacy ratio of 17.8%, well above the regulatory requirement of 14%. The Tier 1 capital ratio is 14.2%, also well above the minimum requirement of 12% and comprises 80% of the Bank's total capital.

Shown below are the major variances in net profit from 2016 to 2017 (KD millions):

2016 Net profit			**42.9**
Net Interest Income (excluding cost of Tier 2 issuance)	18.4		
Interest expense on Tier 2 issuance	(2.9)		
Net Interest Income		15.5	
Net fees & commissions	(0.5)		
Other Income	(2.2)		
Non-Interest Income		(2.7)	
Operating income		12.7	
Operating expenses		(1.1)	
Operating profit			**11.6**
Provisions	(20.2)		
Impairment losses	13.9		
Provisions / Impairment Losses			**(6.3)**
Others			**(0.2)**
Increase in net profit			**5.1**
2017 Net profit			**48.0**

ASSET QUALITY

Gross customer loans increased by KD304 million (+8%) while the Bank's non-performing loan (NPL) ratio improved by 27% to 1.7% from 2.4% a year ago.

Provisions and impairment losses of KD67 million (1.2% of average total assets) were incurred in 2017 compared with KD60 million (1.1% of average total assets) in 2016.

The Bank's general provisions on the Balance sheet stood at KD198 million which represent 4.9% of total gross customer loans and 33% of book equity.

(KD Millions)

PROVISIONS / IMPAIRMENT LOSSES	2017	2016
Specific provisions	**89**	3
Write-offs	**0**	69
Gross credit costs	**89**	72
Recoveries	**(7)**	(66)
Total credit costs	**82**	5
General provisions	**(19)**	38
Provisions	**63**	43
Impairment losses	**3**	17
Total provisions/ impairment losses	**67**	60
Average total assets	**5,606**	5,491
Provisions/ impairment losses as a % of average total assets	**1.2%**	1.1%
General provisions	**198**	217
General provisions as a % of ending gross customer loans	**4.9%**	5.8%
General provisions as a % of ending book equity	**33%**	38%
Non-Performing Loan Ratio	**1.7%**	2.4%
NPL coverage ratio (including collateral)	**414%**	397%

CORPORATE GOVERNANCE

A sound and effective Corporate Governance structure is an essential tool to enhance the performance of the economy in general and the banking sector in particular. The Corporate Governance structure in place at Gulf Bank is proactive, based on Central Bank of Kuwait regulations on governance and consistent with the spirit of Basel's principles. This structure helps the Bank apply a good governance framework in conjunction with a robust risk management mechanism which are conducive to a solid and informed decision-making process bank-wide. In doing so, the Bank is capable of protecting the stakeholders' interests and consolidating confidence in its operations.

To further enhance the governance culture across the various business units, the Bank organizes continuous training and awareness campaigns to familiarize and update the management and staff on the Corporate Governance pillars and practices in line with global standards and regulatory requirements.

The Bank's upholding of Corporate Governance principles and imperatives goes hand in hand with the business activity and is implemented at all levels. In its endeavor towards offering a leading example of a comprehensive Corporate Governance culture, the Bank observes a strict compliance with the laws in place and CBK instructions governing this area.

The Bank's Corporate Governance structure stresses the dynamic engagement of the Board of Directors in monitoring the performance of the Executive Management and the activity of the Bank as a whole. Emphasis is put on the Board's responsibility in promoting general confidence in the Bank's management, taking into consideration, in the context of maximizing the Bank's revenues and profits, the impact of risk on the interests of customers, stakeholders and financial soundness of the Bank. The same structure underlines the segregation between the Board and Executive Management's prerogatives and upholds strict checks and balances in that respect.

Gulf Bank's Corporate Governance structure is also driven by the selection of proactive strategies and risk management policies, the appropriate delegation and monitoring of powers and accountability to management in the process of serving the interests of stakeholders through transparent and accurate disclosures. In addition, the Bank conducts business in full compliance with all regulatory requirements and engages positively and dynamically with the community in which it operates.

Corporate Governance Compliance with CBK Instructions

In June 2012, CBK issued instructions relating to Corporate Governance. The instructions set out nine pillars for a sound Corporate Governance:

1. Board of Directors;
2. Corporate values, conflict of interest and group structure;
3. Executive management;
4. Risk management and internal controls;
5. Remuneration systems and policies;
6. Disclosure and transparency;
7. Complex corporate structure;
8. Protection of shareholders' rights; and
9. Protection of other stakeholders' rights.

The Bank put in place all relevant policies, manuals and guidelines aimed at being fully compliant with those nine pillars. The Bank is proud to announce that it has, under the leadership of the Chairman and Board, established a sound and strong Corporate Governance structure as well as stringent and transparent processes of governance and has successfully implemented the same.

In carrying out the above, the Bank ensures a continuous compliance with all applicable laws and CBK instructions pertaining to Corporate Governance.

The Bank also endeavors to adopt and implement best international practices in this field, which the Bank believes are critical for its financial performance and role in the community where it operates.

In addition, the Corporate Governance principles are promoted with the various stakeholders, including regulators, shareholders and business community.

Stakeholder Definition

In line with best practice, the following entities/ persons are deemed Bank's key stakeholders:

1. Customers and depositors
2. Shareholders
3. Regulatory authorities
4. Board of Directors and Executive Management
5. Employees
6. Suppliers and service providers
7. Local and correspondent banks
8. Community where the Bank operates

Corporate Governance Policies and Procedures

The Bank has a comprehensive framework of Corporate Governance aimed at properly balancing between its ambitious objectives, on the one hand, and adherence to the internal and external governance and compliance systems in place, on the other hand. Both Board and Executive Management strongly believe that governance should always be the object of concurrent critique aimed at continuously improving the standards in place.

The Bank implements a set of clear and user friendly policies and procedures that consolidate good governance. They include, inter alia:

1. Corporate Governance Manual
2. Disclosure and Notification Policy
3. Risk Appetite Document
4. Whistle Blowing Policy and Procedure Manual
5. Conflict of Interest Policy
6. Related Party Transactions Policy
7. Customer Complaint Handling Policy and Procedures
8. Internal Audit Charter
9. Human Resources Manual
10. Policy and Procedure Standards
11. Compliance Manual
12. Confidentiality Policy

Gulf Bank Corporate Governance Manual - Roles and Responsibilities

The Corporate Governance Manual differentiates between the Board and Executive Management's respective roles. The overlap between the two roles is precluded. The Manual clearly defines the role of the Chairman, Chief Executive Officer (CEO), Chief Risk Officer (CRO), General Counsel, Board Affairs Division, Chief Internal Auditor (CIA) and Chief Financial Officer (CFO). The independence of key executive roles is secured through well-defined reporting lines. The Board monitors the key executive positions in the Bank. CBK further protects and monitors those positions so as to ensure their independence.

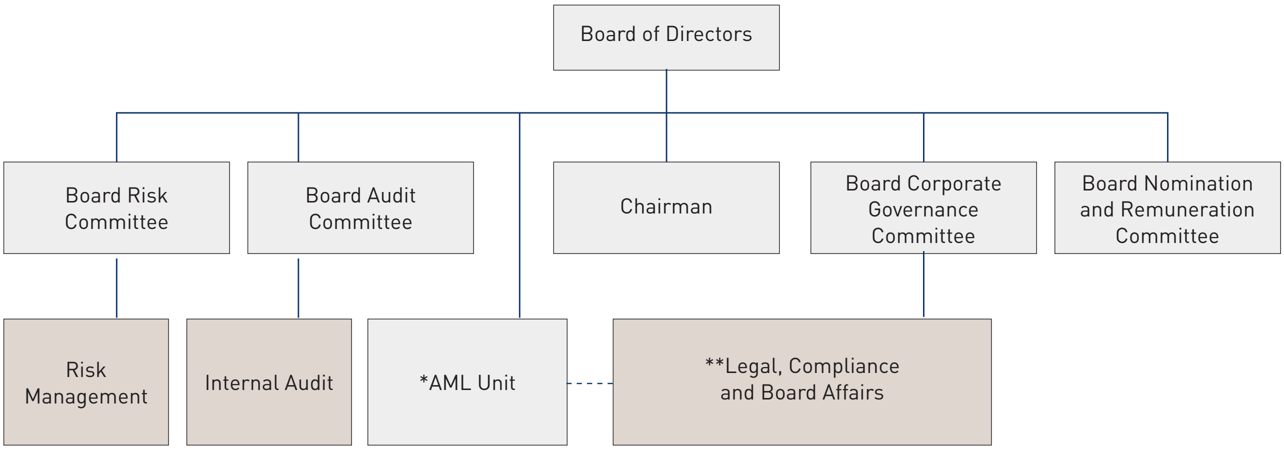
Governance Structure

The Bank has established an organization-wide governance structure aimed at providing a sound governance practice reflected in the reporting lines, clear segregation of duties, independence of opinion and action in areas such as Anti-Money Laundering, Legal, Compliance, Internal Audit and Risk Management. The structure also adheres to CBK's regulatory instructions.

The Governance structure in place follows a three-tier approach: The Board Level; The Board Committees' Level and, The Executive Management Level, through several Committees.

The Board

Governance Organization



* Reports administratively to GM - Legal, Compliance and Board Affairs

** Reports to CEO on legal affairs

The Board is comprised of eight elected and one appointed members with diverse academic and professional backgrounds. Their role is to constructively monitor the performance of management and help develop proposals on strategy.

The Board aims to promote the Bank's long – term success, deliver sustainable value to shareholders and promote a culture of openness and debate.

During the year, Mr. Farouk Bastaki, in his capacity as representative of the Kuwait Investment Authority on the Board has resigned his position as Board Member and Board Audit Committee Chairman. In October, Mr. Basel Al Bader was appointed to represent the Kuwait Investment Authority as Board Member and Board Audit Committee Deputy Chairman.

Board members are properly and continuously trained to tackle all challenges that the Bank may face. Directors also receive comprehensive guidance from the Board Secretary on the Bank's governance framework and associated policies. During the year, the Board completed an In-house induction program and the members participated to several conferences and seminars about banking and financial activity.

The Board carries out a regular evaluation of its own and its committees' effectiveness. In March 2017, an independent review was also undertaken by a specialized external firm. The process included extensive interviews with the members and each member had a one –to-one self-assessment interview. The results were highly satisfactory with regard to the composition and performance of the Board.

Board Overall Responsibilities

The Board of Directors assumes a comprehensive responsibility for the Bank's activity, including setting, overseeing, and monitoring the implementation of the Bank's strategic objectives, risk strategy and corporate governance. The Board is also responsible for overseeing the Executive Management's performance.

The Board's core responsibilities include the following:

- Monitor the Bank's business, financial soundness and compliance with regulatory and legal requirements
- Preserve the interests of shareholders, depositors, creditors, employees, and other stakeholders
- Set out the Bank's strategic objectives and oversee the performance of the Executive Management
- Approve the internal control framework and ensure its proper implementation
- Ensure that transactions with related parties are properly reviewed and vetted prior to being carried out
- Ensure that the Bank has adequate policies and processes in place for all areas of its activity
- Disclose reliable and timely information to the shareholders with regard to the Bank's performance and forecasts
- Set the criteria for the evaluation, compensation and succession for key management roles

The Board members take part in a series of training and continuing education programs. In addition to a formal induction program, the Board members receive regular bulletins designed to keep them abreast of industry progress relating to their duties and responsibilities.

The Chairman of the Board of Directors plays a key role in the proper functioning of the Board and maintenance of mutual trust among its members. He carries out the following:

- Ensure that Board decisions are made on a sound and well-informed basis.
- Build a constructive relationship between the Board and Executive Management,
- Create a culture during Board meetings that promotes constructive critique in case of divergent views among Board members and encourage discussion and voting in such cases.

Organization of the Board's Business

The Chairman, in consultation with Executive Management, proposes the matters to be included in the agenda of the Board meeting. Board members are provided with all relevant information and details before Board meetings. The Board meets at least 6 times annually and at least once every quarter.

The Board Secretary takes note of the Board's discussions, suggestions and the results of any vote which takes place during the meeting. The Board Secretary, under the supervision of the Chairman, is responsible for the follow-up on the implementation of Board resolutions.

Board Meetings and Attendance

During 2017, the Board of Directors met regularly and Directors received information between meetings about the Bank's activity and that of its Management Committees. There were 6 Board meetings and 15 Board Committee meetings during 2017 detailed as follows:

	Board Meeting	Audit Committee	Corporate Governance Committee	Risk Committee	Nomination and Remuneration Committee
Number of Meetings in 2017	6	7	2	4	2
Omar Kutayba Alghanim	6	*	2	*	*
Ali Morad Behbehani	5	*	*	4	*
Bader Abdulmohsen El-Jeaan	6	*	*	4	2
Bader Nasser Al Kharafi	5	*	1	2	*
Jassim Mustafa Boodai	5	*	*	*	2
Khaled Faisel Al Mutawa	6	5	*	*	*
Sayer Bader Al Sayer	4	*	2	*	*
Omar Hamad Al Essa	5	7	*	*	2
Basel AlRashied AlBader**	3	3	*	*	*

* Not a member of the committee.
**New member who joined in October 2017 to replace Mr. Farouk Ali Bastaki.

The minutes of each meeting are part of the Bank's records.
All Board Committees have submitted quarterly updates to the Chairman about their respective activity.

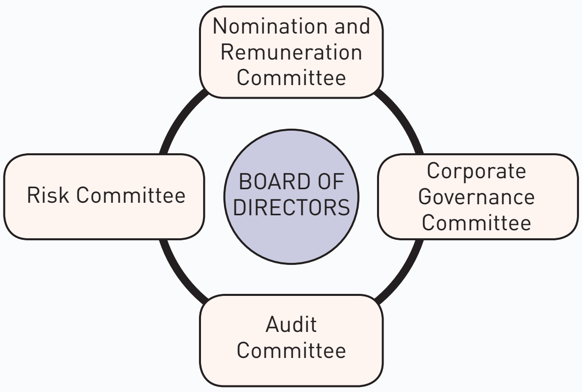
Board Remuneration:

The Board Nomination and Remuneration Committee recommendation to the Board of Directors, and subject to the approval of the shareholders at the Annual General Assembly Meeting, the proposed remuneration for the Directors amounts to **KD135 thousand** (2016: KD135 thousand).

Board Committees' Structure

In line with Governance regulations issued by the CBK, the Bank has in place four committees to oversee and monitor the Bank's overall activity. The committees are the following:

1. Board Corporate Governance Committee
2. Board Audit Committee
3. Board Risk Committee
4. Board Nomination and Remuneration Committee



Each of the above committees has its own bylaws, Chairman, Vice Chairman, Members and Secretary.

The Bank has a comprehensive Corporate Governance Manual in place. An abridged version thereof is posted on the Bank's website.

Board Committees

I. Board Corporate Governance Committee

a. Committee's Scope of Activity

The Board Corporate Governance Committee oversees the overall process of Corporate Governance in the Bank and ensures compliance with relevant CBK instructions on Corporate Governance. The Committee ensures that the depositors and shareholders' interests are protected and shareholders' obligations are met, taking into account the interest of the other stakeholders, by implementing and monitoring processes to report any conflict of interest and related party transactions.

b. Composition of the Committee

• Omar Kutayba Yusuf Alghanim,	Chairman
• Bader Nasser Al Khorafi,	Deputy Chairman
• Sayer Bader Al Sayer,	Member
• Nabil Abdel-Malek,	Secretary

c. Committee Meetings

The Board Corporate Governance Committee convenes not less than twice per year. The presence of two members is required to hold a meeting.

d. Key Achievements in 2017

- Monitored the progress of corporate governance implementation at the Bank.
- Updated and improved the Bank's governance checklist.
- Reviewed the Fraudulent Cases Review Committee Report.
- Reviewed and approved the AML Unit activity.
- Approved amendments to the Confidentiality Policy.
- Reviewed Compliance and Disclosure Unit's activity for 2017 and approved their action plan for 2018.
- Ensured compliance of Bank related parties with governance requirements and rules.
- Reviewed the process of monitoring and reporting under the Whistleblowing policy.

e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2017.

II. Board Audit Committee

a. Committee's Scope of Activity

The Board Audit Committee carries out its duties within the framework of governance principles and practices established by the Board of Directors. The Board Audit Committee promotes accountability of the key players and ensures that they perform in the best interest of the Bank and its shareholders to enhance shareholder value, taking into account the interests of other stakeholders. The Audit Committee's role is to ensure the adequacy of the Bank's internal and external audit processes and systems, highlight the accounting issues of material impact on the financial statements, review the Bank's internal control and risk management systems and secure their integrity and adequacy, ensure the adequacy and efficiency of the processes in place to monitor compliance with laws, regulations and code of conduct; and ensure the sufficiency of staff dedicated to the control functions. The Board Audit Committee appraises the performance of the Internal Audit General Manager and recommends to the Board of Directors the nomination, termination, appointment and remuneration of the external auditor. Since its effectiveness is directly linked to that of the Board of Directors, the Board Audit Committee works closely with Executive Management to obtain any information required to enhance the performance of the Board.

b. Composition of the Committee

• Omar Hamad Al-Essa,	Chairman
• Basel AlResheid AlBader,	Deputy Chairman
• Khaled Faisal Al Mutawa,	Member
• Sadeq Al Saraf,	Secretary

c. Committee Meetings

The Board Audit Committee convenes once every three months or as needed, or at the request of its Chairman or its two members. The presence of two members is required to hold a meeting.

d. Key Achievements in 2017

- Monitored the activities of the Internal Audit Division, including review of its plans, strategies, procedures, follow-up activities, organizational structure and operation and staffing budgets.
- Approved the Internal Audit updated three year risk- based plan (2018 – 2020) and reviewed the issues, action plans and recommendations set forth in the Internal Audit reports.
- Held meetings with GM-Internal Audit, External Auditors and Bank Compliance and Disclosure Officer without the presence of Executive Management.
- Reviewed the scope and approach of External Auditor's audit plans for the year ending 31st December 2017.
- Reviewed and recommended the annual and quarterly financial statements to the Board of Directors.
- Reviewed issues, action plan and recommendations set forth in the CBK mandated Internal Control Report.
- Approved the Internal Audit Manual.
- Furthermore, and in accordance with best international practices the Board Audit and Board Risk Committee held their fourth joint annual meeting to discuss issues of common interest to the two committees.

e. Changes during the year

Subsequent to the resignation of Mr. Farouk Bastaki (Board Member & Committee Chairman) on 1st May, 2017, Mr. Omar Al-Essa was appointed as Board Audit Committee Chairman and Mr. Basel Al Bader was appointed as Board Audit Committee Deputy Chairman.

III. Board Risk Committee

a. Committee's Scope of Activity

The Board Risk Committee's main duties are to provide oversight of the Bank's Risk Management, ensure autonomy of the Risk Management function and enhance the effectiveness of the Board of Directors monitoring of risk issues facing the bank. The Committee reviews significant risk exposures and provides the Board with an update on the Bank's current and future risk strategy and appetite, and oversees the Executive Management's implementation of the strategy. The Committee evaluates the risk exposure, concentration and tolerance limits and has authority to approve the aggregate transactional and trading limits for extraordinary or new risks. Furthermore, the Committee reviews, on a quarterly basis, credit risks rated 6 or worse and exposures which constitute more than 10% of the Bank's capital. In addition, the Committee reviews any specific transaction or risk position and the impact analysis of any potential risks or changes in external environment that it deems relevant for the management of the risks facing the Bank and instructs actions to be taken to mitigate and manage risks to ensure conformity to the Bank's risk appetite.

b. Composition of the Committee

• Bader Abdulmohsen El-Jeaan,	Chairman
• Ali Morad Behbehani,	Deputy Chairman
• Bader Nasser Al Khorafi,	Member
• Sadeq Al Saraf,	Secretary

c. Committee Meetings

The Board Risk Committee convenes not less than four times a year. The presence of two members is required to hold a meeting.

d. Key Achievements in 2017

- Increased the frequency of Risk review though monthly Board Risk Committee reports.
- Reviewed and approved new risk dashboard indicators to enhance monitoring of key risks.
- Reviewed and recommended the risk policies, risk committee bylaws and organizational structure of risk management group for approval and ratification by the Board.
- Held a joint meeting with the Board Audit Committee to review risk profile, internal controls and key projects in the Bank.
- Reviewed status and action plan on large concentration credits.
- Reviewed the status of significant legal cases
- Reviewed the contracting portfolio and the proposed management actions to manage any potential impact on the portfolio from the economic environment.
- Reviewed summary of all credit approvals taken by Executive Credit Committee.
- Held meeting with the Chief Risk Officer without the presence of the Banks Executive Management;
- Reviewed Consumer portfolio from a business risk and asset quality perspective as well as the proposed strategy.

e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2017.

IV. Board Nomination and Remuneration Committee

a. Committee's Scope of Activity

The Board Nomination and Remuneration Committee submits recommendations to the Board of Directors on the nomination of Board members and reviews their skills, capabilities and qualifications in accordance with the approved policies and standards of the Bank and the CBK instructions. The Committee conducts an annual review of the Board of Directors structure and draws recommendations on the changes that can be made in line with the best interest of the Bank. Further more, this committee ensures that the board members are consistently informed on the latest banking issues.

The Committee reviews with the Board Risk Committee the compensation and benefits of all or some of the members of the Executive Management, including the principles and criteria used for their annual performance evaluation including on evaluation of the authority of the board members and their leadership characteristics. In concluding its role, the Board Nomination and Remuneration Committee prepares and reviews annually a Remuneration Grading Policy to the Board of Directors.

b. Composition of the Committee

• Jassim Mustafa Boodai,	Chairman
• Bader Abdulmohsen El-Jeaan,	Deputy Chairman
• Omar Hamad Al-Essa,	Member
• Sadeq Al Saraf,	Secretary

c. Committee Meetings

The Board Nomination and Remuneration Committee convenes not less than twice a year. The presence of two members is required to hold a meeting.

d. Key Achievements in 2017

- Continued to monitor and promote the Kuwaitization plan for the Bank through Ajyal Graduate Development Program and Middle Management Modular Program to build a leadership pipeline
- Led the bank restructuring for optimization review
- Recommended and approved executive compensation payouts and submitted a recommendation in the respect to the Board for a resolution.
- Completed third party audit of executive compensation
- Approved and executed the plan for Board Effectiveness Assessment;
- Submitted recommendations to the Board on the nomination of the Board members for the next 2018 -2020 term.
- Submitted recommendations to the Board in relation to salary increments and bonus payout for resolutions.

e. Changes during the year

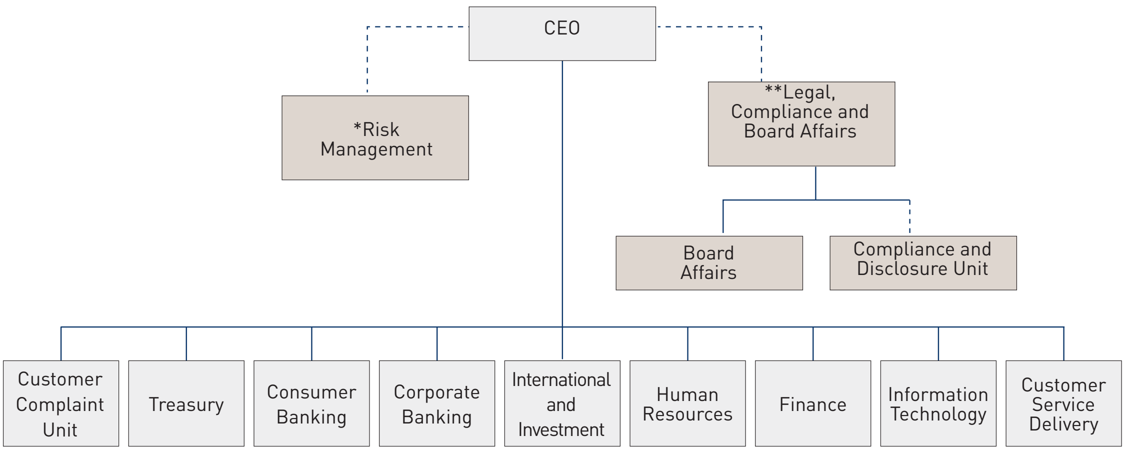
No changes in the composition of the Committee and its scope of activity took place in 2017.

Executive Management Governance Structure

The modus operandi of Executive Governance is reflected in the number of committees operating at the Executive level. These include credit committees, risk committees and several other committees set out in the chart below:

Credit Committees	Management Committees
• Executive Credit Committee	• Executive Risk Committee
• Management Credit Committee	• Asset & Liability Committee
• Remedial Credit Committee	• Fraudulent Cases Review Committee
• Classification & Provisions Committee	• Internal Controls Governance Committee
• Consumer Credit Committee	• IT Steering Committee
• Business Banking Credit Committee	• Policy & Procedure Committee
	• Wealth Managment Governance Committee
	• Executive Product Committee

Executive Management Organisation



* Reports to Board Risk Committe

** Reports to Board Corporate Governance Committee with a line to the CEO for legal matters.

Remuneration Policy

The Bank's Executive Remuneration is designed to aid in attracting, motivating and retainting leadership talent responsible for the strategic growth of the Bank and ensuring a sustained shareholder value. Executive remuneration is intended to be based on a philosophy of 'Differentiation' to establish an ethos of 'Meritocracy', create a strong alignment between business performance and executive payout as well as compliance with CBK and CMA guidelines. These fixed and variable rewards are an integral part of the Bank's total reward framework that

- is fully integrated with the Bank's strategic objectives and supports the core values;
- enables the attraction of the desired profile of potential employees, retention of key talent, and internal mobility; and
- is fair and equitable – ensures the mix of fixed and variable rewards that are consistent with the different levels of seniority

The Bank shall in general have a variable compensation based on 'At-Risk' approach for the senior executives whereby enough incentives are built in to encourage outstanding performance notwithstanding that the variable remuneration pool encourages strengthening the capital base of the Bank while preventing undue and excessive risks.

The Remuneration policy is based on ensuring that the disclosure of payouts is clear, comprehensive and timely to facilitate constructive engagement of all stakeholders and allow them to assess performance against clear targets, achievement of the Bank's strategy and risk posture.

Salary Structure

The Bank seeks to recruit and retain employees in a way, which is externally competitive and internally fair. The Bank's remuneration policy applies in a consistent way to all staff.

The Bank's salary structure is designed to ensure internal and external salary equity, whilst providing flexibility to recognise different degrees of individual performance and levels of responsibility.

Annual Merit Increment

The Bank review the performance of all employees annually and may award eligible employees a merit increment agreed by the Management, effective January 1st of each calendar year.

HAY Job Evaluation

The Bank has introduced the renowned HAY Job Evaluation system that helps establish the relative value of jobs in the Bank to ensure a fair and equitable remuneration to incumbents holding different jobs in the organization based on a structured methodology to evaluate those jobs.

Promotion Increment

The Bank promotes competent and experienced employees to higher positions whenever a position becomes available. The promotion places an employee at the grade of the new job that warrants an increase in basic salary and a change in allowances and benefits applicable to the new position.

The Remuneration Policy is fully compliant with the regulators' requirements including application of "clawback" regulations that allow the Bank to withhold payout of a part of the deferred compensation of key executives due to certain performance conditions not being met including misconduct, negligence, misstatement, exceeding credit approval and/or risk limits, and any other dubious business practices.

Employee Benefits

The Bank provides a range of employment related benefits. An employee may be eligible to certain benefits according to the eligibility criteria and job conditions. These include both Gulf Bank products/services at preferential terms, and non-Banking benefits in line with business needs and market practices. The Bank also provides employees with a range of Bank services either free of charge or at reduced rate.

The Bank has a Shadow Equity Plan, which presents an opportunity to those executives who contribute to the Bank's success and growth to benefit from the organization's long-term growth. The shadow shares reflect the market value of the Bank's ordinary shares and will be redeemed for cash by the Bank upon vesting at a price equal to the Bank's ordinary shares market price at vesting date, in accordance with the plan's terms, provided all the conditions of the plan are met.

The shadow shares are not constitutional ordinary shares of Gulf Bank and, as such, they do not entitle the holder to any right to ownership or equity of the Bank.

(KD Thousands)

	2017		2016	
Total value of remuneration awards for the current fiscal year	**Unrestricted**	**Deferred**	Unrestricted	Deferred
Fixed remuneration				
- Cash - based	**2,717**	**-**	3,356	-
- Shares and share-linked instruments	**-**	**-**	-	-
-Other	**-**	**-**	-	-
Variable remuneration				
- Cash - based	**1,193**	**-**	1,701	-
- Shares and share-linked instruments	**-**	**317**	-	219
- Other	**599**	**-**	233	-

	2017		2016	
Employee categories	**Number of employees in the category**	**Total remuneration paid**	Number of employees in the category	Total remuneration paid**
Senior Management*	**12**	**3,529**	14	4,097
Material risk takers	**5**	**773**	6	854
Financial & Control functions	**4**	**524**	5	558

* The compensation of the senior management has been disclosed in note 23 to the financial statements.

** Includes actual cash paid plus estimated variable compensation.

All personnel included in each of the above categories form part of the management team at the Bank. The management team encompasses all key decision makers and key decision maker.

The senior management include Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and other business heads. Material risk takers are those executives whose activities have a material impact on the risk profile of the group.

The total remuneration paid to five senior executives was **KD2,014 thousand** (2016: KD2,485 thousand).The total remuneration paid to the Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Internal Auditor was **KD1,508 thousand** (2016: KD2,291thousand).

Compliance and Disclosure Unit:

The Unit monitors the compliance process to ensure that contemplated board resolutions they are provided with by the Board Affairs Division are compliant with regulations and instructions issued by CBK, CMA, Boursa Kuwait and the Ministry of Commerce. The Unit advises the Board in advance on the degree of conformity of their upcoming resolutions to the regulatory authorities' instructions.

The Unit also enhances the Bank's compliance at all times with the organizational and legal/regulatory requirements related to disclosure and transparency, and ensures that shareholders, investors and stakeholders are provided, in an accurate and timely manner, with all material information related to the Bank, including its financial position, performance, business results, any changes in the ownership or management of the Bank and any other matters as required under the rules and regulations is issued in this regard, mainly under CBK Instructions on Corporate Governance related to Disclosure and Transparency, in addition to Decree No. 72 of 2015 governing the implementation of Law No. 7 of 2010 on the Establishment of Capital Markets Authority and the Regulation of Transactions on Securities as amended.

Disclosure and Transparency

The Bank is committed to providing timely, consistent, and accurate information to its stakeholders, which is consistent with legal and regulatory requirements within a transparency framework which ensures that consistent disclosure practices are applied and that the business community, including individual investors, have prompt and simultaneous access to the disclosed information. Accordingly, the Bank has adopted a Disclosure and Transparency Policy setting forth the details of disclosure requirements and corporate responsibilities in that respect.

Insider Information

In line with the instructions issued by the regulatory authorities, the Bank initiated clear board-approved policies and procedures with regard to dealing with insider information that preclude employees, members of the Board and Executive Management from exploiting such information for personal benefit. The procedures were circulated to all staff, and a declaration was obtained from Gulf Bank insiders acknowledging that they are aware of the legal implications and the penalties against misuse of such insider information.

Code of Ethics

The code of ethics is considered one of the most important components of the corporate governance framework and is enhanced through the code of conduct which is followed by the Board of Directors and Executive Management in the daily interactions with employees, customers and other stakeholders.

Conflict of Interest

The Bank adopts a conflict of interest policy to ensure that all transactions are carried out at arms length and transparently.

Confidentiality

The Board, Executive Management and employees are committed to maintain the confidentiality of information pertaining to the Bank's stakeholders in accordance with the rules and regulations issued by the Central Bank of Kuwait and other regulatory bodies.

Whistle Blowing Policy

In compliance with CBK instructions, and further to the Bank's commitment towards shareholders and third parties, and in pursuance of the highest ethics standards and business integrity requirements, the Bank established a "Whistle Blowing Policy" and a direct reporting channel to the Chairman. The policy encourages positive inter-communication between the Board, Executive Management and staff for the purpose of achieving and maintaining the highest standards of professional, transparency and integrity. The policy aims at detecting any practices that fall out of the scope of laws, regulations and sound professional conduct, so as to be remedied in a timely manner. It also provides confidentiality and ensures full protection to the whistle blower.

Board Affairs Division

The Board Affairs Division oversees and manages all matters related to the Board of Directors and its committees. The Division is in charge of preparing the agenda, scheduling and compiling the minutes of meetings of the Board of Directors and its committees and the Annual General Assembly of Shareholders. It also advises and updates the Board of Directors on corporate governance issues and new laws and regulations issued by the regulatory authorities with regard to corporate governance.

The Division has a liaison and coordination role between the Board of Directors and Executive Management in matters related to the implementation of the policies and resolutions approved by the Board.

The Board Affairs Division further coordinates with the Disclosure and Compliance Unit to ensure compliance with the relevant instructions issued by CBK, Capital Market Authority, Boursa Kuwait and Ministry of Commerce.

Investor Relations

The Investor Relations Unit is in charge of the shareholders' affairs. It addresses and responds to all queries from the shareholders and liaises between the Bank and the community where it operates.

Customer Complaints Unit

The Bank is keen to find proper solutions to the complaints raised by customers (individuals). In order to achieve this target, the Bank set up in 2011 an independent unit specialized in handling customer complaints, reporting directly to the CEO. The Unit has its own policies and procedures, along with the required mechanisms to handle customer complaints in accordance with CBK instructions issued in this regard. The activity of this unit allowed the Bank to successfully enhance customer satisfaction, trust and loyalty.

Related Party Transactions:

Certain related parties (Major Shareholders, Board Members and Officers of the Bank, their families and companies where they are the principal owners) are customers of the Bank in its normal course of business.

The transactions with these parties are concluded at arm's length and on substantially the same terms as those governing comparable transactions with unrelated parties.

The details of such transactions are provided in Note 23 of the Financial Statements.

Major Shareholders

The major shareholder(s) who own or have control over 5% or more of the Bank's share capital as at 31st December 2017 are:

• Kuwait Investment Authority	18.9%
• Alghanim Industries	13.9%
• Alghanim Trading Company	13.2%
• Behbehani Investment Company	6.1%

The Bank also confirms that there is no arrangement known to the Bank, the operation of which may at a subsequent date result in a change of control of the Bank.

Adequacy of Internal Control Systems

The Board of Directors, further to CBK rules and instructions issued in June 2012, declares and certifies that it has reviewed the internal control systems in place and confirmed their effectiveness and adequacy.

Internal controls form an integral part of the Bank's processes in its conduct of business. The Board of Directors has the overall responsibility to maintain sound internal controls and provides a broad oversight in this respect to the Executive Management. The Executive Management is responsible for the establishment and maintenance of the Internal Control Systems. The Executive Management is also responsible for the ongoing improvements of Internal Controls, through constant evaluation to meet the emerging needs and activities of the Bank and ensure that the Bank is in compliance with applicable regulations and policies.

The key elements which ensure the adequacy of Internal Control systems in the Bank include the following:

- Existence of appropriate Board approved policies and Executive Management approved procedures which are subject to regular reviews and updates to validate their applicability and sufficiency.

- Existence of several Board level and Management level Committees which monitor all significant areas and activity.

- Existence of specialized control functions such as Compliance, Risk Management and Internal Audit. Processes consistent with the "Three lines of Defense" principle are in place to ensure weaknesses are identified and reported to Executive Management and the Board.

- Existence of an independent review process initiated by the Internal Audit Group, to assess the Bank's operations, processes and systems, as per the approved annual Audit plan. Internal Audit focuses on the areas of significant risk, verifies and assesses the adequacy and effectiveness of the internal control system and reports significant issues and control gaps with the Management agreed actions to the Board Audit Committee and the Board of Directors.

- Existence of independent control reviews on financial accounting records and statements by the external auditors as per the requirements of local laws and regulations, and submit such audit reports in the form of Management letters to the Board and CBK.

- Existence of a comprehensive independent Internal Control Review process, performed annually through an international audit firm (other than the external auditors), as per the requirement of CBK, which identifies and reports any internal control deficiencies along with a Management action plan to address such issues. The latest report was issued in June 2017 and included no significant findings (Annexure-A). A summary of ICR report for the year ended 31 Dec 2016 was presented to the Board of Directors during 2017 and was reviewed and approved by the latter. The external audit firm has conducted two follow-up reviews on 30/09/2017 and 31/12/2017 to ascertain corrective actions to its findings a per CBK requirements.

- The Board Audit Committee provides an oversight and strengthens the independence of Internal and External auditors. The Committee reviews the Internal Audit reports, Central Bank audit reports, Management Letters, Internal Control Review reports and monitors periodically the status of such issues through a sound follow-up process ensuring appropriate implementation of controls to address identified issues.

Annexure-A

Report on Internal Control Systems

22 June, 2017

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Board of Directors,
Gulf Bank K.S.C.P,
P.O Box: 3200, Safat 13032,
Kuwait

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 20 March 2017, we have examined the accounting and other records and internal control systems of Gulf Bank K.S.C.P, for the year ended 31 December 2016.

We covered the following processes of the Bank:

- Corporate Governance
- Consumer Banking
- Corporate Banking
- Treasury
- Investments
- International Banking
- Legal Affairs
- Compliance
- Anti-Money Laundering
- Securities Activities
- Risk Management
- Customer Complaints
- Operations
- Finance
- Information Technology
- Human Resources
- Facilities Management
- Internal Audit
- Confidentiality of Customer Information and Data
- Fraud Detection Procedures

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 28 February 2017 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning Anti-money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations and internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

Having regard to the nature and volumes of the Bank operations, during the year ended 31 December 2016, and the materiality and risk rating of our findings, and the exception of matters set out in the report submitted to the Board of Directors of the Bank, in our opinion:

a) the accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 11 November 1996 and letter issued by CBK on 28 February 2017,

b) the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2016, and

c) the actions taken by the Bank to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,

Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

CAPITAL MANAGEMENT AND ALLOCATION

Capital Structure

In accordance with the CBK guidelines (CBK circular No.2/RB,RBA/336/2014), the Kuwaiti banks must maintain a minimum capital adequacy ratio of 13%. Tier 1 capital comprising Common Equity Tier 1 (CET1) and Additional Tier 1(AT1) capital. CET1 comprising paid up share capital and reserves including property revaluation reserve and fair valuation reserve less treasury shares and Tier 2 comprising allowed portion of general provisions (1.25% of the risk weighted assets) and subordinated Tier 2 bonds. Gulf Bank has been identified as a Domestic Systemically Important Bank (D-SIB) and is required to hold additional Common Equity Tier 1 capital (CET1) of 1% (2016: 1%).

The table below details the regulatory capital for Gulf Bank (the "Bank") as at 31 December 2017 and 31 December 2016:

(KD Million)

Composition of Capital	31-Dec-17	31-Dec-16	Variance
Common Equity Tier 1 Capital : instruments and reserves			
Directly issued qualifying common share capital plus stock surplus	**457.8**	457.8	0.0
Retained earnings	**139.2**	116.6	22.6
Accumulated other comprehensive income (and other reserves)	**75.0**	69.9	5.1
Common Equity Tier 1 capital before regulatory adjustments	**672.0**	644.3	27.7
Common Equity Tier 1 Capital : regulatory adjustments	**-**	-	-
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(70.8)**	(70.8)	0.0
Total regulatory adjustments to Common equity Tier 1	**(70.8)**	(70.8)	0.0
Common Equity Tier 1 capital (CET1)	**601.3**	573.5	27.8
Additional Tier 1 capital : instruments	**-**	-	-
Additional Tier 1 capital : regulatory adjustments	**-**	-	-
Additional Tier 1 capital (AT1)	**-**	-	-
Tier 1 capital (T1=CET1+AT1)	**601.3**	573.5	27.8
Tier 2 capital : instruments and provisions			
Directly issued qualifying Tier 2 instruments plus related stock surplus	**100.0**	100.0	-
General provisions included in Tier 2 capital	**50.9**	47.2	3.7
Tier 2 capital before regulatory adjustments	**150.9**	147.2	3.7
Tier 2 capital : regulatory adjustments	**-**	-	-
Tier 2 capital	**150.9**	147.2	3.7
Total capital (TC= T1+T2)	**752.1**	720.7	31.4
Total risk weighted assets	**4,226.2**	3,897.8	328.4

(KD Million)

Composition of Capital	**31-Dec-17**	31-Dec-16	Variance
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	**14.2%**	14.7%	-0.5%
Tier 1 (as a percentage of risk weighted assets)	**14.2%**	14.7%	-0.5%
Total capital (as a percentage of risk weighted assets)	**17.8%**	18.5%	-0.7%
Institution specific buffer requirement(minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	**-**	-	-
of which : capital conservation buffer requirement	**2.5%**	2.5%	0.0%
of which : bank specific countercyclical buffer requirement	**-**	-	-
of which : D-SIB buffer requirement	**1.0%**	1.0%	0.0%
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**3.5%**	3.5%	0.0%
National minima	**-**	-	-
National Common Equity Tier 1 minimum ratio	**10.5%**	10.5%	0.0%
National Tier 1 minimum ratio	**12.0%**	12.0%	0.0%
National total capital minimum ratio excluding CCY and DSIB buffers	**13.0%**	13.0%	0.0%
Amounts below the thresholds for deduction (before risk weighting)	**-**	-	-
Non-significant investments in the capital of other financials	**-**	-	-
Significant investments in the common stock of financials	**-**	-	-
Mortgage servicing rights(net of related tax liability)	**-**	-	-
Deferred tax assets arising from temporary differences(net of related tax liability)	**-**	-	-
Applicable caps on the inclusion of provisions in Tier 2	**-**	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**-**	-	-
Cap on inclusion of provisions in Tier 2 under standardized approach	**-**	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	-	-
Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	-	-

Capital Management

The Bank's capital management policy is to ensure and maintain an adequate capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of loan growth expectations for each business group, expected growth in off-balance-sheet facilities and trading (i.e. market risk) activities, future sources and uses of funds, and the Bank's future dividend policy. Capital is allocated to different business groups and stress testing is done to ensure that the Bank's internal capital targets are consistent with the approved risk appetite of the Bank.

The Bank seeks to maintain a prudent balance between the different components of its capital, particularly the relative mix of Tier 1 and Tier 2 capital.

The following table below details the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank as at 31 December 2017 and 31 December 2016:

(KD Million)

Credit Risk Exposures	31-Dec-17	31-Dec-16	Variance
Credit risk weighted assets	**4,068.8**	3,775.7	293.1
Less: Excess general provision	**(152.2)**	(175.0)	22.8
Net credit risk weighted exposures	**3,916.6**	3,600.7	315.9
Market risk weighted assets	**2.3**	1.6	0.7
Operational risk weighted exposures	**307.3**	295.5	11.8
Total Risk Weighted exposures	**4,226.2**	3,897.8	328.4

Regulatory Capital allocation *(KD Million)*

Credit Risk	31-Dec-17	31-Dec-16	Variance
Cash items	**-**	-	-
Claims on sovereigns	**1.9**	3.2	(1.3)
Claims on public sector entities (PSEs)	**3.1**	4.5	(1.4)
Claims on banks	**40.1**	42.6	(2.5)
Claims on corporates	**307.9**	261.3	46.6
Credit derivative claims (protection seller)	**-**	2.2	(2.2)
Regulatory retail exposures	**164.9**	155.8	9.1
Past due exposures	**4.4**	4.9	(0.5)
Other exposures	**47.4**	54.0	(6.6)
Credit risk capital allocation	**569.6**	528.6	41.0
Less : Excess general provision	**(21.3)**	(24.5)	3.2
Net Credit Risk Capital allocation	**548.3**	504.1	44.2

(KD Million)

Market Risk	**31-Dec-17**	31-Dec-16	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**0.3**	0.2	0.1
Capital allocation for market risk	**0.3**	0.2	0.1
Capital allocation for operational risk	**43.0**	41.4	1.6
TOTAL CAPITAL ALLOCATED	**591.7**	545.7	46.0

Capital adequacy ratios (per cent)	**31-Dec-17**	31-Dec-16	Variance
Tier 1 ratio	**14.2%**	14.7%	-0.5%
Total capital adequacy ratio	**17.8%**	18.5%	-0.7%

The regulatory capital allocation disclosed above is calculated at 14% for both years (including 1% for DSIBs).The total risk-weighted exposure as at 31 December 2017 is **KD4,226.2 million** (2016: KD3,897.8 million), requiring a regulatory capital of **KD591.7 million** (2016: KD545.7 million).

The Bank's regulatory capital as at 31 December 2017 is **KD752.1 million** (2016: KD720.7 million), translating to a capital adequacy ratio of **17.8%** (2016: 18.5%).

RISK MANAGEMENT

Organization of Governance and Risk Management

The Risk Management Policy document, approved by the Board provides the necessary information on risk management approach, objectives, management and organization structure. The risk management policies and procedures are constantly reviewed and where necessary, modified and enhanced to reflect changes in products and the market. Enterprise Risk Management (ERM) system encompassing all areas of Risk Management further strengthens the Risk Management system in the Bank.

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensures the autonomy and independence of the Risk function of the Bank. BRC reviews high risk credits which are more than 10% of the Bank's capital or as deemed appropriate by the Committee. The Risk Management Department is headed by the Chief Risk Officer (CRO) who reports to the Board Risk Committee. The Bank has also constituted an Executive Risk Committee (ERC), co-chaired by the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Bank provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Bank.

The organisation of risk management, roles and responsibilities of the various committees are included in Note 24 of the financial statements.

Corporate Governance

Gulf Bank under the leadership of its Chairman and Board of Directors has implemented the new rules on Corporate Governance 2012 as announced by the CBK. The Bank also endeavors to adopt global best practices which are vital to its financial and communal well being. The Bank has constituted four major committees - Board Risk Committee, Board Audit Committee, Board Corporate Governance Committee and Board Nomination & Remuneration Committee for implementation of Corporate Governance of the Bank.

Risk Appetite and Portfolio Strategy

The Bank maintains a strong risk management culture and manages the risk/reward relationship within and across each of the Bank's lines of business. The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to material asset valuation and earnings volatility.

The Bank has a Risk Appetite document, which enables close monitoring of various risks on an ongoing basis against the internally set thresholds. On a quarterly basis, the risk dashboard is presented and discussed with the Executive Risk Committee and Board Risk Committee. The Risk Appetite document is periodically reviewed and amended in line with market and economic factors. The Bank has a detailed credit policy approved by the Board and periodically revised in response to changes in risk and market conditions.

The Credit Policy Manual sets out the guiding principles and credit risk standards governing extension of credit to provide a structure around which the banking business must be based and ensure a consistent approach to all its lending activities. It also defines the policy on acceptable country credit risk exposure. The individual country limits are approved and reviewed by the Executive Credit Committee (ECC) which is the highest credit approving committee delegated by the Board of Directors within CBK guidelines.

The Bank classifies its exposure as per North American Industry Classification System (NAICS) Code. Such classification is in addition to the classification based on purpose codes as defined by CBK. This allows the Bank to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of concentrations, if any. The Bank has also introduced a Portfolio Risk Rating process through which the overall portfolio quality is assessed at regular intervals and deliberated upon in the Executive Risk Committee (ERC). Portfolio Risk Rating has been extended up to the relationship manager level and risk measures are introduced for business performance appraisal. This leads to strengthening the first line and further improvement in asset quality.

RAROC (Risk Adjusted Return on Capital) Model is in use in the Bank to assess the net value created in the account after taking into account the cost of capital. The Models help to make right credit decisions and create shareholder value.

The Internal Capital Adequacy Assessment Process ('ICAAP')

The Internal Capital Adequacy Assessment Process ('ICAAP') identifies, measures, aggregates and monitors the Bank's risks and enables the Bank to maintain an appropriate level of internal capital in relation to the Bank's overall risk profile and business plan. The Bank carries out an assessment of material risks such as Credit, Market, Operational, Credit Concentration (sector and name concentration) risk, Interest Rate risk, Liquidity risk, Legal risk, Reputational risk etc., as part of the ICAAP process. The Bank also runs a Stress Testing analysis to measure the impact on the value of collateral, income streams, downgrades of lending portfolio etc. over a one year horizon for three plausible stress scenarios (mild, medium and severe).

The capital allocation for each of the risks and stress testing results are reviewed and discussed at ERC and BRC meetings to ensure sufficient capital is allocated for each risk, keeping in view both macro and micro economic factors.

The Capital Adequacy Ratio under Pillar 1 (Basel III) as on 31st December 2017 is 17.80% (2016: 18.49%) and the corresponding Capital Adequacy Ratio under ICAAP is 16.30% (2016: 17.54%).

Credit Risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and treasury activities. The Bank has comprehensive policies and procedures to control and monitor all such risks. The Board of Directors has delegated all authority (except credit facilities to Board of Directors and related names) for credit decisions to Executive Credit Committee ("ECC") within the CBK guidelines. Note 24 (A) to the financial statements explains credit risk in detail and also outlines Bank's policy and framework to manage it.

Market Risk

Market risk is the risk that movements in market values or prices, including currency rates, interest rates and credit spreads will reduce the Bank's income or the value of its portfolios (assets and financial instruments).

The Bank is exposed to market risk through its trading activities, which are carried out both for customers and on a proprietary basis, as well as its holdings of financial assets and liabilities. The Treasury group manages the Bank's foreign exchange, interest rate risk and liquidity risks. The Investments group monitors the equity market risk for proprietary investment portfolio. Individual dealer position and trading limits are set for each portfolio, product and risk type to ensure that the Bank's market risk is managed within the overall CBK regulatory guidelines, internal limits set by the Bank's Risk Appetite and the market risk profile set by Asset and Liability Committee (ALCO). Interest rate, currency and liquidity mismatches are monitored constantly by the treasury group and regularly reviewed by ALCO.

The Bank's primary treasury business involves foreign exchange transactions on behalf of corporate customers. Customer transactions are mostly undertaken on a back-to-back basis. The treasury group undertakes a limited amount of proprietary foreign exchange trading, mainly in the G7 currencies but also in the regional and other minor currencies. The risks are limited since the open foreign exchange positions are very small and in strict adherence with the open currency position limits set by CBK. The Bank does not trade in fixed income or equity securities.

Money Market activities are restricted to meeting the funding requirements of the Bank's domestic and international foreign currency assets and investing any surpluses. As a matter of general policy, these positions do not contain material interest rate risk.

Bank's treasury group also maintains a portfolio of Kuwait Government treasury bonds and CBK bonds to meet the CBK statutory liquidity requirements as well as a portfolio of mostly GCC sovereign bonds denominated in USD to manage surplus liquidity.

The Kuwaiti Dinar is the Bank's functional currency and almost all of the Bank's assets and liabilities are denominated in either KD or USD and are match funded in the same currency. As a result, there is limited structural cross currency foreign exchange exposure.

Currency Risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. Note 24 (C) to the financial statements explains currency risk in detail.

Interest Rate Risk (Banking Book)

Interest rate risk for the Bank arises from the possibility that changes in the interest rates will affect the fair value or future cash flows of the financial instruments. The Bank monitors the impacts on the Net Interest Income for a 12 month period as well as the change in economic value of the assets and liabilities under various interest rate scenarios. Note 24 (B) to the financial statements explains interest rate risk in detail and also outlines Bank's policy and framework to manage it.

Equity Risk (Banking Book)

The Investments group is responsible for managing the proprietary investment securities portfolio in the Banking (i.e. non-trading) book. The Bank complies with all Investment related Limits mandated by CBK.

In accordance with IAS 39, the equity investments are classified as 'available-for-sale'. The accounting classifications and fair value measurements are disclosed in the significant accounting policies note to the financial statements. The types and accounting classifications of investments are disclosed in note 13 of the financial statements.

Liquidity Risk

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. Liquidity risk arises in the general funding of a bank's activities. The Bank has maintained a balance in liquid assets over and above the CBK's minimum requirements. Note 24 (D) to the financial statements explains liquidity risk in detail and also outlines Bank's policy and framework to manage it.

Operational Risk

Operational risk is the risk of loss arising out of the failure of people, processes or technology or the impact of external events. It includes fraud, unauthorised activities, errors, omissions, inefficiencies, systems failures and external events.

The Bank's Operational Risk Management framework is intended to identify, assess, monitor, mitigate and control operational risk effectively in the Bank in a consistent manner and, in the long run, to ensure that the Bank gets compensated for the risks assumed.

The Bank's Operational Risk Management framework encompasses Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRI's). The framework is being implemented in each operating unit of the Bank. Besides, the Bank has an Incident reporting mechanism, whereby any deviations from the standard operation are internally reported, the root causes identified and appropriate remedial measures are implemented in a timely manner. The Bank collates internal operational loss information and the data facilitates the Bank to put in place appropriate controls to prevent incidence of such losses in future. The Bank uses the SunGard Operational Risk solution for the purpose of monitoring operational risk. Note 24 (E) to the financial statements provides additional information on the bank's operational risk management framework.

Credit Risk Exposure

The Bank uses the Moody's Risk Rating system for risk rating its credit exposures. Note 24 to the financial statements explain Bank's internal grading process in detail.

Gross Credit Risk Exposure

The summary of the Bank's gross credit risk exposure (before credit risk mitigation) as of 31 December 2017 and 31 December 2016 are shown below. The unfunded (i.e. off-balance-sheet) amounts represent the gross credit risk exposure before the credit conversion factor ('CCF') adjustments, since the gross amounts reflect the Bank's ultimate credit risk in the event of default by the counterparties.

(KD Million)

Gross Credit Risk Exposure	31-Dec-17	31-Dec-16	Variance
Funded Gross Credit Exposure	**5,882.5**	5,684.4	198.1
Unfunded Gross Credit Exposure	**1,445.5**	1,568.9	(123.4)
Total Gross Credit Risk Exposure	**7,328.0**	7,253.3	74.7

Funded gross credit risk exposure as of 31 December 2017 is **80.3%** (2016: 78.4%) of the total gross credit risk exposure.

Gross credit risk exposure divided between funded and unfunded on the basis of standard portfolio is detailed in the credit risk exposure section.

Average Credit Risk Exposure

Average credit risk exposure as at 31 December 2017 and 31 December 2016 are detailed below:

Funded and Unfunded credit facilities (Average) as at 31 December

(KD Thousands)

	2017			2016		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total
Cash items	**48,725**	**-**	**48,725**	48,832	-	48,832
Claims on sovereigns	**1,188,457**	**5**	**1,188,462**	1,102,011	17	1,102,028
Claims on public sector entities (PSEs)	**227,618**	**3,441**	**231,059**	191,445	1,489	192,934
Claims on banks	**568,223**	**363,542**	**931,765**	477,343	324,926	802,269
Claims on corporates	**1,946,515**	**1,073,242**	**3,019,757**	1,920,363	1,121,573	3,041,936
Credit derivative claims (Protection seller)	**-**	**22,860**	**22,860**	-	86,891	86,891
Retail exposures	**1,258,225**	**38,970**	**1,297,195**	1,216,886	40,283	1,257,169
Past due exposures	**87,070**	**128**	**87,198**	85,752	84	85,836
Other exposures	**408,624**	**438**	**409,062**	485,611	1,203	486,814
Total	**5,733,457**	**1,502,626**	**7,236,083**	5,528,243	1,576,466	7,104,709

Average funded gross credit risk exposure for 2017 is **79.23%** (2016: 77.81%) of the total average gross credit risk exposure. The full year average amounts are calculated using a 13-point average of the month end figures from 31 December 2016 to 31 December 2017 inclusive.

Geographical Distribution of Gross Credit Risk Exposures

The geographical distribution of the total gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio as at 31 December 2017 and 31 December 2016 are shown below. The geographical distribution is based on the primary purpose of the credit facilities.

Total gross credit risk exposures as at 31 December 2017 - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**62,138**	**-**	**-**	**-**	**-**	**-**	**62,138**
Claims on sovereigns	**1,084,025**	**56,982**	**-**	**-**	**13,579**	**-**	**1,154,586**
Claims on public sector entities (PSEs)	**126,678**	**85,485**	**-**	**-**	**-**	**-**	**212,163**
Claims on banks	**85,069**	**277,980**	**254,125**	**12,835**	**242,830**	**-**	**872,839**
Claims on corporates	**2,920,824**	**303,041**	**10,296**	**9,818**	**24,225**	**10,209**	**3,278,413**
Retail exposures	**1,339,674**	**1,131**	**50**	**5**	**266**	**-**	**1,341,126**
Past due exposures	**61,109**	**-**	**-**	**-**	**-**	**-**	**61,109**
Other exposures	**339,577**	**3,715**	**884**	**1,375**	**-**	**30**	**345,581**
Total	**6,019,094**	**728,334**	**265,355**	**24,033**	**280,900**	**10,239**	**7,327,955**
Percentage of gross credit risk exposure by geographical region	**82.1%**	**10.1%**	**3.6%**	**0.3%**	**3.8%**	**0.1%**	**100.0%**

Total gross credit risk exposures as at 31 December 2016 - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	51,750	-	-	-	-	-	51,750
Claims on sovereigns	1,150,260	83,473	-	3,064	22,954	-	1,259,751
Claims on public sector entities (PSEs)	149,515	77,848	-	-	-	-	227,363
Claims on banks	25,428	374,139	233,498	21,225	248,660	1,691	904,641
Claims on corporates	2,667,683	219,130	11,868	9,818	89,924	-	2,998,423
Credit derivative claims (Protection seller)	-	59,680	-	-	-	-	59,680
Retail exposures	1,275,383	-	-	-	-	-	1,275,383
Past due exposures	77,570	-	-	-	-	-	77,570
Other exposures	391,383	3,886	746	2,627	-	48	398,690
Total	5,788,972	818,156	246,112	36,734	361,538	1,739	7,253,251
Percentage of gross credit risk exposure by geographical region	79.8%	11.3%	3.4%	0.5%	5.0%	0.0%	100.0%

The majority of the Bank's credit exposure is in Kuwait which comprises **KD6.02 billion** (**82.1%** of total gross credit exposure) at 31 December 2017, compared with KD5.79 billion (80% of total gross credit exposure) at 31 December 2016.

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2017 and 2016, broken down by geographical region and standard credit risk portfolio are shown below:

Total gross credit risk exposures as at 31 December 2017 (Average) - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	48,725	-	-	-	-	-	48,725
Claims on sovereigns	1,107,543	59,901	-	706	20,312	-	1,188,462
Claims on public sector entities (PSEs)	149,734	81,325	-	-	-	-	231,059
Claims on banks	90,530	332,412	234,136	30,976	243,550	161	931,765
Claims on corporates	2,779,844	166,916	11,458	9,818	50,936	785	3,019,757
Credit derivative claims (Protection seller)	-	22,860	-	-	-	-	22,860
Regulatory retail exposures	1,296,253	266	52	104	332	188	1,297,195
Past due exposures	87,198	-	-	-	-	-	87,198
Other exposures	402,653	3,780	808	1,780	-	41	409,062
Total	**5,962,480**	**667,460**	**246,454**	**43,384**	**315,130**	**1,175**	**7,236,083**
Percentage of gross credit risk exposure by geographical region	**82.4%**	**9.2%**	**3.4%**	**0.6%**	**4.4%**	**0.0%**	**100%**

Total gross credit risk exposures as at 31 December 2016 (Average) - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	48,832	-	-	-	-	-	48,832
Claims on sovereigns	1,027,147	65,539	-	2,330	7,012	-	1,102,028
Claims on public sector entities (PSEs)	147,681	41,943	-	-	3,310	-	192,934
Claims on banks	35,688	295,379	202,553	34,818	233,407	424	802,269
Claims on corporates	2,744,101	179,084	10,106	17,332	91,313	-	3,041,936
Credit derivative claims (Protection seller)	-	86,891	-	-	-	-	86,891
Regulatory retail exposures	1,257,104	16	-	15	18	16	1,257,169
Past due exposures	85,836	-	-	-	-	-	85,836
Other exposures	479,142	3,985	801	2,762	-	124	486,814
Total	5,825,531	672,837	213,460	57,257	335,060	564	7,104,709
Percentage of gross credit risk exposure by geographical region	82.0%	9.5%	3.0%	0.8%	4.7%	0.0%	100%

Industry Segment Distribution of Gross Credit Risk Exposures

The industry segment split of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2017 and 31 December 2016 are shown below:

Total gross credit risk exposures as at 31 December 2017- Industry wise

(KD Thousands)

	Personal	**Financial**	**Trade and commerce**	**Crude oil and gas**	**Constr-uction**	**Manufa-cturing**	**Real Estate**	**Other Services**	**Total**
Cash items	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**62,138**	**62,138**
Claims on sovereigns	**-**	**99,315**	**-**	**-**	**5**	**-**	**-**	**1,055,266**	**1,154,586**
Claims on public sector entities (PSEs)	**-**	**-**	**2,690**	**184,404**	**-**	**-**	**-**	**25,069**	**212,163**
Claims on banks	**-**	**823,090**	**-**	**38,894**	**-**	**-**	**-**	**10,855**	**872,839**
Claims on corporate	**157,056**	**342,640**	**555,515**	**85,986**	**812,303**	**302,907**	**471,500**	**550,506**	**3,278,413**
Regulatory retail exposures	**1,286,765**	**27**	**19,842**	**469**	**21,363**	**4,114**	**206**	**8,340**	**1,341,126**
Past due exposures	**11,393**	**-**	**15,684**	**-**	**60**	**-**	**27,296**	**6,676**	**61,109**
Other exposures	**73,708**	**-**	**-**	**-**	**-**	**-**	**83,456**	**188,417**	**345,581**
Total	**1,528,922**	**1,265,072**	**593,731**	**309,753**	**833,731**	**307,021**	**582,458**	**1,907,267**	**7,327,955**
Percentage of gross credit risk exposure by industry segment	**20.9%**	**17.3%**	**8.1%**	**4.2%**	**11.4%**	**4.2%**	**7.9%**	**26.0%**	**100%**

Total gross credit risk exposures as at 31 December 2016- Industry wise

(KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Constr-uction	Manufa-cturing	Real Estate	Other Services	Total
Cash items	-	51,750	-	-	-	-	-	-	51,750
Claims on sovereigns	-	180,961	-	-	5	-	-	1,078,785	1,259,751
Claims on public sector entities (PSEs)	-	-	4,784	145,441	-	-	-	77,138	227,363
Claims on banks	-	801,853	45	49,150	10,123	-	-	43,470	904,641
Claims on corporate	144,103	395,312	451,957	82,981	877,685	295,667	306,097	444,621	2,998,423
Credit derivative claims (Protection seller)	-	59,680	-	-	-	-	-	-	59,680
Regulatory retail exposures	1,217,068	1	20,248	396	24,076	5,441	80	8,073	1,275,383
Past due exposures	13,833	-	15,227	-	94	16	41,176	7,224	77,570
Other exposures	34,300	-	-	-	-	-	107,222	257,168	398,690
Total	1,409,304	1,489,557	492,261	277,968	911,983	301,124	454,575	1,916,479	7,253,251
Percentage of gross credit risk exposure by industry segment	19.4%	20.5%	6.8%	3.8%	12.6%	4.2%	6.3%	26.4%	100.0%

Residual Maturity Distribution of Gross Credit Risk Exposures

The residual maturity of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2017 and 31 December 2016 are shown below:

Total gross credit risk exposures as at 31 December 2017

(KD Thousands)

	Upto 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 years	Over 3 years	Total
Cash items	**62,138**	**-**	**-**	**-**	**-**	**-**	**62,138**
Claims on sovereigns	**213,414**	**176,000**	**183,091**	**84,962**	**360,180**	**136,939**	**1,154,586**
Claims on public sector entities (PSEs)	**57**	**216**	**253**	**6,713**	**27,341**	**177,583**	**212,163**
Claims on banks	**337,087**	**83,235**	**23,315**	**146,095**	**128,373**	**154,734**	**872,839**
Claims on corporates	**216,961**	**510,364**	**445,124**	**533,994**	**627,121**	**944,849**	**3,278,413**
Regulatory retail exposures	**81,894**	**17,378**	**13,415**	**16,636**	**109,043**	**1,102,760**	**1,341,126**
Past due exposures	**49,677**	**64**	**49**	**237**	**1,364**	**9,718**	**61,109**
Other exposures	**46,505**	**-**	**60,647**	**75,413**	**82,126**	**80,890**	**345,581**
Total	**1,007,733**	**787,257**	**725,894**	**864,050**	**1,335,548**	**2,607,473**	**7,327,955**
Percentage of gross credit risk exposureby residual maturity	**13.8%**	**10.7%**	**9.9%**	**11.8%**	**18.2%**	**35.6%**	**100.0%**

Total gross credit risk exposures as at 31 December 2016

(KD Thousands)

	Upto 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 years	Over 3 years	Total
Cash items	51,750	-	-	-	-	-	51,750
Claims on sovereigns	477,672	307,547	133,762	52,000	223,326	65,444	1,259,751
Claims on public sector entities (PSEs)	588	-	-	-	42,698	184,077	227,363
Claims on banks	291,931	116,956	61,676	111,590	184,899	137,589	904,641
Claims on corporates	255,440	512,884	415,734	396,291	724,807	693,267	2,998,423
Credit derivative claims (Protection seller)	-	30,605	4,591	24,484	-	-	59,680
Regulatory retail exposures	97,939	16,968	13,599	17,400	108,505	1,020,972	1,275,383
Past due exposures	65,452	52	79	166	2,056	9,765	77,570
Other exposures	184,834	87,642	59,113	20,841	5,463	40,797	398,690
Total	1,425,606	1,072,654	688,554	622,772	1,291,754	2,151,911	7,253,251
Percentage of gross credit risk exposure by residual maturity	19.7%	14.8%	9.5%	8.6%	17.8%	29.6%	100.0%

IMPAIRED LOANS AND PROVISIONS

Impaired Loans and Provisions by Industry Segments

The industry segments split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific and general) as at 31 December 2017 and 31 December 2016 are shown below:

Impaired loans and provisions (by industry segment) as at 31 December 2017

(KD Thousands)

	Impaired Loans (NPLs)			
	Past due portion	**Balance outstanding**	**Specific Provision Cash and Non cash**	**Specific Provision Cover**
Personal	**11,391**	**20,913**	**9,522**	**45.5%**
Financial	**-**	**-**	**-**	**0.0%**
Trade and commerce	**15,663**	**17,249**	**1,752**	**10.2%**
Crude oil and gas	**-**	**-**	**-**	**0.0%**
Construction	**-**	**-**	**1,943**	**0.0%**
Manufacturing	**-**	**-**	**12**	**0.0%**
Real estate	**27,296**	**27,339**	**43**	**0.2%**
Others	**6,678**	**7,509**	**855**	**11.4%**
Total	**61,028**	**73,010**	**14,127**	**19.3%**

Impaired loans and provisions (by industry segment) as at 31 December 2016

(KD Thousands)

	Impaired Loans (NPLs)			
	Past due portion	Balance outstanding	Specific Provision Cash and Non cash	Specific Provision Cover
Personal	13,833	25,913	12,081	46.6%
Financial	-	-	-	0.0%
Trade and commerce	15,203	17,485	2,305	13.2%
Crude oil and gas	-	-	-	0.0%
Construction	51	111	2,641	2379.3%
Manufacturing	2	20	18	90.0%
Real estate	41,176	41,176	-	0.0%
Others	7,203	8,691	1,548	17.8%
Total	77,468	93,396	18,593	19.9%

Non-performing loans ('NPL's') have decreased by KD20.4 million in 2017 (for details refer Note 12 and 24 (A) of the financial statements and the following table).

Provision Charge by Industry Segments

The industry segments split of the provision charges and write-offs are shown below:

Provision Charges and Write - offs during 2017 (by Industry Segments)

(KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	**General Charge**	**Total Charge**
Personal	**13,961**	**35,585**	**49,546**
Financial	**-**	**(34,356)**	**(34,356)**
Trade and commerce	**16,075**	**760**	**16,835**
Crude oil and gas	**-**	**327**	**327**
Construction	**(574)**	**4,108**	**3,534**
Manufacturing	**51,475**	**(34,081)**	**17,394**
Real estate	**42,029**	**(5,003)**	**37,026**
Others	**208**	**(20,730)**	**(20,522)**
Total	**123,174**	**(53,390)**	**69,784**

Provision Charges and Write - offs during 2016 (by Industry Segments)

(KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	General Charge	Total Charge
Personal	15,667	(3,583)	12,084
Financial	(10)	13,064	13,054
Trade and commerce	1,142	(20)	1,122
Crude oil and gas	-	600	600
Construction	(150)	(433)	(583)
Manufacturing	7	1,381	1,388
Real estate	5,000	(30,131)	(25,131)
Others	796	37,221	38,017
Total	22,452	18,099	40,551

Specific charge mentioned above excludes **KD127.6 million** (2016: KD22.5 million) amounts written off during the year.

Impaired Loans and Provisions by Geographical Segments

The geographical split of impaired (i.e. non-performing) loans and the associated provisions cover as at 31 December 2017 and 31 December 2016 are shown below:

Impaired loans and provisions (by Geographical Region) as at 31 December 2017

(KD Thousands)

	Impaired Loans (NPLs)			
	Past due portion	**Balance outstanding**	**Specific Provision Cash and Non cash**	**Specific Provision Cover**
Kuwait	**61,028**	**73,010**	**14,127**	**19.3%**
Other Middle East	**-**	**-**	**-**	**0.0%**
Western Europe	**-**	**-**	**-**	**0.0%**
USA & Canada	**-**	**-**	**-**	**0.0%**
Asia Pacific	**-**	**-**	**-**	**0.0%**
Rest of World	**-**	**-**	**-**	**0.0%**
Total	**61,028**	**73,010**	**14,127**	**19.3%**

Impaired loans and provisions (by Geographical Region) as at 31 December 2016

(KD Thousands)

	Impaired Loans (NPLs)			
	Past due portion	Balance outstanding	Specific Provision Cash and Non cash	Specific Provision Cover
Kuwait	77,468	93,396	18,593	19.9%
Other Middle East	-	-	-	0.0%
Western Europe	-	-	-	0.0%
USA & Canada	-	-	-	0.0%
Asia Pacific	-	-	-	0.0%
Rest of World	-	-	-	0.0%
Total	77,468	93,396	18,593	19.9%

The total credit exposure after applying the relevant Basel III standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2017 and 31 December 2016, broken down by standard credit risk portfolio, are shown below:

Gross credit risk exposure before CRM as at 31 December 2017

(KD Thousands)

	Gross credit exposure			Credit exposure before CRM			
	Funded	**Unfunded**	**Total**	**Funded Credit Exposure**	**Unfunded Credit After CCF**	**FX Contracts After CCF**	**Total Before CRM**
Cash items	**62,138**	**-**	**62,138**	**62,138**	**-**	**-**	**62,138**
Claims on sovereigns	**1,154,581**	**5**	**1,154,586**	**1,154,581**	**3**	**58**	**1,154,642**
Claims on PSEs	**211,048**	**1,115**	**212,163**	**211,048**	**558**	**9**	**211,615**
Claims on banks	**524,721**	**348,118**	**872,839**	**524,721**	**172,260**	**5,670**	**702,651**
Claims on corporates	**2,220,929**	**1,057,484**	**3,278,413**	**2,220,929**	**478,065**	**3,318**	**2,702,312**
Credit derivative claims(protection seller)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Retail exposures	**1,302,888**	**38,238**	**1,341,126**	**1,302,888**	**16,713**	**-**	**1,319,601**
Past due exposures	**61,028**	**81**	**61,109**	**61,028**	**41**	**-**	**61,069**
Other exposures	**345,173**	**408**	**345,581**	**345,173**	**204**	**-**	**345,377**
Total	**5,882,506**	**1,445,449**	**7,327,955**	**5,882,506**	**667,844**	**9,055**	**6,559,405**

Gross credit risk exposure before CRM as at 31 December 2016

(KD Thousands)

	Gross credit exposure			Credit exposure before CRM			
	Funded	Unfunded	Total	Funded Credit Exposure	Unfunded Credit After CCF	FX Contracts After CCF	Total Before CRM
Cash items	51,750	-	51,750	51,750	-	-	51,750
Claims on sovereigns	1,259,746	5	1,259,751	1,259,746	3	170	1,259,919
Claims on PSEs	226,242	1,121	227,363	226,242	561	-	226,803
Claims on banks	526,723	377,918	904,641	526,723	187,941	4,060	718,724
Claims on corporates	1,912,052	1,086,371	2,998,423	1,912,052	492,167	5,161	2,409,380
Credit derivative claims(protection seller)	-	59,680	59,680	-	59,680	-	59,680
Retail exposures	1,232,159	43,224	1,275,383	1,232,159	18,629	-	1,250,788
Past due exposures	77,468	102	77,570	77,468	51	-	77,519
Other exposures	398,258	432	398,690	398,258	216	-	398,474
Total	5,684,398	1,568,853	7,253,251	5,684,398	759,248	9,391	6,453,037

Credit Risk Mitigation and Credit Risk-Weighted Assets

Under the Basel III standardized approach for credit risk, CRM techniques are used to reduce the risk-weighted amount of credit risk exposures for capital adequacy purposes. Note 24 (A) to the financial statements explains credit risk in detail and also outlines Bank's policy and framework to manage it. As per Basel III real estate as collateral will be derecognized in five years with effect from 31 December 2014, with an additional hair cut of 10% in each year. At 31 December 2017, 90% (2016: 80%) hair cut is applied on real estate collateral.

The Bank's credit policy requires conservative minimum collateral coverage ratios, supported by top-up ratios. When the value of the collateral held in respect of a particular loan falls below the initial prescribed collateral coverage ratio and reaches the top up ratio threshold, the customer is requested to provide additional collateral in order to restore the prescribed collateral coverage ratio. Real estate collateral is valued once a year by two independent real estate valuers (the lower of the two valuations is used) and quoted shares are valued daily using current stock exchange prices for direct pledge and for those held through the portfolio manager.

In certain cases, personal/corporate guarantees from high net worth individuals or companies are also used to help secure credit facilities. The CRM treatment of these guarantees for capital computation is strictly as stipulated under Basel guidelines.

Consumer loans are generally not secured, but the credit risk is minimised by the 'assignment of salary' condition that requires the customer's employer (normally a Government Ministry) to pay their salary directly to their Gulf Bank account. Collateral or security, normally in the form of a blocked customer deposit with the Bank, the assignment of an employment 'End of Service Benefit' or a personal guarantee, is taken on some occasions when consumer loans are granted without an assignment of salary.

Total Credit Exposure after Credit Risk Mitigation and Resulting Credit Risk Weighted Assets

The exposure after CRM, as at 31 December 2017 and 31 December 2016 and the resulting credit risk-weighted assets are further divided into rated and unrated exposures as given below:

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2017

(KD Thousands)

		Credit Exposure/CRM				Risk - Weighted Assets		
	Exposure before CRM	Eligible Real Estate	Eligible Financial Collateral	Eligible Guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	62,138	-	-	-	62,138	-	-	-
Claims on sovereigns	1,154,642	-	112	-	1,154,530	13,579	-	13,579
Claims on PSEs	211,615	-	558	-	211,057	22,211	-	22,211
Claims on banks	702,651	-	841	-	701,810	286,181	15	286,196
Claims on corporates	2,702,312	44,966	455,671	-	2,201,675	2,340	2,196,995	2,199,335
Credit derivative claims(protection seller)	-	-	-	-	-	-	-	-
Retail exposures	1,319,601	30	136,821	-	1,182,750	-	1,177,679	1,177,679
Past due exposures	61,069	9,001	19,831	-	32,237	-	31,106	31,106
Other exposures	345,377	5,532	51,941	-	287,904	-	338,672	338,672
Total	6,559,405	59,529	665,775	-	5,834,101	324,311	3,744,467	4,068,778

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2016

(KD Thousands)

		Credit Exposure/CRM				Risk - Weighted Assets		
	Exposure before CRM	Eligible Real Estate	Eligible Financial Collateral	Eligible Guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	51,750	-	-	-	51,750	-	-	-
Claims on sovereigns	1,259,919	-	3	-	1,259,916	22,954	-	22,954
Claims on PSEs	226,803	-	4,378	-	222,425	32,435	-	32,435
Claims on banks	718,724	-	2,954	-	715,770	296,497	7,886	304,383
Claims on corporates	2,409,380	74,114	464,520	-	1,870,746	4,158	1,862,431	1,866,589
Credit derivative claims(protection seller)	59,680	-	-	-	59,680	15,609	-	15,609
Retail exposures	1,250,788	24	132,794	-	1,117,970	-	1,112,783	1,112,783
Past due exposures	77,519	21,463	19,443	-	36,613	-	35,040	35,040
Other exposures	398,474	9,064	47,109	-	342,301	-	385,892	385,892
Total	6,453,037	104,665	671,201	-	5,677,171	371,653	3,404,032	3,775,685

Most of the CRM takes the form of eligible financial collateral, mainly equities listed on the Kuwait stock exchange and cash deposits.

TRADING PORTFOLIO

Trading portfolio is limited to a modest amount of open currency position in the course of Bank's Balance Sheet management.

The Bank uses standardised approach for determining the capital required for market risk. The trading book is marked to market on a daily basis and the Bank uses a structure of limits to manage and control the market risk exposures from trading activities. The Bank also uses trading Value at Risk (VAR) to track and observe foreign exchange risks. As per Basel III, total market risk weighted assets is determined by multiplying the market risk capital charge by 12.5.

The details of the market risk capital charge for the Bank as at 31 December 2017 and 31 December 2016 are shown in the following table:

(KD thousands)

Market Risk	**31-Dec-17**	31-Dec-16	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**187**	126	61
Total market risk capital charge	**187**	126	61
Market risk - weighted assets	**2,338**	1,575	763
Total market risk capital requirement (at 13%)	**304**	205	99
Total market risk capital allocation (includes 1% D-SIB)	**327**	221	106

Operational Risk

The Bank's business activities are mapped into the following three business lines: trading and sales, commercial Banking and retail Banking. The Bank's internal funds transfer pricing methodology is used to allocate interest income and interest expense between the above business lines.

The details of the operational risk capital charge for the Bank as at 31 December 2017 and 31 December 2016 are shown in the following table:

Operational Risk as at 31 December 2017 *(KD Thousands)*

	3 year average gross income	Beta factor	Operatio nal risk capital charge
Trading and sales	**28,481**	**18%**	**5,127**
Commercial banking	**73,889**	**15%**	**11,083**
Retail banking	**69,793**	**12%**	**8,375**
Total	**172,163**		**24,585**
Total operational risk weighted exposure			**307,313**
Total operational risk capital requirement (at 13%)			**39,951**
Total operational risk capital allocation (includes 1% D-SIB)			**43,024**

Operational Risk as at 31 December 2016 *(KD Thousands)*

	3 year average gross income	Beta factor	Operatio nal risk capital charge
Trading and sales	25,437	18%	4,579
Commercial banking	74,037	15%	11,106
Retail banking	66,302	12%	7,956
Total	165,776		23,641
Total operational risk weighted exposure			295,513
Total operational risk capital requirement (at 13%)			38,417
Total operational risk capital allocation (includes 1% D-SIB)			41,372

As per Basel III, the total operational risk capital charge is calculated by multiplying the three year average gross income of the business lines by a pre-defined beta factor. The total operational risk weighted exposure is determined by multiplying the operational risk capital charge by 12.5. Gross income includes net interest income and net non-interest income, but excludes realised profits from the sale of securities in the banking book. At 31 December 2017 operational risk-weighted exposure was **KD307.3 million** (2016: KD295.5 million) and total operational risk capital requirement at 13% was **KD40 million** (2016: KD38.4 million).

Equity Risk in the Banking Book

The Bank does not trade in equities. All of the Bank's equity investments are held in the Banking (i.e. non-trading) book and are classified as 'available-for-sale' financial assets, i.e. they represent assets acquired to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The fair values of quoted instruments are based on the quoted closing bid prices or by using the current market rate for the instrument. The fair values of unquoted instruments require significant estimation. The fair values of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price. The bank uses external valuation services when necessary.

The fair value of the investment securities held at 31 December 2017 and 31 December 2016 are shown below, along with the cumulative unrealised gains in the fair valuation reserve in equity and the regulatory capital implications.

Information related to the licensed Bank's equity position in the banking book as at 31 December 2017

(KD Thousands)

	Publicly traded	**Privately traded**	**Total investment securities**
Total fair value of equity securities- available for sale	15,391	22,269	37,660
Unrealised gains in equity securities (part of CET1)	2,080	4,379	6,459
Regulatory capital details			
Regulatory capital requirement	2,155	3,118	5,272
Income statement details			
Income from disposal of investment securities			**2,822**

Information related to the licensed Bank's equity position in the Banking book as at 31 December 2016

(KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities- available for sale	16,477	26,726	43,203
Unrealised gains in equity securities (part of CET1)	790	4,763	5,553
Regulatory capital details			
Regulatory capital requirement	2,307	3,742	6,048
Income statement details			
Income from disposal of investment securities			4,041

The Bank has a significant investment in a financial institution which is classified as investments in financial Institutions below the deduction threshold.

Interest Rate Risk in the Banking Book

Future net interest income is affected by movements in interest rates and a principal part of the Bank's management of market risk in the banking (i.e. non-trading) book is to manage the sensitivity of the Bank's net interest income to changes in market interest rates.

The sensitivity of net interest income to interest rate changes is provided in note 24 (B) to the financial statements.

Counter Party Credit Risk

The Bank has put in place risk policies and processes to identify, measure, monitor and report on counter party credit risk. These policies are integrated into credit risk management and have been applied in determining the internal limits for maximum exposures based on the counterparty's credit rating. High grade counter parties will attract higher limits exposures while low credit grade customers will be restricted lower level exposures. These limits have been determined based on the probability of default associated with each risk grade of borrowers. Based on the probability of default the Bank seeks to minimize the unexpected losses.

For foreign exchange contracts the limits structure have been set up are based on the tenor of the contract and the risks which are the function of the volatility of the underlying. Counterparty limits structures are in place, by product, including limits for daily maximum delivery risk.

Remuneration Policy

Refer to "Corporate Governance" section

Leverage ratio common disclosure template

In accordance with the CBK guidelines (CBK circular No.2/BS/342/2015, Kuwait banks must maintain minimum leverage ratio of 3% effective from 31 December 2015. Leverage ratio is calculated as a ratio of Tier 1 capital as per Basel III to the total exposure. Total exposure is the sum of on balance sheet exposures and off balance sheet exposures after adjusting the credit conversion factor.

(KD thousands)

		31-Dec-17	31-Dec-16	Variance
	On-balance sheet exposures			
1.	On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	**5,683,404**	5,467,115	216,289
2.	(Asset amounts deducted in determining Basel III Tier 1 capital)	**-**	-	-
3.	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**5,683,404**	5,467,115	216,289
	Derivative exposures			
4.	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**-**	-	-
5.	Add-on amounts for PFE associated with all derivatives transactions	**-**	-	-
6.	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**-**	-	-
7.	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**-**	-	-
8.	(Exempted CCP leg of client-cleared trade exposures)	**-**	-	-
9.	Adjusted effective notional amount of written credit derivatives	**-**	59,680	(59,680)
10.	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	-	-
11.	**Total derivative exposures (sum of lines 4 to 10)**	**-**	59,680	(59,680)
	Securities financing transaction exposures			
12.	Gross SFT assets (with no recognition of netting)	**-**	-	-
13.	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-	-
14.	CCR exposure for SFT assets	**-**	-	-
15.	Agent transaction exposures	**-**	-	-
16.	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	-	-
	Other off-balance sheet exposures			
17.	Off-balance sheet exposure (before implementation of CCF)	**2,762,287**	2,562,569	199,718
18.	(Adjustments for conversion to credit equivalent amounts)	**(1,800,284)**	(1,632,848)	(167,436)
19.	**Off-balance sheet items (sum of lines 17 and 18)**	**962,004**	929,721	32,283
	Capital and total exposures			
20.	Tier 1 capital	**601,278**	573,492	27,786
21.	Total exposures (sum of lines 3, 11, 16 and 19)	**6,645,408**	6,456,516	188,892
	Leverage ratio			
22.	**Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))**	**9.05%**	8.88%	0.17%

Following is the reconciliation of on balance sheet assets as per the published financial statements along with the total exposure amount in the leverage ratio measure.

SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE

(KD thousands)

		31-Dec-17	31-Dec-16	Variance
1.	Total consolidated assets as per published financial statements	**5,683,404**	5,467,115	216,289
2.	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-	-
3.	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**-**	-	-
4.	Adjustments for derivative financial instruments	**-**	59,680	(59,680)
5.	Adjustment for securities financing transactions (i.e. repo and similar secured lending)	**-**	-	-
6.	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures	**962,004**	929,721	32,283
7.	Other adjustments	**-**	-	-
8.	**Leverage ratio exposure**	**6,645,408**	6,456,516	188,892

FINANCIAL **STATEMENTS**

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

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Gulf Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances

Loans and advances are accounted for at amortised cost using the effective yield method less any impairment charges. Impairment of loans and advances is a subjective area due to the level of judgment applied by management in determining provisions. Management is required to identify those loans and advances that are deteriorating, make an objective assessment for evidence of impairment, the value of collateral and the assessment of the recoverable amount. Due to the significance of loans and advances and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies section of the financial statements (Note 2).

Our audit procedures included the understanding and assessment of controls over the granting, recording and monitoring processes of loans and advances to confirm the operating effectiveness of the key controls in place which identify the impaired loans and advances and the required provisions against them. We tested a sample of loan facilities, focusing on those with the most significant potential of impairment due to increased uncertainty for recovery in the current market circumstances and tested management's assessment of the recoverable amount.

For the selected impaired loans, we assessed management's forecast of cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. Additionally, we selected samples of unimpaired loans and assessed whether there existed any default indicators. The management's assessment of the credit risk and their responses to such risks, including the risk management policies are disclosed in Note 24 to the financial statements.

Other information included in the Bank's 2017 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Bank's 2017 Annual Report, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulation, 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/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulation, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 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 2017 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

TALAL YOUSEF AL-MUZAINI

LICENCE NO. 209 A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

18 January 2018
Kuwait

INCOME STATEMENT

Year Ended 31 December 2017

	NOTES	**2017** **KD 000's**	2016 KD 000's
Interest income	3	**206,008**	179,645
Interest expense	4	**(73,777)**	(62,865)
Net interest income		**132,231**	116,780
Net fees and commissions	6	**30,837**	31,374
Net gains from dealing in foreign currencies and derivatives	7	**9,178**	9,292
Realised gains from disposal of investment securities		**2,822**	4,041
Dividend income		**1,210**	4,761
Other income		**5,104**	2,393
Operating income		**181,382**	168,641
Staff expenses		**42,266**	42,134
Occupancy costs		**4,365**	4,121
Depreciation		**3,210**	2,818
Other expenses		**14,444**	14,108
Operating expenses		**64,285**	63,181
OPERATING PROFIT BEFORE PROVISIONS/IMPAIRMENT LOSSES		**117,097**	105,460
Charge (release) of provisions:			
- specific	5	**88,863**	2,958
- general	12,18	**(19,079)**	37,593
Loan recoveries, net of write-off	12	**(6,502)**	2,503
Impairment loss on investment securities		**33**	5,913
Impairment loss on other assets	14	**3,366**	11,396
		66,681	60,363
OPERATING PROFIT		**50,416**	45,097
Directors' remuneration	22	**135**	135
Contribution to Kuwait Foundation for the Advancement of Sciences		**505**	451
National Labour Support Tax		**1,248**	1,117
Zakat		**505**	451
PROFIT FOR THE YEAR		**48,023**	42,943
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	**17**	15

The attached notes 1 to 30 form part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2017

	2017 **KD 000's**	2016 KD 000's
Profit for the year	**48,023**	42,943
Other comprehensive income		
Items that are reclassified or may be reclassified subsequently to the income statement:		
Investment securities:		
- Net realised gains on disposal	**(313)**	(2,932)
- Impairment loss	**33**	5,913
- Net unrealised gains	**1,171**	1,442
Items that are not to be reclassified subsequently to the income statement:		
Revaluation of premises and equipment	**(758)**	(391)
Other comprehensive income for the year	**133**	4,032
Total comprehensive income for the year	**48,156**	46,975

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	NOTES	**2017 KD 000's**	2016 KD 000's
ASSETS			
Cash and cash equivalents	9	**475,441**	665,520
Treasury bills and bonds	10	**566,784**	372,919
Central Bank of Kuwait bonds	11	**394,555**	376,240
Deposits with banks and other financial institutions		**39,053**	108,013
Loans and advances to banks	12	**128,930**	136,606
Loans and advances to customers	12	**3,808,766**	3,445,997
Investment securities	13	**117,820**	146,181
Other assets	14	**122,101**	186,642
Premises and equipment		**29,954**	28,997
TOTAL ASSETS		**5,683,404**	5,467,115
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**412,105**	480,364
Deposits from financial institutions	15	**969,197**	824,680
Customer deposits	16	**3,489,977**	3,395,340
Subordinated Tier 2 bonds	17	**100,000**	100,000
Other liabilities	18	**110,847**	93,239
TOTAL LIABILITIES		**5,082,126**	4,893,623
EQUITY			
Share capital	19	**304,813**	304,813
Statutory reserve	20	**26,475**	21,433
Share premium	20	**153,024**	153,024
Property revaluation reserve	20	**17,852**	18,610
Treasury shares reserve	21	**24,246**	24,246
Fair valuation reserve		**6,444**	5,553
Retained earnings		**139,181**	116,570
		672,035	644,249
Treasury shares	21	**(70,757)**	(70,757)
TOTAL EQUITY		**601,278**	573,492
TOTAL LIABILITIES AND EQUITY		**5,683,404**	5,467,115

Omar Kutayba Alghanim
(Chairman)

Antoine Daher
(Chief Executive Officer)

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year Ended 31 December 2017

	NOTES	2017 KD 000's	2016 KD 000's
OPERATING ACTIVITIES			
Profit for the year		**48,023**	42,943
Adjustments:			
Effective interest rate adjustment		**-**	(401)
Unrealised fair value gains on credit default swaps	7	**-**	(495)
Realised gains from disposal of investment securities		**(2,822)**	(4,041)
Dividend income		**(1,210)**	(4,761)
Depreciation		**3,210**	2,818
Loan loss provisions	5,12,18	**69,784**	40,551
Impairment loss on investment securities		**33**	5,913
Impairment loss on other assets		**3,366**	11,396
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**120,384**	93,923
(Increase)/decrease in operating assets:			
Treasury bills and bonds		**(193,865)**	(127,310)
Central Bank of Kuwait bonds		**(18,315)**	(14,815)
Deposits with banks and other financial institutions		**68,960**	(73,906)
Loans and advances to banks		**7,731**	(56,311)
Loans and advances to customers		**(431,957)**	147,878
Other assets		**64,449**	(96,599)
(Decrease)/increase in operating liabilities:			
Due to banks		**(68,259)**	218,980
Deposits from financial institutions		**144,517**	98,648
Customer deposits		**94,637**	(442,082)
Other liabilities		**16,957**	19,241
NET CASH FLOWS USED IN OPERATING ACTIVITIES		**(194,761)**	(232,353)
INVESTING ACTIVITIES			
Purchase of investment securities		**(14,998)**	(75,580)
Proceeds from sale of investment securities		**43,765**	47,067
Purchase of premises and equipment		**(4,925)**	(3,684)
Dividend income received		**1,210**	4,761
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**25,052**	(27,436)
FINANCING ACTIVITIES			
Net proceeds from issue of Subordinated Tier 2 bonds	17	**-**	100,000
Dividend paid	22	**(20,370)**	(11,640)
Purchase of treasury shares		**-**	(99)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		**(20,370)**	88,261
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(190,079)**	(171,528)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**665,520**	837,048
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**475,441**	665,520
Additional cash flows information			
Interest received		**207,073**	182,043
Interest paid		**70,082**	54,206

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2017

		RESERVES								
	Share capital KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury shares reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's	Subtotal reserves KD 000's	Treasury shares KD 000's	Total KD 000's
At 1 January 2016	304,813	16,923	153,024	19,001	24,246	1,130	89,777	304,101	(70,658)	538,256
Profit for the year	-	-	-	-	-	-	42,943	42,943	-	42,943
Other comprehensive (loss) income for the year	-	-	-	(391)	-	4,423	-	4,032	-	4,032
Total comprehensive (loss) income for the year	-	-	-	(391)	-	4,423	42,943	46,975	-	46,975
Dividend paid (Note 22)	-	-	-	-	-	-	(11,640)	(11,640)	-	(11,640)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(99)	(99)
Transfer to reserve	-	4,510	-	-	-	-	(4,510)	-	-	-
At 31 December 2016	304,813	21,433	153,024	18,610	24,246	5,553	116,570	339,436	(70,757)	573,492
At 1 January 2017	**304,813**	**21,433**	**153,024**	**18,610**	**24,246**	**5,553**	**116,570**	**339,436**	**(70,757)**	**573,492**
Profit for the year	-	-	-	-	-	-	48,023	48,023	-	48,023
Other comprehensive (loss) income for the year	-	-	-	(758)	-	891	-	133	-	133
Total comprehensive (loss) income for the year	-	-	-	(758)	-	891	48,023	48,156	-	48,156
Dividend paid (Note 22)	-	-	-	-	-	-	(20,370)	(20,370)	-	(20,370)
Transfer to reserve	-	5,042	-	-	-	-	(5,042)	-	-	-
At 31 December 2017	**304,813**	**26,475**	**153,024**	**17,852**	**24,246**	**6,444**	**139,181**	**367,222**	**(70,757)**	**601,278**

The attached notes 1 to 30 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C.P. (the "Bank") is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. The Bank's shares are listed on Kuwait Stock Exchange. Its registered office is at Mubarak Al Kabir Street, P.O. Box 3200, 13032 Safat, Kuwait City.

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 18 January 2018. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

The principal activities of the Bank are described in Note 27.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost basis of measurement as modified by the revaluation at fair value of financial assets classified as "available-for-sale", derivative contracts and freehold land and buildings.

The financial statements have been presented in Kuwaiti Dinars ("KD"), which is the Bank's functional currency, rounded off to the nearest thousand (KD 000), except when otherwise indicated.

Statement of compliance

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

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement is presented in note 24(D).

2.2 Changes in accounting policies and disclosures

The accounting policies applied are consistent with those used in previous year, except that the Bank has adopted the following amendments to standards effective for the annual periods beginning on or after 1 January 2017. The adoption of these amendments to standards did not have any effect on the financial performance or financial position of the Bank.

Amendments to IAS 7 Statement of Cash Flows:
Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Bank has provided the information for both the current and the comparative period in notes of these financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Bank applied amendments retrospectively. However, their application has no material effect on the Bank's financial position and performance as the Bank.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Bank.

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

The Bank classifies its financial assets as "at fair value through income statement", "loans and receivables", "held to maturity" or as "available-for-sale"; and its financial liabilities as "non-trading financial liabilities''.

Financial assets classified as "at fair value through income statement" are divided into two sub categories: financial assets held for trading, and those designated at fair value through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if managed and the performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy. Derivatives are also classified as "held for trading" unless they are designated as hedges and are effective hedging instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any.

Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold to maturity.

Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as at fair value through income statement, held to maturity, or loans and receivables.

Financial liabilities, which are not held for trading are classified as "non-trading financial liabilities".

Management determines the classification of these financial instruments at the time of acquisition.

Recognition/de-recognition

A financial asset or a financial liability is recognised when the Bank becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Bank receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement, or in statement of 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 regulations or conventions in the market place.

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

- the contractual rights to receive cash flows from the asset have expired, or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or

- the Bank has transferred its rights to receive cash flows from the asset and either (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.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through agreement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where 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 a derecognition of the original liability and recognition of a new liability and the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

Measurement

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through the income statement.

On subsequent re-measurement, financial assets classified as "at fair value through income statement" are carried at fair value with resultant unrealised gains or losses arising from changes in fair value included in the income statement. "Loans and receivables" are carried at amortised cost using the effective yield method less any provision for impairment. Held to maturity investments are measured at amortised cost, less provision for impairment in value, if any. The losses arising from impairment of such investments are recognised in the income statement. Those classified as "available-for-sale" are subsequently measured and carried at fair values. Unrealised gains and losses arising from changes in fair value of those classified as "available-for- sale" are taken to the statement of comprehensive income.

When the "available-for-sale" asset is disposed of or impaired, the related accumulated fair value adjustments previously recognised in equity are transferred to the income statement as gains or losses.

Cash and cash equivalents, treasury bills and bonds, Central Bank of Kuwait bonds, deposits with banks and other financial institutions, loans and advances to banks and customers and certain other assets are classified as "loans and receivables".

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted instruments are measured at cost less impairment loss, if any. "Non-trading financial liabilities" are carried at amortised cost using the effective interest method.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is an objective evidence that a specific financial asset or a group of similar financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) 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, an impairment loss is recognised in the income statement.

Impairment is determined as follows:

a) for financial assets with fixed interest rates, carried at amortised cost, impairment is the difference between the carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate; and for financial assets with variable interest rates, carried at amortised cost, discounted at the current effective interest rate as determined under the contract. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the respective account where impairment was recognised. The amount of the reversal is recognised in the income statement;

b) for financial assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;

For available-for-sale equity investments, impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

For available-for-sale debt investments, the Bank assesses the instruments at an individual level to determine whether any objective evidence for impairment exists. When there is objective evidence of impairment, the amount of loss is measured as the difference between the instrument's carrying value and the present value of the future cash flows. If in a subsequent year, the fair value of a debt investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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

Financial assets are written off when there is no realistic prospect of recovery.

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.

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

Level 1: Quoted (unadjusted) 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.

Fair values of quoted instruments are based on quoted closing bid prices. The fair value of investments in funds are based on latest published net asset values.

Fair values of unquoted instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future cash flows at the current rates for similar financial instruments.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Day 1 profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Repurchase and resale agreement

Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price is treated as interest income using the effective yield method.

Offsetting

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the loan remains past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

b. Derivative financial instruments and hedging

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. Derivatives with positive fair values (unrealised gains) are included in 'Other assets' and derivatives with negative fair values (unrealised losses) are included in 'Other liabilities' in the statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate. Any changes in the fair value of derivatives that are held for trading are taken directly to the income statement and are disclosed under operating income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

In order to qualify for hedge accounting, the hedge is expected to be highly effective and should be reliably measurable. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the year for which the hedge is designated are expected to offset in a range of 80 per cent to 125 per cent. At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in 'Other assets' or 'Other liabilities' and the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in the statement of comprehensive income and the ineffective portion is recognised in the income statement. For cash flow hedges affecting future transactions that subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses which are recognised in the statement of comprehensive income are re-classified into the income statement in the same period or periods during which the financial asset or financial liability affects the income statement.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept there until the forecast transaction occurs. In cases where the forecast transaction is no longer expected to occur or the designation is revoked, the net cumulative gain or loss recognised in equity is transferred to the income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the discontinued hedge is amortized over the remaining term to maturity.

c. Collateral pending sale

The Bank occasionally acquires property in settlement of certain loans and advances. Such property is stated at the lower of the carrying value of the related loans and advances or the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the income statement.

The Bank reviews its repossessed collaterals classified as "other assets" at each reporting date to assess whether they are impaired. The Bank records an impairment loss on other assets when there has been a significant decline in the fair value below cost or where other objective evidence of impairment exists.

d. 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. The expense relating to any provision is presented in the income statement net of any reimbursement.

e. End of service indemnity

The Bank is liable under the Kuwait Labor Law and specific employee contracts, if any, to make payment under end of service benefits to employees at cessation of employment. The entitlement to these benefits is usually based upon employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The defined benefit plan is unfunded and computed based on projected unit credit method for reliable estimation of end of service indemnity benefit.

f. Treasury shares

Treasury shares consist of the Bank's own issued shares that have been reacquired by the Bank 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 sold, 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 voluntary reserve and statutory reserve. 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.

g. Premises and equipment

Land and buildings are initially recognised at cost. After initial recognition land is carried at revalued amount, which is the fair value at the date of revaluation. The revaluation is carried out periodically by professional property valuers. The resultant revaluation surplus or deficit is recognised in the statement of 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 income statement. To the extent that a revaluation surplus reverses a revaluation loss previously recognised in the income statement, the increase is recognised in the income statement. Upon disposal, the revaluation reserve relating to land sold is transferred directly to retained earnings.

Equipment are stated at cost, less accumulated depreciation and impairment losses if any. Land is not depreciated. Depreciation of buildings 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	5 to 10 years
Equipment	3 to 5 years

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

h. Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, external valuations or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

i. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Other fees and commission income are recognised as the services are provided. Dividend income is recognised when the right to receive payment is established.

j. Interest income and expenses

Interest income and expense are recognised in the income statement for all interest bearing instruments using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

k. Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat

KFAS, NLST and Zakat are provided for in accordance with the fiscal regulations in Kuwait.

l. Leases

Operating lease payments are recognized as an operating expense in the income statement on a straight line basis over the lease term.

m. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Bank and accordingly are not included in the statement of financial position.

n. Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Kuwaiti Dinars at the rates of exchange ruling at the reporting date. Forward exchange contracts are valued at the forward rates ruling at the statement of reporting date. Any resultant gains or losses are taken to the income statement.

In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the income statement, foreign exchange differences are recognised in the income statement.

o. Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consists of cash in hand and deposits with banks and other financial institutions (including Central Bank of Kuwait) having original maturities not exceeding thirty days from the date of deposit.

p. Segment reporting

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

q. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the income statement in 'net fees and commission' on a straight-line basis over the life of the guarantee. The guarantee liability is subsequently measured as a higher of the amount initially recognized less amortisation or the value of any financial obligation that may arise there from. Any increase in liability relating to financial guarantee is recorded in the income statement.

2.4 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

Classification of financial instruments

Management has to decide on acquisition of a financial instrument, whether it should be classified as carried at fair value through income statement, held to maturity, available-for-sale or as loans and receivables. In making that judgement, the Bank considers the primary purpose for which it is acquired and how it intends to manage and report its performance liquidity requirements and the intent and ability to hold these instruments to maturity. Such judgement determines whether it is subsequently measured at cost, amortised cost or at fair value and whether the changes in fair value of instruments are reported in the income statement or statement of comprehensive income.

Impairment losses on loans and advances

The Bank reviews loans and advances on an ongoing basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. In estimating these cash flows the Bank makes judgements about the borrower's financial conditions and the net realisable value of collaterals. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Bank records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Valuation of unquoted financial instruments

Valuation of unquoted financial instruments is normally based on one of the following:

- Recent arm's length market transactions;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;

- Current fair value of another instrument that is substantially the same; or
- Valuation models.

The Bank calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

These values are computed based on significant assumptions including foreign exchange rates, interest rates and volatilities etc. The extent of changes to these rates and volatilities are dependent on market movements, which cannot be predicted with certainty.

2.5 Standards issued but not effective

The relevant standards and interpretations issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Bank intends to adopt those standards, if applicable, when they become effective.

IFRS 9: Financial Instruments:

The IASB issued the final version of IFRS 9 Financial Instruments in July 2014, that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Bank plans to adopt the new standard on the required effective date from 1 January 2018. The Bank will avail of the exemption allowing it not to restate comparative information for prior periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

During the year 2017, the Bank has performed a detailed impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank, until the Bank presents its first financial statements that include the date of initial application. The Bank does not expect a significant impact on its statement of financial position from applying the classification and measurement requirements of IFRS 9.

a. Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively) and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The Bank has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI"). The Bank does not expect a significant impact on its statement of financial position from applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

At 31 December 2017, the Bank has certain unquoted equity investments carried at cost net of impairment classified as available-for-sale with a carrying amount of KD17,494 thousand that will be carried at fair value, as these are held for long term strategic purposes. Under IFRS 9, the Bank has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognised in income statement and no gains or losses will be classified to income statement on disposal.

Debt securities, currently classified as "Held to maturity securities", are expected to be measured at amortised cost under IFRS 9 as these instruments will be held under the business model to collect contractual cash flows. Debt securities, currently classified as "available-for-sale", are expected to be measured at FVOCI under IFRS 9 as the Bank expects to hold these assets under the business model to collect contractual cash flows or to sell a significant amount on a relatively frequent basis.

Loans and receivables will continue to be held under the business model to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Bank analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, no significant reclassification for these instruments is expected.

There will be no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

b. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under IFRS 9, the impairment requirements apply to financial assets measured at amortised cost, debt instruments classified as fair value through other comprehensive income and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). In the case of impaired credit facilities, ECL allowance is required based on probability-weighted expected cash flows.

The Bank will determine the potential impact of the expected provision for credit losses in accordance with IFRS 9 during the period ending 31 March 2018. The Bank will also comply with instructions of Central Bank of Kuwait in this regard.

c. Hedge accounting

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on Bank's financial statements. As at 31 December 2017, the Bank does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 will not have a significant impact on Bank's financial statements.

d. Disclosure

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Bank's assessment included an analysis to identify data gaps against current process and the Bank is in process of implementing the system and controls changes that it believes will be necessary to capture the required data.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers , effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16

Leases). Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Bank did not early adopt IFRS 15 and has evaluated that the adoption of the standard did not had significant impact on the Bank's financial statements

IFRS 16 Leases

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

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

3. INTEREST INCOME

	2017 **KD 000's**	2016 KD 000's
Treasury bills, bonds and Central Bank of Kuwait Bonds	**17,611**	9,848
Placements with banks	**6,369**	3,716
Loans and advances to banks and customers	**182,028**	166,081
	206,008	179,645

4. INTEREST EXPENSE

	2017 **KD 000's**	2016 KD 000's
Sight and savings accounts	**4,180**	3,669
Time deposits	**54,833**	49,319
Bank borrowings	**7,854**	5,910
Subordinated Tier 2 bonds	**6,910**	3,967
	73,777	62,865

5. SPECIFIC PROVISIONS

Loans and advances to customers	**2017** **KD 000's**	2016 KD 000's
– Cash (Note 12)	**87,999**	2,497
– Non-cash (Note 18)	**864**	461
	88,863	2,958

6. NET FEES AND COMMISSIONS

	2017 KD 000's	2016 KD 000's
Total fees and commission income	**38,084**	38,023
Total fees and commission expense	**(7,247)**	(6,649)
	30,837	31,374

Total fees and commission income includes **KD212 thousand** (2016: KD225 thousand) from fiduciary activities.

7. NET GAINS FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

	2017 KD 000's	2016 KD 000's
Unrealised fair value gains on credit default swaps (Note 18)	**-**	495
Income from credit default swaps	**180**	253
Net trading income	**180**	748
Foreign exchange transactions	**8,998**	8,544
	9,178	9,292

8. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. The Bank does not have outstanding dilutive potential shares as at 31 December 2017.

	2017 KD 000's	2016 KD 000's
Profit for the year	**48,023**	42,943
Weighted average number of shares outstanding during the year, net of treasury shares	**Shares**	Shares
	2,909,979,052	2,910,062,757
	Fils	Fils
Basic and diluted earnings per share	**17**	15

9. CASH AND CASH EQUIVALENTS

	2017 KD 000's	2016 KD 000's
Balances with the Central Bank of Kuwait	**17,099**	218,584
Cash in hand and in current accounts with other banks and other financial institutions	**72,994**	158,374
Deposits with banks and other financial institutions maturing with in 30 days	**385,348**	288,562
	475,441	665,520

10. TREASURY BILLS AND BONDS

The Central Bank of Kuwait, on behalf of the Ministry of Finance, issues these financial instruments.

	2017 KD 000's	2016 KD 000's
Maturing within one year	**171,048**	159,635
Maturing after one year	**395,736**	213,284
	566,784	372,919

11. CENTRAL BANK OF KUWAIT BONDS

These financial instruments are issued by the Central Bank of Kuwait. They mature within a period not exceeding one year from the date of issuance.

	2017 KD 000's	2016 KD 000's
Central Bank of Kuwait Bonds	**394,555**	376,240

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent amounts paid to banks and customers. The Bank's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below.

At 31 December 2017:

A. Loans and advances to customers	**Kuwait KD 000's**	**Other Middle East KD 000's**	**Western Europe KD 000's**	**Asia Pacific KD 000's**	**Rest of World KD 000's**	**Total KD 000's**
Personal	**1,528,236**	**-**	**-**	**-**	**10,209**	**1,538,445**
Financial	**214,080**	**82,591**	**-**	**-**	**-**	**296,671**
Trade and commerce	**411,826**	**6,311**	**-**	**-**	**-**	**418,137**
Crude oil and gas	**169,352**	**58,841**	**-**	**38,894**	**-**	**267,087**
Construction	**264,297**	**-**	**-**	**-**	**-**	**264,297**
Manufacturing	**247,677**	**12,372**	**-**	**-**	**-**	**260,049**
Real estate	**557,157**	**-**	**-**	**-**	**-**	**557,157**
Others	**216,052**	**228,412**	**-**	**13,579**	**-**	**458,043**
Gross loans and advances to customers	**3,608,677**	**388,527**	**-**	**52,473**	**10,209**	**4,059,886**
Less: Provision for impairment						**(251,120)**
Loans and advances to customers						**3,808,766**
B. Loans and advances to banks						
Gross loans and advances to banks	**-**	**11,040**	**119,191**	**-**	**-**	**130,231**
Less: Provision for impairment						**(1,301)**
Loans and advances to banks						**128,930**

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS (continued)

At 31 December 2016:

A. Loans and advances to customers	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	1,422,795	-	-	-	-	1,422,795
Financial	244,219	63,589	-	-	-	307,808
Trade and commerce	348,782	9,376	-	-	-	358,158
Crude oil and gas	156,243	44,377	-	49,150	-	249,770
Construction	242,000	53,559	-	-	-	295,559
Manufacturing	276,577	11,875	-	-	-	288,452
Real estate	460,420	-	-	-	-	460,420
Others	235,451	114,202	-	22,954	-	372,607
Gross loans and advances to customers	3,386,487	296,978	-	72,104	-	3,755,569
Less: Provision for impairment						(309,572)
Loans and advances to customers						3,445,997
B. Loans and advances to banks						
Gross loans and advances to banks	-	29,161	108,801	-	-	137,962
Less: Provision for impairment						(1,356)
Loans and advances to banks						136,606

Movement in provision for impairment

	2017 KD 000's	2016 KD 000's
At 1 January	**310,928**	292,791
Amounts written-off	**(127,640)**	(22,543)
Charge to the income statement	**69,133**	40,680
At 31 December	**252,421**	310,928

The specific and general provisions are based on the requirements of the CBK and IFRS. According to the CBK instructions, minimum general provision of 1% is provided on regular cash facilities and 0.5% on regular non-cash facilities, (net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision).

The general provisions as at 31 December 2017 were **KD197,657 thousand** (2016: KD216,523 thousand).

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD413 thousand** (2016: KD68,952 thousand) and recoveries of **KD6,915 thousand** (2016: KD66,449 thousand).

The Bank has initiated legal proceedings against a customer in connection with structured derivative transactions and is awaiting a final outcome.

Movement in provisions for impairment of loans and advances by class is as follows:

	2017 KD 000's			2016 KD 000's		
	Corporate lending	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**287,216**	**23,712**	**310,928**	267,237	25,554	292,791
Amounts written-off	**(111,399)**	**(16,241)**	**(127,640)**	(5,000)	(17,543)	(22,543)
Charge to income statement	**54,249**	**14,884**	**69,133**	24,979	15,701	40,680
At 31 December	**230,066**	**22,355**	**252,421**	287,216	23,712	310,928

Refer note 24A for financial assets by class individually impaired.

Provision for non-cash facilities of **KD10,489 thousand** (2016: KD9,838 thousand) is included under other liabilities (Note 18).

13. INVESTMENT SECURITIES

	2017 KD 000's	2016 KD 000's
Equity securities- available for sale		
Quoted	**15,391**	16,477
Unquoted	**22,269**	26,726
Debt securities- available for sale		
Quoted	**2,398**	18,593
Unquoted	**18,166**	17,324
Held to maturity securities		
Quoted	**59,596**	67,061
	117.820	146,181

During the previous year, the Bank obtained possession of investment securities valued at KD34,157 thousand held as collaterals in settlement of debts from customers. These investment securities were fully disposed off during the year 2016.

14. OTHER ASSETS

	2017 KD 000's	2016 KD 000's
Accrued interest receivable	**21,370**	22,435
Sundry debtors and others	**21,875**	19,426
Repossessed collaterals (refer movement below)	**78,856**	144,781
	122,101	186,642

Movement in repossessed collaterals:

	2017 KD 000's	2016 KD 000's
At 1 January	**144,781**	54,590
Additions		
- Real estate properties	**-**	121,000
Disposals	**(62,559)**	(19,413)
Impairment loss	**(3,366)**	(11,396)
At 31 December	**78,856**	144,781

The closing balance for 2016 includes investment securities amounting to KD3,457 thousand, which were fully disposed off during the year. These investment securities were accounted for as investments available for sale and were consequently fair valued using observable market data (Level 2).The fair values of the real estate properties are not materially different from their carrying values.

The Bank is compliant with the CBK regulations to dispose these within the stipulated time limit except on investment securities amounting to **KD Nil** (2016: KD3,457 thousand) and real estate properties amounting to **KD Nil** (2016: KD2,500 thousand).

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2017 KD 000's	2016 KD 000's
Due to banks		
Current accounts and demand deposits	**14,101**	53,046
Time deposits	**398,004**	427,318
	412,105	480,364
Deposits from financial institutions		
Current accounts and demand deposits	**73,237**	68,730
Time deposits	**895,960**	755,950
	969,197	824,680

16. CUSTOMER DEPOSITS

	2017 KD 000's	2016 KD 000's
Current accounts	**1,161,667**	1,262,745
Savings accounts	**351,796**	355,009
Time deposits	**1,976,514**	1,777,586
	3,489,977	3,395,340

Customer deposits include **KD13,219 thousand** (2016: KD12,135 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

17. SUBORDINATED TIER 2 BONDS

During the previous year, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD100,000 thousand with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 6.50% per annum, payable quarterly in arrears, for the first five years and will be reset for the subsequent period at the rate of 4.25% over the CBK Discount Rate (on the fifth year anniversary of date of issuance). Floating rate bonds carry an interest rate of 4.00% per annum over the Central Bank of Kuwait discount rate, reset quarterly, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds and payable quarterly in arrears. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions being satisfied and prior written approval of the CBK.

18. OTHER LIABILITIES

	2017 KD 000's	2016 KD 000's
Accrued interest payable	**27,728**	24,033
Deferred income	**4,418**	4,943
Provisions for non-cash facilities (refer movement below)	**10,489**	9,838
Fair value loss provision on credit default swaps (Note 28)	**-**	18
Staff related provisions	**23,129**	15,589
Others	**45,083**	38,818
	110,847	93,239

Movement in provisions for non-cash facilities:

	2017 KD 000's	2016 KD 000's
At 1 January	**9,838**	9,967
Charge (write-back) to the income statement	**651**	(129)
At 31 December	**10,489**	9,838

19. SHARE CAPITAL

	2017 **KD 000's**	2016 KD 000's
Authorised, issued and fully paid shares	**304,813**	304,813

The number of authorised, issued and fully paid shares of KD100 fils each as at 31 December 2017 is 3,048,127,898 (2016: 3,048,127,898).

20. RESERVES

a. *Statutory reserve*

In accordance with the Companies Law and the Bank's Articles of Association, 10 percent of the profit for the year before directors' remuneration, contribution to KFAS, NLST and Zakat has been transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50 percent of paid up share capital.

Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5 percent of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

b. *Share premium*

The balance in the share premium account is not available for distribution but can be utilised for capital restructuring to offset the accumulated losses.

c. *Property revaluation reserve*

The property revaluation reserve represents the surplus of market value over carrying value of the land owned by the Bank. The balance in this reserve is non distributable and is taken directly to retained earnings when the underlying assets are disposed off.

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2017	2016
Number of treasury shares	**138,148,846**	138,148,846
Percentage of treasury shares	**4.53%**	4.53%
Cost of treasury shares (KD 000's)	**70,757**	70,757
Weighted average market value of treasury shares as at 31 December (KD 000's)	**33,985**	31,498

Movement in treasury shares was as follows:

	No. of shares	
	2017	2016
Balance as at 1 January	**138,148,846**	137,687,846
Purchases	**-**	461,000
Balance as at 31 December	**138,148,846**	138,148,846

This includes 13,641,280 treasury shares costing KD5,488 thousand, which represent collaterals repossessed in settlement of debts from customers. The balance in the treasury share reserve of **KD24,246 thousand** (2016: KD24,246 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium, treasury shares reserve and retained earning through out the holding period of treasury shares.

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **9 fils** per share (2016: 7 fils) on the outstanding issued share capital as at 31 December 2017. The Cash dividend is subject to the approval of the shareholders at the Annual General Meeting.

During the year, the shareholders at the Annual General Meeting (AGM) held on 8 March 2017 approved a cash dividend of 7 fils per share for the year ended 31 December 2016 (4 fils per share for the year ended 31 December 2015). The cash dividend was paid subsequently.

Directors' remuneration of **KD135 thousand** (2016: KD135 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

23. RELATED PARTY TRANSACTIONS

Certain related parties (major shareholders, Board members and executive management of the Bank, their families and companies of which they are the principal owners) were customers of the Bank in the ordinary course of business. The terms of these transactions were approved as per the Bank's policies.

The transaction and balances included in the statement of financial position are as follows:

	Number of Board Members or executive management		Number of related parties			
	2017	2016	**2017**	2016	**2017 KD 000's**	2016 KD 000's
Board members:						
Balances						
Loans and advances	**1**	1	**14**	11	**196,738**	111,649
Deposits	**8**	8	**40**	35	**552,672**	424,712
Commitments/derivatives						
Guarantees /letters of credit	**1**	1	**8**	8	**27,569**	25,086
Forward foreign exchange contracts	**-**	-	**2**	2	**22,122**	24,852
Transactions						
Interest income	**1**	1	**18**	14	**6,588**	2,799
Interest expense	**3**	3	**15**	9	**7,807**	5,293
Net fees and commissions	**1**	1	**9**	9	**242**	209
Other expenses	**-**	-	**7**	7	**380**	486
Executive management:						
Balances						
Loans and advances	**2**	2	**-**	-	**43**	53
Deposits	**10**	11	**-**	-	**820**	889
Transactions						
Interest income	**2**	2	**-**	-	**2**	3
Interest expense	**12**	13	**-**	-	**16**	14

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **2.5% to 5%** (2016: 2.25% to 5%) per annum. Some of the loans advanced to Board members and their related parties during the year are collateralised. The fair value of these collaterals as of 31 December 2017 was **KD102,204 thousand** (2016: KD73,705 thousand).

Compensation for key management, including executive management, comprises the following:

	2017 KD 000's	2016 KD 000's
Salaries and other benefits	**3,154**	3,785
End of service/termination benefits	**375**	111
	3,529	3,896

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

As a commercial bank, the Bank's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. It also seeks to increase these margins by consolidating short term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these instruments are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Risk management

The use of financial instruments also brings with it the associated inherent risks. The Bank recognises the relationship between returns and risks associated with the use of financial instruments and the management of risk forms an integral part of the Bank's strategic objectives.

The strategy of the Bank is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Bank's major lines of business. The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to large asset valuation volatility and earnings volatility.

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensure the autonomy and independence of Risk function of the Bank. BRC reviews high risk credit which are more than 10% of the Bank's capital or as deemed appropriate by the Committee. The Risk Management Department is headed by the Chief Risk Officer (CRO) who reports to the Board Risk Committee. The Bank has also constituted an Executive Risk Committee (ERC), co-chaired by the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Bank provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Bank.

The following sections describe the different risks inherent in the banking process, their nature and how they are managed.

A. CREDIT RISK

Credit risk is the potential for financial loss due to failure of debtors or counterparties to meet obligations to pay the Bank in accordance with agreed terms. It arises principally from lending, trade finance and treasury activities.

Concentrations of credit risk arise when there is a potential for aggravation of losses owing to correlated exposures, for example, when a number of counterparties have common ownership, or are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry, geographic location or ownership.

A brief description of the risk management framework is given below:

The Bank has comprehensive policies and procedures to control and monitor all such risks. Credit risk is minimized by setting limits for transactions with individual counterparties and counterparties under common ownership, monitoring credit exposures against these limits and continually assessing collateral coverage/quality and the creditworthiness of counterparties.

Individual customer and customer groups, industry segment and country limits are used to diversify lending and avoid undue concentrations. Credit exposure relating to trading activities is controlled by the use of strict counterparty limits, master netting agreements and collateral arrangements (where appropriate), and by limiting the duration of exposures.

An independent Credit Department, reporting to Chief Risk Officer, is responsible for providing centralised management of credit risk. The responsibilities of this team include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the maximum exposure to customers, groups and other risk concentrations; undertaking independent and objective credit reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the Bank's facility rating process in order to rank order risk and categorize exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

The Bank also has detailed credit approval criteria for each of its retail loan products. The eligibility criteria vary according to the specific loan product, but include items such as minimum length of employment, minimum salary, etc. Applicants must also provide a reference from their employer, specifying salary and length of service, and in most cases, a commitment from the employer to pay their salary directly to their current account with the Bank. In accordance with CBK regulations, the applicant's total monthly debt repayment to income ratio must not exceed the limits stipulated.

Other than BRC, the Bank has six credit committees: the Executive Credit Committee ('ECC'), the Management Credit Committee ('MCC'), Business Banking Credit Committee ('BBCC') the Consumer Credit Committee ('CCC'), Remedial Credit Committee and the Classification and Provisions Committee ('CPC').

The Board of Directors has delegated all authority (except credit facilities to Board of Directors and related names) for credit decisions to the ECC within the Central Bank of Kuwait guidelines. The responsibilities of the ECC are to review and approve, reject, modify or conditionally approve credit proposals up to the legal lending limit of the bank in compliance with the credit policies of the Bank. The ECC has also the authority to approve credit criteria, credit programs and treasury limits within the approved risk appetite of the Bank. A summary of ECC decisions are reported to the BRC.

The MCC with lower delegated authority meets regularly to approve, reject or modify credit applications submitted to it. Applications that fall outside the delegated authority limits of the MCC are referred to the ECC. All MCC decisions are periodically reviewed by the CRO.

The BBCC has the responsibility for facilitating asset creation and monitoring exposure management up to the approved limit in Small and Medium Enterprise ('SME') segment. BBCC has the sole authority to approve, reject or modify business banking credit applications submitted to it up to the limit of its delegated authority. There is a well defined organisational structure and risk management mechanism for business banking which offers specific products to the SME segment based on turnover and its priority for the Bank.

The CCC meets as required and has the authority to approve, reject or modify credit applications from retail customers submitted to it within its delegated authority levels. An independent, centralised quality assurance function ensures the completeness and accuracy of the loan application documentation, undertakes credit and „black list" checks and monitors standing order commitments and other loan repayment obligations. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically. In addition, all consumer credit applications are subject to a credit check by the industry-owned Credit Information Network ('Ci-Net') credit reference agency to assess the creditworthiness and indebtedness of the applicant.

Remedial Credit Committee reviews all remedial management credits and/or approves or recommends for MCC's or ECC's approval. All proposals to settle, restructure, reschedule, abandon recovery efforts or write-off debts applications that fall outside the delegated authority limits of the Remedial Credit Committee are referred to MCC or ECC or CPC, as the case may be.

Depending on the amount and risk profile of the client, credit applications for corporate and international lending may be reviewed by the Board of Directors, ECC, MCC and Remedial Credit Committee and typically include the following information: executive summary, customer profile, summary of limits, amounts outstanding; risk rating and credit memorandum prepared by the Bank's independent credit review unit; customer profitability analysis; financial and cash flow analysis; details of purpose of loan, collateral, repayment source and details of guarantors, if applicable; and audited financial statements and/or personal net worth statements, as appropriate.

The Bank has legal lending limits, country limits and industry sector limits that must be adhered to when approval is being considered in respect of relevant credit applications or participations.

The Bank has a detailed credit policy approved by the Board and this is periodically revised. The Credit Policy Manual sets out the guiding principles and credit risk standards governing extension of credit, provide a structure around which banking business must be based and ensure a consistent approach to all its lending activities. It also defines the policy on acceptable country credit risk exposure. The individual country limits are approved and reviewed by the ECC. This approval is based on the country analysis and assessment of business requirements undertaken by the Bank's international banking division and recommended by the MCC.

The International Banking division regularly reviews the Bank's overall country limits and exposures. The review focuses on the spread of country risk and recommendations to alter individual country risk limits are made where necessary.

Risk appetite document approved by Board provides a consistent framework for understanding risk through the organization and provides a means to ensure that risk considerations are ingrained in the day-to-day operation of the Bank. The risk appetite set by the bank is monitored and mitigation, if any, carried out at the appropriate time. The risk appetite threshold at a macro level is defined for Corporate, International, Treasury and Consumer Banking. Risk appetite is further drilled down into industry segments which are important for our business.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk net of provision for the components of the statement of financial position, including positive fair value of derivatives without taking into account any collateral and other credit enhancements. Maximum concentration of credit risk to a single or group of related counterparties is limited to 15 per cent of the Bank's comprehensive capital as determined by the regulatory guidelines.

BY CLASS OF FINANCIAL ASSETS	**Maximum exposure 2017 KD 000's**	Maximum exposure 2016 KD 000's
Cash and cash equivalents (excluding cash in hand)	**413,303**	613,770
Treasury bills and bonds	**566,784**	372,919
Central Bank of Kuwait bonds	**394,555**	376,240
Deposits with banks and other financial institutions	**39,053**	108,013
Loans and advances to banks	**128,930**	136,606
Loans and advances to customers:		
- Corporate lending	**2,520,700**	2,222,959
- Consumer lending	**1,288,066**	1,223,038
Debt investment securities (Note 13)	**80,160**	102,978
Other assets	**43,245**	41,861
Total	**5,474,796**	5,198,384
Contingent liabilities and commitments	**1,655,916**	1,702,027
Credit default swaps	**-**	59,680
Foreign exchange contracts (including spot contracts)	**180,536**	138,684
Total	**1,836,452**	1,900,391
Total credit risk exposure	**7,311,248**	7,098,775

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan exposures outstanding as a percentage of total credit risk exposures as at 31 December 2017 is **13%** (2016: 12%).

Collateral and other credit enhancements

The Bank employs a range of tools to reduce credit risk. The Bank seeks collateral coverage, assignment of contract proceeds and other forms of protection to secure lending and minimize credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with the Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

The Bank's credit facilities are secured by collateral, wherever required, consisting primarily of: equities listed on the Kuwait Stock Exchange; unquoted equities, real estate (land and buildings); fixed term deposits and cash balances with the Bank that are blocked and legally pledged in its favor; and direct, explicit, irrevocable and unconditional bank guarantees.

As of 31 December 2017, **27%** (2016: 31%) of the total outstanding loans and advances to customers were partially or fully secured by collaterals.

The Bank has procedures to ensure that there is no excessive concentration of any particular asset class within the collaterals.

Internal credit quality rating

The Bank's policy is to assess the credit risk in Commercial banking through a risk rating process. The process is based on international best practices, and provides transparency and consistency to enable comparison between obligors.

The Bank uses Moody's Risk Rating tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into account operations, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

The Risk Rating Process derives the Obligor Risk Ratings (ORRs) and Facility Risk Ratings (FRRs). The rating methodology focuses on factors such as: operating performance, liquidity, debt service and capital structure. The ratio analysis includes assessment of each ratio's trend across multiple periods, both in terms of rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessment of the operations, liquidity and capital structure are also included in the assessment.

For new ventures or project finance transactions, Obligor Risk Ratings are generated through the use of projections covering the period of the loan.

Obligor Risk Rating (ORR) reflects the probability of default for an obligor (irrespective of facility type or collateral) over the next 12 months for a senior unsecured facility.

The Obligor Risk Ratings of performing assets are broadly classified into 3 categories, viz, 'High', 'Standard' and 'Acceptable ,quality. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. Credit exposures classified as 'Standard' quality comprise facilities whose financial condition, and risk indicators and repayment capacity are satisfactory. Credit exposures classified as 'Acceptable' quality are performing accounts, and payment performance is fully compliant with contractual conditions. The ultimate risk of financial loss on 'Acceptable' quality is assessed to be higher than that for the exposures classified within 'High' and 'Standard' quality range.

Facility Risk Rating

The Bank also has an approved framework for Facility Risk Ratings (FRR). While Obligor Risk Rating does not take into consideration factors like availability of collateral and support, FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in FRR.

North American Industry Classification System (NAICS) Code:

The Bank classifies the Bank's exposure as per NAICS Code. Such classifications are in addition to the classification based on purpose codes as defined by Central Bank of Kuwait. This allows the Bank to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of concentrations, if any.

Portfolio Risk Rating

The Bank has a Portfolio Risk Rating process through which the overall portfolio quality is being assessed at regular intervals and deliberated upon in ERC. Portfolio Risk Rating has been extended up to the relationship manager level and risk measures are introduced for business performance appraisal that will lead to further improvement in asset quality.

RAROC Model

RAROC (Risk Adjusted Return on Capital) model is in use in the Bank to assess the net value created in the account after taking into account the cost of capital. The Models help to make right credit decisions and create shareholder value.

Credit Infrastructure:

Bank has a specialized unit with core objective of supporting the development, approval and monitoring of credit products, manage credit risk infrastructure and MIS Reporting. The unit supports management of credit/risk systems, Credit Application System, Risk Rating Models, RAROC Model and credit related policies of the Bank. The Bank has a system for real time electronic dissemination of credit packages to credit committee members thereby improving the efficiency of credit approval process.

	Neither past due nor impaired			Past due but not impaired	
	High	Standard	Acceptable		Total
2017	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash and cash equivalents (excluding cash in hand)	413,303	-	-	-	413,303
Treasury bills and bonds	566,784	-	-	-	566,784
Central Bank of Kuwait bonds	394,555	-	-	-	394,555
Deposits with banks and other financial institutions	39,053	-	-	-	39,053
Loans and advances to banks	130,231	-	-	-	130,231
Loans and advances to customers:					
- Corporate lending	1,597,246	935,915	139,813	24,500	2,697,474
- Consumer lending	1,218,325	-	-	71,077	1,289,402
Debt investment securities (Note 13)	80,160	-	-	-	80,160
Other assets	43,245	-	-	-	43,245
	4,482,902	935,915	139,813	95,577	5,654,207

24. FINANCIAL INSTRUMENTS (continued)
A. CREDIT RISK (continued)

	Neither past due nor impaired			Past due but not impaired	
	High	Standard	Acceptable		Total
2016	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash and cash equivalents (excluding cash in hand)	613,770	-	-	-	613,770
Treasury bills and bonds	372,919	-	-	-	372,919
Central Bank of Kuwait bonds	376,240	-	-	-	376,240
Deposits with banks and other financial institutions	108,013	-	-	-	108,013
Loans and advances to banks	137,962	-	-	-	137,962
Loans and advances to customers:					
- Corporate lending	1,228,856	902,487	262,113	47,381	2,440,837
- Consumer lending	1,149,648	-	-	71,688	1,221,336
Debt investment securities (Note 13)	102,978	-	-	-	102,978
Other assets	41,861	-	-	-	41,861
	4,132,247	902,487	262,113	119,069	5,415,916

91% (2016: 79%) of the past due but not impaired category is below 60 days and **9%** (2016: 21%) is between 60-90 days.

Financial assets by class individually impaired

2017	**Gross exposure**	**Impairment provision**	**Fair value of collateral**
	KD 000's	**KD 000's**	**KD 000's**
Loans and advances to customers:			
- Corporate lending	**51,991**	**2,418**	**49,573**
- Consumer lending	**21,019**	**9,564**	**20**
	73,010	**11,982**	**49,593**

2016	Gross exposure	Impairment provision	Fair value of collateral
	KD 000's	KD 000's	KD 000's
Loans and advances to customers:			
- Corporate lending	67,982	4,278	63,516
- Consumer lending	25,414	11,650	6
	93,396	15,928	63,522

	2017		2016	
	Assets KD 000's	**Off balance sheet items KD 000's**	Assets KD 000's	Off balance sheet items KD 000's
Geographic region:				
Domestic (Kuwait)	**4,539,813**	**1,360,265**	4,255,809	1,293,486
Other Middle East	**657,771**	**149,339**	689,650	185,184
Europe	**207,023**	**83,507**	168,024	109,515
USA and Canada	**-**	**22,658**	12,750	21,357
Asia Pacific	**60,081**	**220,683**	72,148	289,161
Rest of world	**10,108**	**-**	3	1,688
	5,474,796	**1,836,452**	5,198,384	1,900,391
Industry sector:				
Personal	**1,514,007**	**-**	1,397,077	-
Financial	**845,630**	**598,037**	930,389	702,136
Trade and Commerce	**410,092**	**284,710**	347,851	234,902
Crude Oil and Gas	**140,521**	**44,098**	146,811	34,535
Construction	**258,611**	**599,188**	292,731	643,167
Government	**1,198,156**	**19**	1,202,489	1,134
Manufacturing	**255,396**	**74,635**	249,706	58,477
Real Estate	**551,717**	**33,152**	449,886	8,987
Others	**300,666**	**202,613**	181,444	217,053
	5,474,796	**1,836,452**	5,198,384	1,900,391

Contingent liabilities and commitments are financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. These instruments are disclosed in Note 26.

Derivative financial instruments with contractual or notional amounts that are subject to credit risk

These derivative financial instruments comprise of foreign exchange contracts and credit default swaps (CDS). Foreign exchange contracts allow the Bank and its customers to transfer, modify or reduce their foreign exchange risk. Foreign exchange contracts are subject to credit risk and are limited to the current replacement value of instruments that are favorable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding.

In the case of CDS contracts, the Bank had sold credit protection for the underlying bonds/FRNs issued by GCC sovereign or public sector entities and were therefore exposed to the default risk of the issuers. The Bank's management does not intend to pursue this line of business and is not undertaking any new transactions. All outstanding CDS instruments were matured during the year.

These instruments are disclosed in Note 28. This credit risk exposure was managed as part of the overall borrowing limits granted to customers.

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. Normally, the banking business is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies. A majority of the interest bearing assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk.

The interest rate sensitivity of the income statement measures the effect of assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and liabilities held at year end. The interest rate sensitivity on equity (comprehensive income) is the impact of changes in interest rates on the fair value of available for sale fixed rate bonds held at year end.

The following table reflects the effects of 25 basis points change in interest rates on the income statement and equity (comprehensive income) , with all other variables held constant:

	2017			2016		
	Change in interest rate in basis points	**Impact on income statement**	**Impact on statement of comprehensive income**	Change in interest rate in basis points	Impact on income statement	Impact on statement of comprehensive income
Currency		**KD 000's**	**KD 000's**		KD 000's	KD 000's
KWD	(+) 25	2,774	-	(+) 25	2,006	-
USD	(+) 25	328	(24)	(+) 25	349	(4)

C. CURRENCY RISK

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Bank complies with all CBK and internally approved limits. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

Based on the Bank's financial assets and liabilities held at the statement of financial position date, in case of a change in currency movements with all other variables held constant, the effect on the Bank's profit and other comprehensive income is as follows:

	2017			2016		
	Change in currency rate in	**Impact on income statement**	**Impact on statement of comprehensive income**	Change in currency rate in	Impact on income statement	Impact on statement of comprehensive income
Currency	**%**	**KD 000's**	**KD 000's**	%	KD 000's	KD 000's
USD	**+5**	**(199)**	**256**	+5	(384)	328

Bank's investments are held in well diversified portfolio of equity, debt instruments and funds which invest in a variety of securities and products which are denominated in different currencies whose performance cannot necessarily be measured with relation to movement in any particular currency rate. Only the impact on the carrying amount of these securities has been considered in the sensitivity analysis.

D. LIQUIDITY RISK

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. Liquidity risk is a sequential risk that may 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 a sufficient balance of cash, cash equivalents and readily marketable securities.

Liquidity risk arises in the general funding of the Bank's activities. Under the guidance of the Asset Liability Committee (ALCO), the Treasury group manages the liquidity and funding of the Bank to ensure that sufficient funds are available to meet the Bank's known cash funding requirements and any unanticipated needs that may arise. At all times, the Bank holds what it considers to be adequate levels of liquidity to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

The Bank measures and monitors Basel III short term and long term liquidity ratios of LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The objective of LCR is to improve the short-term liquidity profile of the bank by ensuring that the Bank has sufficient stock of High Quality Liquid Assets to cover a 30 day period of stressed cash outflows. Similarly, NSFR aims to improve the long-term liquidity profile by ensuring that the bank has stable funding sources to cover funding requirements over the short and long term period.

The liquidity and funding management process includes: projecting cash flows by major currency; monitoring financial position, liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources; monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and managing debt financing needs. The Bank maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further minimized by adherence to the strict CBK liquidity requirements, namely: maturity ladder mismatch limits for specific time periods: 10% for 7 days or less; 20% for 1 month or less; 30% for 3 months or less; 40% for 6 months or less; the requirement to hold 18% of KD customer deposits in Kuwait Government treasury bills and bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 90%.

24. FINANCIAL INSTRUMENTS (continued)
D. Liquidity Risk (continued)

The table below summarizes the maturity profile of the assets and liabilities at the yearend based on residual contractual repayment arrangements (assets and liabilities without a contractual maturity are based on management expectation):

At 31 December 2017:

	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Assets:							
Cash and cash equivalents	475,441	-	-	-	-	-	475,441
Treasury bills and bonds	-	29,000	57,086	84,962	287,236	108,500	566,784
Central Bank of Kuwait bonds	116,884	152,639	125,032	-	-	-	394,555
Deposits with banks and other financial institutions	-	39,053	-	-	-	-	39,053
Loans and advances to banks	-	30,282	7,544	72,626	13,579	4,899	128,930
Loans and advances to customers	140,921	330,095	369,930	615,582	502,751	1,849,487	3,808,766
Investment securities	-	-	-	-	33,365	84,455	117,820
Other assets	34,396	-	3,660	4,370	79,520	155	122,101
Premises and equipment	-	-	-	-	-	29,954	29,954
Total assets	767,642	581,069	563,252	777,540	916,451	2,077,450	5,683,404
Liabilities:							
Due to banks	142,216	33,105	90,434	146,350	-	-	412,105
Deposits from financial institutions	107,813	116,870	251,110	365,819	127,585	-	969,197
Customer deposits	2,025,674	691,246	319,526	437,099	16,432	-	3,489,977
Subordinated Tier 2 bonds	-	-	-	-	-	100,000	100,000
Other liabilities	50,613	20,026	9,214	15,352	15,642	-	110,847
Total liabilities	2,326,316	861,247	670,284	964,620	159,659	100,000	5,082,126

At 31 December 2016:

	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Assets:							
Cash and cash equivalents	665,520	-	-	-	-	-	665,520
Treasury bills and bonds	8,695	48,178	50,762	52,000	173,284	40,000	372,919
Central Bank of Kuwait bonds	65,000	231,240	80,000	-	-	-	376,240
Deposits with banks and other financial institutions	-	103,013	5,000	-	-	-	108,013
Loans and advances to banks	13,859	-	12,395	65,801	44,551	-	136,606
Loans and advances to customers	121,175	448,172	282,138	472,015	675,067	1,447,430	3,445,997
Investment securities	30,849	3,064	-	-	27,088	85,180	146,181
Other assets	37,631	-	36,568	801	111,642	-	186,642
Premises and equipment	-	-	-	-	-	28,997	28,997
Total assets	942,729	833,667	466,863	590,617	1,031,632	1,601,607	5,467,115
Liabilities:							
Due to banks	127,014	100,752	67,331	165,374	19,893	-	480,364
Deposits from financial institutions	131,741	137,795	163,615	235,676	155,853	-	824,680
Customer deposits	1,939,938	750,573	300,779	397,050	7,000	-	3,395,340
Subordinated Tier 2 bonds	-	-	-	-	-	100,000	100,000
Other liabilities	42,746	19,230	10,338	15,517	5,408	-	93,239
Total liabilities	2,241,439	1,008,350	542,063	813,617	188,154	100,000	4,893,623

The tables below summarize the maturity profile of the Bank's financial liabilities and contingent liabilities, commitments and non-derivative financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

At 31 December 2017:

	Less than 1 month KD 000's	**1 to 3 months KD 000's**	**3 to 12 months KD 000's**	**1 to 5 years KD 000's**	**Over 5 years KD 000's**	**Total KD 000's**
Financial liabilities:						
Due to banks	**191,427**	**88,230**	**135,763**	**-**	**-**	**415,420**
Deposits from financial institutions	**73,450**	**13,893**	**252,288**	**654,844**	**-**	**994,475**
Customer deposits	**1,636,963**	**221,460**	**1,606,094**	**155,176**	**-**	**3,619,693**
Subordinated Tier 2 bonds	**-**	**1,682**	**5,045**	**122,982**	**-**	**129,709**
Other liabilities	**50,613**	**20,026**	**24,566**	**15,642**	**-**	**110,847**
Total undiscounted liabilities	**1,952,453**	**345,291**	**2,023,756**	**948,644**	**-**	**5,270,144**

At 31 December 2016:

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Financial liabilities:						
Due to banks	178,536	48,014	190,562	68,441	-	485,553
Deposits from financial institutions	107,991	9,300	317,985	408,761	-	844,037
Customer deposits	1,632,244	173,627	1,321,804	294,906	-	3,422,581
Subordinated Tier 2 bonds	-	1,709	5,127	123,318	-	130,154
Other liabilities*	42,746	19,230	25,855	5,408	-	93,239
Total undiscounted liabilities	1,961,517	251,880	1,861,333	900,834	-	4,975,564

* Other liabilities includes negative fair value of derivative financial instruments (Note 18).

24. FINANCIAL INSTRUMENTS (continued)
D. Liquidity Risk (continued)

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

	Less than 1 month KD 000's	**1 to 3 months KD 000's**	**3 to 12 months KD 000's**	**1 to 5 years KD 000's**	**Over 5 years KD 000's**	**Total KD 000's**
At 31 December 2017:						
Contingent liabilities	**14,583**	**47,388**	**162,249**	**770,836**	**452,805**	**1,447,861**
Commitments	**100**	**33,023**	**172,287**	**2,645**	**-**	**208,055**
	14,683	**80,411**	**334,536**	**773,481**	**452,805**	**1,655,916**

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
At 31 December 2016:						
Contingent liabilities	16,330	48,578	161,895	771,817	514,745	1,513,365
Commitments	362	50,947	137,353	-	-	188,662
	16,692	99,525	299,248	771,817	514,745	1,702,027

The table below shows the contractual expiry by maturity of the Bank's forward foreign exchange contracts positions:

Derivatives	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Total KD 000's
At 31 December 2017:					
Forward foreign exchange	**95,170**	**37,904**	**46,097**	**-**	**179,171**
At 31 December 2016:					
Forward foreign exchange	65,280	18,710	15,468	19,825	119,283

E. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal controls, human error, systems failure or from external events. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The operational risks are monitored through the Operational Risk Management Unit in the Risk Management Department. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management. The Operational Risk Management function is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. EQUITY PRICE RISK

This is a risk that the value of equity investments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank manages this risk through diversification of investments.

A portion of the Bank's investments are held in well diversified portfolio of hedge funds which invest in a variety of securities whose performance cannot necessarily be measured in relation to movement in any specific equity index.

The effect on equity (as a result of change in the fair value of equity instruments held as available for sale) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

Market indices	*% Change* in equity price	**2017 Effect on equity KD 000's**	2016 Effect on equity KD 000's
Kuwait Stock Exchange	+5%	**682**	737
New York Stock Exchange	+5%	**68**	69

G. PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

Most of the Bank's interest bearing financial assets are at floating rates. In addition, majority of the interest bearing financial liabilities where the repayment option is with the Bank, have a maturity of less than one year and accordingly, the Bank is not exposed to significant prepayment risk.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximates their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2017	**Level 1 KD 000's**	**Level 2 KD 000's**	**Level 3 KD 000's**	**Total KD 000's**
Financial assets available for sale :				
Equity securities	**15,391**	**4,775**	**-**	**20,166**
Debt securities	**2,398**	**18,166**	**-**	**20,564**
	17,789	**22,941**	**-**	**40,730**

2016	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets available for sale :				
Equity securities	16,452	6,142	-	22,594
Debt securities	18,593	17,324	-	35,917
	35,045	23,466	-	58,511

The fair value of the above investment securities classified under Level 1 and level 2 is categorised as per the policy on fair value measurement in Note 2. During the year, there were no transfers between any of the fair value hierarchy levels.

All unquoted equity securities- available for sale are recorded at fair value except for investments with a carrying value of **KD17,494 thousand** (2016: KD20,609 thousand), which are recorded at cost, net of impairment, since fair value cannot be reliably estimated.

The positive and negative fair values of forward foreign exchange contracts and credit default swaps are valued using significant inputs of observable market data (Level 2). Refer Note 28.

The amortized cost and fair value of investment securities held to maturity as at 31 December 2017 were **KD59,596 thousand** (2016: KD67,061 thousand) and **KD59,356 thousand** (Level: 1) (2016: KD66,730 thousand) respectively. The fair values of other financial assets and liabilities which are carried at amortised cost are estimated using the valuation models that incorporate a range of input assumptions. These assumptions may include estimates using credit spreads, forward looking discounted cash flow models using the assumptions which the management believes are consistent with those which would be used by market participants in valuing such financial assets and liabilities. The management has also performed a sensitivity analysis by varying these assumptions to a reasonable margin and there is no material impact. The fair values of these financial assets and liabilities are not materially different from their carrying values at the reporting date. The interest rates on these financial assets and liabilities are repriced immediately based on market movements. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

26. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various contingent liabilities and irrevocable commitments. Even though these obligations may not be reflected in the statement of financial position, they do contain credit risk and therefore form part of the overall risk of the Bank.

The total outstanding contingent liabilities and commitments are as follows:

	2017 KD 000's	2016 KD 000's
Guarantees	**1,247,906**	1,320,869
Letters of credit and acceptances	**199,955**	192,496
	1,447,861	1,513,365

As at the reporting date, the Bank had undrawn commitments to extend credit facilities to customers amounting to **KD208,055 thousand** (2016: KD188,662 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

27. SEGMENTAL ANALYSIS

a. By Business Unit

Commercial Banking	Acceptance of deposits from individuals, corporate and institutional customers and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and other credit facilities to corporate and institutional customers.
Treasury & Investments	Providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of treasury bills, government securities, placements and acceptances with other banks. The proprietary investments of the Bank are managed by the Investments unit.

Segmental information for the year ended 31 December is as follows:

	Commercial Banking		Treasury & Investments		Total	
	2017 **KD 000's**	2016 KD 000's	**2017** **KD 000's**	2016 KD 000's	**2017** **KD 000's**	2016 KD 000's
Operating income	**149,512**	144,595	**10,457**	4,448	**159,969**	149,043
Segment result	**36,376**	97,040	**9,517**	3,147	**45,893**	100,187
Unallocated income					**21,413**	19,598
Unallocated expense					**(19,283)**	(76,842)
Profit for the year					**48,023**	42,943
Segment assets	**4,004,852**	3,801,894	**1,604,736**	1,596,363	**5,609,588**	5,398,257
Unallocated assets					**73,816**	68,858
Total Assets					**5,683,404**	5,467,115
Segment liabilities	**2,830,374**	2,682,905	**2,084,719**	2,041,414	**4,915,093**	4,724,319
Unallocated liabilities and equity					**768,311**	742,796
Total Liabilities and Equity					**5,683,404**	5,467,115

During the year, the Bank has revised the allocation method for centrally managed shared costs. In the prior years, shared costs were allocated to Business Units, however, from the current year they are included within the unallocated expense. This change does not have any impact on the profit and equity of the Bank. Such change has been made to improve the segment analysis and amounts for comparative periods have been restated to conform to the current year presentation.

b. Geographic segment information relating to location of assets, liabilities and off balance sheet are given in Note 24A.

Revenue from transactions with a single external customer or counter party did not result in 10% or more of the Bank's total revenue in 2017 or 2016.

28. DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

At 31 December 2017:				**Notional amounts by term to maturity**		
	Positive fair value	**Negative fair value**	**Notional total amount**	**Within 3 months**	**3-12 months**	**Over 1 year**
Derivatives instruments held as:	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	**1,441**	**(1,237)**	**179,171**	**133,074**	**46,097**	**-**
Credit Default Swaps*	**-**	**-**	**-**	**-**	**-**	**-**
	1,441	**(1,237)**	**179,171**	**133,074**	**46,097**	**-**

*All credit default swaps instruments were matured during the year.

At 31 December 2016:				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional total amount	Within 3 months	3-12 months	Over 1 year
Derivatives instruments held as:	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	707	(887)	119,283	83,990	15,468	19,825
Credit default swaps (Note 18)	35	(53)	59,680	30,605	29,075	-
	742	(940)	178,963	114,595	44,543	19,825

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest. For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies. For credit default swaps, fee is earned based on the amount of credit risk swapped.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IAS 39 hedging requirements.

29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements, maintains a strong and healthy capital ratio in order to support its operations and to maximize shareholders' value.

The Bank actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Bank'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 Bank.

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular number 2/RB,RBA/336/2014 are included under the 'Capital Management and Allocation' section of the annual report. Below ratios are calculated without proposed cash dividend impact.

The Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2017 and 31 December 2016 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2017 **KD 000's**	2016 KD 000's
Risk weighted assets	**4,226,200**	3,897,800
Capital required	**591,668**	545,692
Capital available		
Tier 1 capital	**601,278**	573,492
Tier 2 capital	**150,860**	147,196
Total capital	**752,138**	720,688
Tier 1 capital adequacy ratio	**14.23%**	14.71%
Total capital adequacy ratio	**17.80%**	18.49%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2017 and 31 December 2016 are calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2017 **KD 000's**	2016 KD 000's
Tier 1 capital	**601,278**	573,492
Total Exposure	**6,645,408**	6,456,516
Financial leverage ratio	**9.05%**	8.88%

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in CBK circular number 2/BS/ 342/2014 dated 21 October 2014 for the year ended 31 December 2017 and 31 December 2016 are included under the 'Capital Management and Allocation' section.

30. SUBSEQUENT EVENT

On 16 January 2018, the Bank acquired a real estate property through public auction for KD98,996 thousand against a non- performing loan due to the Bank. Since this judgement may be appealed and a claim may be filed with respect to the indebtedness amount, the financial impact of this transaction cannot be reliably estimated as of the date of these financial statements.

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