ANNUAL REPORT 2016

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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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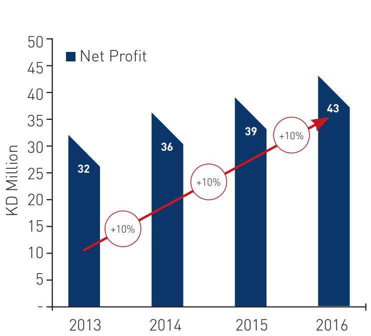
Head Office:
Mubarak Al Kabeer Street, PO. Box 3200 Safat – Kuwait Zip Code 13032 –Telephone: 22082000

KEY HIGHLIGHTS

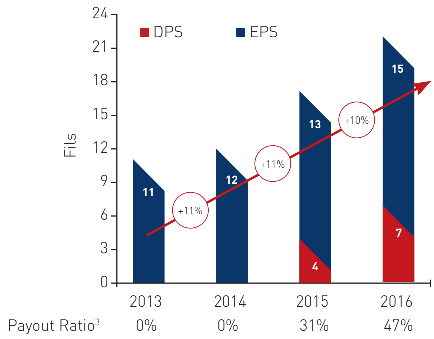
Who we are

Gulf Bank K.S.C.P (the "Bank" or "GBK") is a public shareholding company incorporated in Kuwait on 29th October 1960 and registered with the Central Bank of Kuwait as a conventional bank. The Bank's shares are listed on Boursa Kuwait (formerly Kuwait Stock Exchange) since 29th September 1984.

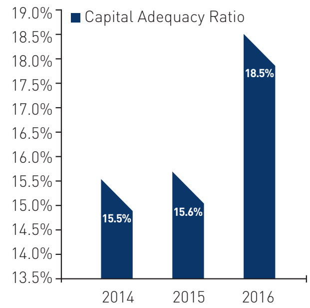
1. Third straight year of double digit profit growth.[1]



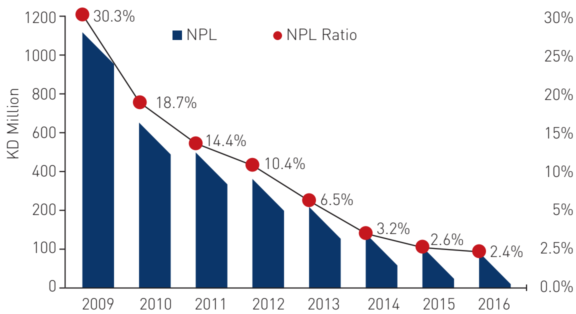
2. Cash dividends per share increased by 75% to 7 Fils per share.[2]



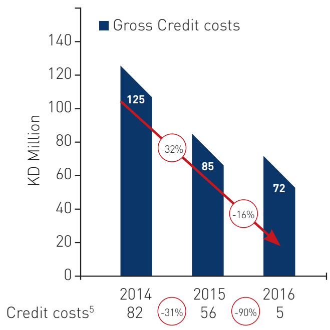
3. Strong Capital Adequacy



4. Non-Performing loans fell below KD 100 million for the first time in 9 years.



5. Gross credit costs continue to decline[4].



6. Affirmation of "A" level and stable outlook from the leading credit rating agencies.

	Gulf Bank Ratings	2016	2015
Fitch Ratings	**Long Term**	**A+**	**A+**
	Short Term	F1	F1
	Viability Rating	bb	bb
	Outlook	**Stable**	**Stable**
Moody's	**Long Term**	**A3**	**A3**
	Short Term	P-2	P-2
	Baseline Credit Assessment	ba1	ba1
	Outlook	**Stable**	**Stable**
S&P Global Ratings	**Long Term**	**A-**	**A-**
	Short Term	A-2	A-2
	Outlook	**Stable**	**Stable**

1. Net income growth 2014: 10.3%, 2015: 9.9%, 2016: 10.1%.
2. Earnings per share and growth for 2013 and 2014 are adjusted to take account for bonus shares issued in both years.
3. Dividend Payout Ratio. 2016 dividend is subject to Annual General Assembly approval.
4. Gross credit costs = specific provisions plus write-offs.
5. Credit costs net of recoveries = specific provisions plus write-offs less recoveries.

CHAIRMAN'S MESSAGE

Omar Kutayba Alghanim
Chairman

Dear Shareholders,

It is my pleasure to report to you on the performance of Gulf Bank in 2016. As you will see, the Bank continues to achieve significant milestones and meet key strategic goals. For the third consecutive year, the Bank achieved double-digit net income growth in a very competitive industry and a challenging economic environment.

The Bank recorded a net profit of KD 43 million for the year ending 31 December 2016, an increase of 10% over the previous year. Loan quality continued to improve; gross credit costs (specific provisions plus write-offs) declined by 16% to KD 72 million compared to 85 million in 2015. Non-performing loans (NPLs) reached KD 93 million or 2.4%, levels that have not been seen since 2007.

The Bank enjoys a strong capital adequacy ratio of 18.5%, which is well above the regulatory requirement of 14%. The capital of the Bank has been further enhanced by our successful issuance of KD 100 million of Tier II capital in May 2016. The assets of the Bank were steady at KD 5,467 million, while total shareholders' equity was up by 7% to KD 573 million. Customer loans ended the year at KD 3,446 million.

In terms of profitability, the Bank's earnings per share for the year 2016 was 15 fils compared to 13 fils for the year 2015. The return on average assets was 0.79% compared to 0.72% in 2015 and the return on average equity was 7.73% compared to 7.43% for the previous year.

As a result of the Bank's continuous improvement and growth, the Board of Directors has recommended a cash dividend of 7 fils per share, an increase of 75% compared with 4 fils per share in the previous year.

Gulf Bank Rated "A"

Gulf Bank continues to enjoy an "A" rating from the top three international rating agencies: Moody's Investors Services (A3), Fitch Ratings (A+), and Standard & Poor's -S&P (A-). During this year, all three rating agencies affirmed the Bank's ratings, its stable outlook and revenue generating ability.

The affirmation confirms our dedication to creating value for our stakeholders and providing competitive services to our loyal customers.

Innovative Products and Customer Service Key to the Bank's Growth and Performance

As part of our growth strategy, the Bank is committed to developing and launching products and services that resonate with our corporate clients and retail customers.

On the corporate side, by developing a robust transaction banking platform, the Bank enabled the automation of corporate customer employees' salary processing, corporate transaction approval, trade finance transactions and cash management requests through the online portal, as well as streamlining the account opening process. This automation has further improved customer service and a reduction in operational risk.

On the retail side, in the second quarter of 2016, Gulf Bank launched its new mobile banking application and digital banking portal, setting new benchmarks for security and ease of use. The Bank's face recognition mobile banking application was not only the first of its kind in Kuwait, but was unique in recording a 156% increase in the Bank's digital customer base. Additionally, the Bank's customer loyalty program, "Gulf Rewards" and the Gulf Bank Entertainer Application, continued to exceed expectations. It is driving growth in the credit cards business, increasing market share, as well as winning the best in the Middle East award for its simplicity and breadth of benefits to customers.

To better serve customers with special needs, five out of our 56 branches have installed special ATM machines and have selected branch staff who can communicate in sign language.

Leading in Corporate Social Responsibility and Human Capital Initiatives

As part of its corporate social responsibility, Gulf Bank remains dedicated to serving all the people of Kuwait and contributing to the development of our beloved country. Its focus continues to be on education, entrepreneurship, heritage and women empowerment.

INJAZ- Kuwait

To address one of the major challenges facing our region, the Bank continues to sponsor INJAZ- Kuwait to deliver Arabic and English language education programs on entrepreneurial and leadership skills to help youth build successful careers.

Ajyal Graduate Development Program

Additionally, the Bank's Ajyal Graduate Development Program, delivered in cooperation with Institute of Banking Studies (IBS) Kuwait, nurtures young Kuwaiti talents early in their career to develop them into 'holistic bankers', prepare them for future leadership positions and build a large cadre of Kuwaiti bankers for the benefit of Kuwait.

Gender Diversity: Women in the Corporate World Conference

As Gulf Bank is committed to gender parity and to further understand key motivating factors and challenges women face in the workplace, the Bank held the "Women in the Corporate World" non-profit conference in May 2016. Leading international, regional local speakers and participants attended; the Bank believes that initiatives such as this conference not only improve internal company cultures, but also positively reflect on society and lead to advancement of the region both economically and in a socially responsible direction.

Memorial Pearl Diving

The sponsorship of the Memorial Pearl Diving Journey continues to form a key part of the Bank's long-term commitment to preserving the heritage and emphasizing the traditions of Kuwait. Recreating a pearl diving journey each year reminds young Kuwaitis of the difficulties and challenges faced by their forefathers and upholds the traditions and values of our ancestors.

Holy Month of Ramadan Initiatives

The Bank's annual Holy Month of Ramadan campaign comprised several initiatives. Its Ramadan video encouraged good deeds and giving, regardless of what others may perceive. It also partnered in distributing "maatchla" foodstuff boxes to needy families in Kuwait. The Bank employees also visited a number of hospitals and engaged in fund activities withyoung patients in fun activities and distributed girgi'an gifts. Additionally, the Bank distributed girgi'an bags to underprivileged children and children with special needs.

Gulf Bank 642 Marathon

Now in its second year, the 'Gulf Bank 642 Marathon' continues to highlight the importance of health and fitness. This event is open to individuals and families with different levels of fitness, with four different distance categories (5km, 10km, 21km, 42km) and continues to have a record turnout.Participants included individuals, families, teams of walkers and runners from various backgrounds and organizations. This is the only marathon in Kuwait to have its 21km and 42km distance categories internationally accredited, meaning those races appear in the international calendar of races.

This year the 'Gulf Bank 642 Marathon' partnered with the UNHCR (United Nations High Commissioner on Refugees), also known as the UN Refugee Agency, and its 'Voices for Refugees' initiative. This online awareness and fundraising campaign is to stand with refugees to make their voices heard and humanize their plight.

Awards

Gulf Bank's growth and soundness was strongly acknowledged by the financial services and banking industry on regional and international levels. Gulf Bank won The Asian Banker regional awards for: "Best Credit Card Product in the Middle East for Gulf Rewards", "Internet and Mobile Security Technology Implementation of the Year in Middle East and Africa", and "Enterprise Risk Technology Implementation of the Year in Middle East and Africa." Furthermore, at the end of 2016, Gulf Bank was notified by Guinness World Records™ that it would win the 'largest prize linked to a bank account' in the world for its Al Danah account's KD One Million prize. Gulf Bank received the award during the annual Al Danah draw that took place on 5th January 2017.

Concluding Remarks

Gulf Bank's achievements and success for the year have been impressive, but these are only part of the Bank's long-term growth strategy. We are looking forward to delivering more customer centric services and innovative products.

I would like to thank our valued customers for their continued trust in Gulf Bank. I would also like to extend my sincere appreciation to our Shareholders, Board of Directors, the Central Bank of Kuwait and the Capital Markets Authority for their ongoing support throughout the year. Moreover, I thank our employees for their dedicated service and for being part of the Gulf Bank family.

On behalf of the Board of Directors, I would like to express my gratitude to His Highness, the Amir Sheikh Sabah Al Ahmed Al Jaber Al Sabah, His Highness the Crown Prince Sheikh Nawaf Al Ahmed Al Jaber Al Sabah, and His Highness the Prime Minister Sheikh Jaber Al Mubarak Al Hamad Al Sabah for their leadership and guidance.

Omar Kutayba Alghanim
Chairman

AWARDS

Best Treasury & Cash Management Provider in Kuwait Global Finance	**Best Innovation in Retail Banking in Kuwait (Gulf Rewards)** International Banker
Corporate Bank of The Year The European	**Lifetime Achievement Al Shakoor Award for Corporate Social Responsibility – Culture & Education** Gulf University of Science & Technology
Best Banking Rewards Program-(Gulf Rewards) The European	**Corporate Social Responsibility Award** Arabian Business Magazine
Best Retail Customer Service in Kuwait International Finance Magazine	**Straight Through Processing Excellence Award (STP)** Citibank
Best Retail Bank in Kuwait International Finance Magazine	**Internet & Mobile Security Technology Implementation of the Year - Middle East & Africa** The Asian Banker
Finance and Banking Excellence in Kuwait Corporate LiveWire – Global Awards 2016	**Enterprise Risk Technology Implementation of the Year - Middle East & Africa** The Asian Banker
Best Credit Card Product in Middle East (Gulf Rewards) The Asian Banker	**Best Customer Loyalty Program Kuwait – Gulf Rewards** Banker Middle East
Best Retail Bank in Kuwait The Banker Middle East	**Elite J.P. Morgan Quality Recognition Award** J.P. Morgan
Best Commercial Bank in Kuwait International Banker	**Best Message – Gulf Bank Ramadan Commercial** Advertising Creativity Awards

BOARD OF DIRECTORS

Omar Kutayba Alghanim
Chairman

Ali Morad Behbehani
Deputy Chairman

Sayer Bader Al-Sayer
Board Member

Farouk Ali Bastaki
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 of 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's 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
- Morgan Stanley, London
  Financial Analyst, ME Coverage, 1999 – 2000
  Financial Analyst, M&A, 1998 – 1999
- 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
- 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 of 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:
- Chief Executive Officer 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 Europhenix Management Company S.A., Luxembourg (1988 – 1999)
- 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)

Farouk Ali Bastaki

Board Member - Representative of Kuwait Investment Authority
Chairman of the Audit Committee

Date of Appointment:
April 11, 2009

Academic Qualifications:
Bachelor of Science in Industrial Engineering, University of Miami, USA

Experience:
- Executive Director- Alternative Investments Sector, Kuwait Investment Authority
- Board Member of Kuwait Fund for Arab Economic Development
- Board Member of Fosterlane Realty Inc.,USA
- Board Member of St. Martins Property Corporation, UK
- Former Chairman of National Technology Enterprises Company, Kuwait

Omar Hamad Al-Essa

Board Member
Deputy Chairman of 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:
- Founder and Managing Director of the Law Office Of Al-Essa & Partners
- Formerly President of the Admission Committee of the Kuwait Bar Association
- Formerly President of the Arbitration Center of the Kuwait Bar Association
- Formerly Chairman of the Kuwait Bar Association
- Formerly Chairman of Nichan Holding Company
- Vice Chairman of Abu Hasaniya International Real Estate Company, Kuwait
- 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 Vice Chairman of the Kuwait Bar Association
- Formerly Secretary of the Kuwait Bar Association
- President of the Development and Training Committee of the Kuwait Bar Association
- Formerly Member of the Board of Arabi Company
- Appointed adviser to the Public Authority compensation for Iraqi invasion
- Member of the Kuwaiti Association for Learning Differences – 2015
- Kuwait Legal Association – 2015

Jassim Mustafa Boodai

Board Member
Chairman of 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 9, 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 of Board Corporate Governance Committee
Member of Board Risk Committee

Date of Appointment:
March 17, 2012

Academic Qualifications:
- MBA, London Business School, London, England
- Bachelor's Degree, Mechanical Engineering, Kuwait University, Kuwait

Experience:
- Chairman and Head of Investment Committee of Gulf Cables and Electrical Industries Company, Kuwait
- Director of Group Executive Committee of Mohammed Abdulmohsin AlKharafi & Sons W.L.L. ,Kuwait
- Middle East Advisory Board Member of Coutts & Co.
- Vice Chairman, Member of the Executive Committee and Member of the Investment Committee 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
- General Manager of Al Khair National for Stocks and Real Estate Co., W.L.L
- 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 the Industrial Advisory Board, Mechanical Engineering, Kuwait University, Kuwait
- Member of the Board of Kazma Sports Club, Kuwait

Bader Abdulmohsen El-Jeaan

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

Date of Appointment:
March 16, 2013

Academic Qualifications:
- MA in Law, Oxford University, UK
- AB in Economics, Harvard University, USA

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

(left to right):
Mona Mansour, General Manager - Customer Service Delivery
Raghunandan S Menon, General Manager - Chief Risk Officer
Ahmed AlDuwaisan, General Manager - Corporate Banking
Vikram Issar, General Manager - Consumer Banking
Antoine Daher, Chief Executive Officer
Omar Kutayba Alghanim, Chairman
Salma Al-Hajjaj, General Manager - Human Resources
Kevin Smith, Chief Financial Officer
Peter Roberts, General Manager - IT and Chief Information Officer
Nabil Abdel-Malek, General Manager - Legal Affairs' General Counsel
Khaled Al-Mutawa, General Manager - International Banking and Investments
Hussam Mustafa, General Manager - Chief Internal Auditor
Sudad Hamam, General Manager - Treasury

MANAGEMENT

Executive Management Responsibility Statement 2016

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 investment banking.
- Holds BSC in Civil Engineering & MBA from Case Western Reserves University, Ohio, USA.

Kevin Smith

Chief Financial Officer

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.

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 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, has his 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.

Salma Hajjaj

General Manager - Human Resources

Date of Joining Gulf Bank:
February 1, 2013

Experience:
- 30+ years in HR.
- Previously worked at various key HR positions in the oil sector, KPC and Gulf Investment Corporation.
- Holds BSc in Mathematics from Kuwait University and a MA in Organizational Management from the University of Phoenix in Arizona.

Hussam Mustafa

General Manager - Chief Internal Auditor

Date of Joining Gulf Bank:
August 10, 2014

Experience:
- 22+ 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.

Peter Roberts

General Manager - IT and Chief Information Officer

Date of Joining Gulf Bank:
November 3, 2013

Experience:
- 30+ years in Banking IT.
- Previously worked at National Commercial Bank, KSA and Barclays Bank, UK.
- Holds a Degree in Geography & Economics from the University of London.
- Associate of the Institute of Bankers, UK.

Sudad Hamam

General Manager - Treasury

Date of Joining Gulf Bank:
January 18, 2015

Experience:
- 27+ years in Treasury.
- Previously worked at Bank of Boston Turkey, Oyak Bank. Directly involved in managing the treasury restructuring post acquisition, merger with Sumer Bank and subsequent ING acquisition.
- Holds MBA from Bilkent University, Turkey.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

As of or for the year ended December 31, 2016 (in KD millions, except per share and ratio data)

KEY METRICS

(in KD millions)	**2016**	2015
Operating income	**169**	168
Net profit	**43**	39
Gross loans and advances to customers	**3,756**	3,926
Total assets	**5,467**	5,438
Deposits	**4,220**	4,563
Total stockholders' equity	**573**	538
Ending number of net outstanding shares (millions)	**2,910**	2,910
Earnings per share (fils)	**15**	13
Dividends per share (fils)	**7***	4
Dividend payout ratio	**47%**	31%
Pre-provision return on beginning equity	**20%**	21%
Return on beginning equity	**8.0%**	7.6%
Return on average assets	**0.79%**	0.72%
Tier 1 capital ratio	**14.71%**	14.36%
Capital adequacy ratio	**18.49%**	15.56%
Non-Performing Loan Ratio	**2.4%**	2.6%
NPL coverage ratio (including collateral)	**399%**	348%

* Subject to approval by the sharholders' assembly

FINANCIAL SUMMARY

In the year ended 31-December-2016, Gulf Bank reported net profit of KD 43 million, 10% higher than 2015. This is the third straight year of double digit growth in net profit for the Bank.

The Bank's 2016 net profit growth was driven by higher operating profit and a significant improvement in credit costs offset partially by interest expense on the Tier 2 issuance and higher impairment losses. These components contributed KD 33.9 million in profit growth and allowed the Bank to increase general provisions by 21% to KD 216.5 million and still grow net profit by KD 3.9 million compared with 2015. Earnings per share grew 10% from 13 fils to 15 fils per share.

The Board of Directors has recommended the distribution of a cash dividend of 7 fils per share on the outstanding issued share capital as of 31 December 2016 (4 fils per share in 2015). This represents an increase of 75% over the previous year and a dividend payout ratio of nearly 50% as compared with 31% in the prior year. Since the dividend is subject to approval by the shareholders' assembly, the Bank's capital adequacy ratio as of 31 December 2016 has not been adjusted to reflect the dividend. If adjusted for dividends, the capital adequacy ratio would be 17.9%.

Pre-provision return on beginning equity was 20%, Return on average assets improved 7 basis points to 0.79%.

The Bank enjoys a strong capital adequacy ratio of 18.5%, well above the regulatory requirement of 14%. The capital of the Bank was enhanced by the successful issuance of KD 100 million of Tier 2 capital in May 2016. The Tier 1 capital ratio is 14.7%, well above the minimum requirement of 12%, and comprises 80% of the Bank's total capital.

Shown below are the major variances in profit from 2015 to 2016 (KD millions):

2015 Net profit			**39.0**
Net Interest Income (excluding cost of Tier 2 issuance)	1.9		
Interest expense on Tier 2 issuance	(4.0)		
Net Interest Income		(2.1)	
Net fees & commissions	1.3		
Other Income	1.0		
Non-Interest Income		2.3	
Operating income		0.2	
Operating expenses		(2.9)	
Operating profit		(2.7)	
Credit costs	50.5		
Impairment loss	(13.9)		
Credit Costs / Impairments		36.6	
Operating profit before general provisions		33.9	
General provisions	(29.8)		
Others	(0.2)		
General provisions / Others		(30.0)	
Increase in net profit			**3.9**
2016 Net profit			**42.9**

ASSET QUALITY

The Bank's assets held steady at KD 5,467 million while total shareholders' equity increased by 7% to KD 573 million. Gross customer loans declined by 4% mainly due to settlements the Bank entered into with large obligors during the year. The Banks non-performing loan (NPL) ratio improved to 2.4% from 2.6% a year ago.

Credit costs (specific provisions plus write-offs less recoveries) declined by 90% to KD 5.5 million in 2016 compared to KD 55.9 million in 2015. Gross credit costs (excluding recoveries) declined by 16% from KD 85.2 million in 2015 to KD 71.9 million in 2016.

In 2016, credit costs were 0.14% of average loans. This compares favorably against a credit cost ratio of 1.45% of average loan balances in 2015.

The Banks total loan loss reserves on the Balance sheet stood at KD 310.9 million. Of these reserves, general provisions comprise KD 216.5 million or 70% of the total. As of 31-December-2016, general provisions represent 5.8% of total gross customer loans, up from 4.5% at the end of 2015.

CREDIT COSTS / IMPAIRMENTS / PORTFOLIO QUALITY (KD Millions)	**2016**	2015
Specific provisions	**3**	70
Write-offs	**69**	15
Gross credit costs	**72**	85
Recoveries	**(67)**	(29)
Total credit costs	**5**	56
General provisions	**38**	8
Impairment loss on investment securities	**6**	3
Impairment loss on other assets	**11**	-
Total	**60**	67
Average gross customer loans	**3,841**	3,874
Credit cost ratio (credit costs / average loans)	**0.14%**	1.45%
General provisions	**217**	178
General provisions as a % of ending gross customer loans	**5.8%**	4.5%

CORPORATE GOVERNANCE

Corporate Governance is an integrated part of the Bank's culture. Continuing education, training and awareness campaigns are carried out and reinforced by the Bank to familiarize Management and staff with world-class standards and requirements of Corporate Governance. 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 endeavour towards offering a leading example of a comprehensive Corporate Governance culture, the Bank observes a strict compliance with the laws in place and Central Bank of Kuwait (CBK) instructions governing this area.

The Bank's Corporate Governance structure stresses the proactive 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 laid 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 applicable checks and balances. In as much as shareholders' interests are preponderant in the Bank's policiesand shareholders have a key role in the definition of those policies and monitoring their implementation through the vote of confidence they exercise towards the Board.

Corporate Governance Compliance with CBK Instructions

In June 2012, CBK issued instructions relating to Corporate Governance.

The instructions set out nine pillars for sound Corporate Governance:

i. Board of Directors;
ii. Corporate values, conflict of interest and group structure;
iii. Executive Management;
iv. Risk management and internal controls;
v. Remuneration systems and policies;
vi. Disclosure and transparency;
vii. Complex corporate structure;
viii. Protection of shareholders' rights; and
ix. Protection of other stakeholders' rights.

The Bank has put in place all the relevant policies, manuals and guidelines aimed at being fully compliant with the 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.

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

The Bank also endeavours 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 the regulators, shareholders and the business community.

Stakeholder Definition

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

1. Customers
2. Shareholders
3. Regulatory authorities
4. Board of directors
5. Employees
6. Suppliers and service providers
7. Community where the Bank operates

Policies and Procedures

The Bank adopted a comprehensive framework of Corporate Governance aimed at properly balancing between its ambitious objectives and adherence to the internal and external governance and compliance systems in place. Both the Board of Directors 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 has implemented 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 Procedures Manual
5. Conflict of Interest Policy
6. Related Party Transaction 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

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. The CBK further protects those positions so as to ensure their independence.

Governance Structure

The Bank has established an organisation-wide governance structure aimed at ensuring 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 structures in place follow a three-tier approach: at the Executive Level through several Committees; at the Board Committees' Level, and at the level of the Board itself.

Executive 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

- Executive Credit Committee
- Management Credit Committee
- Remedial Credit Committee
- Classification & Provisions Committee
- Consumer Banking Credit Committee
- Business Banking Credit Committee

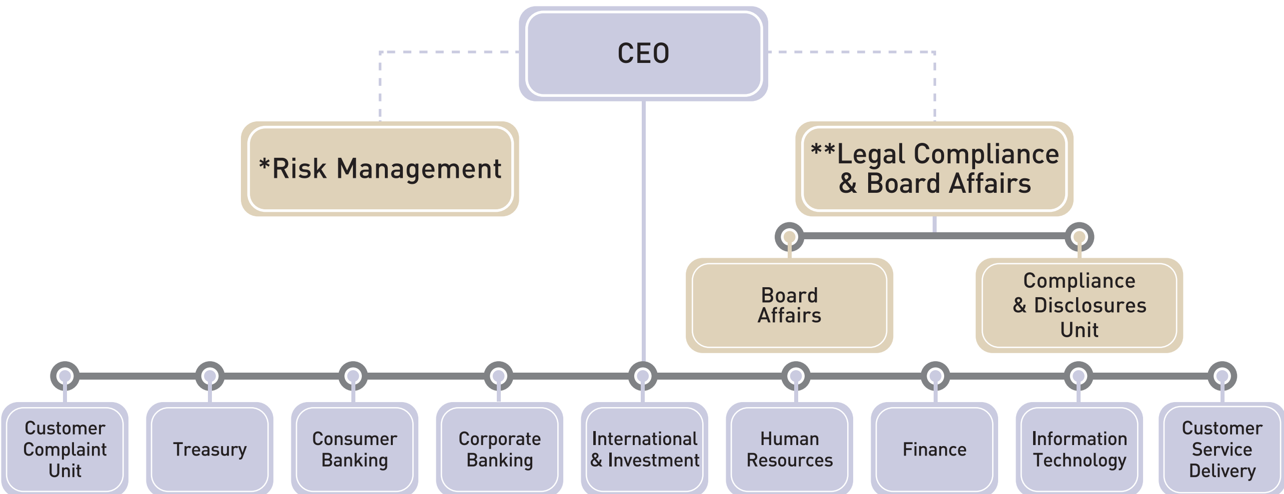
Other Committees

- Operational Risk Management Committee
- IT Steering Committee
- Policies & Procedures Committee

Management Committees

- Executive Risk Committee
- Asset & Liability Committee
- Fraudulent Cases Review Committee

Executive Organisation



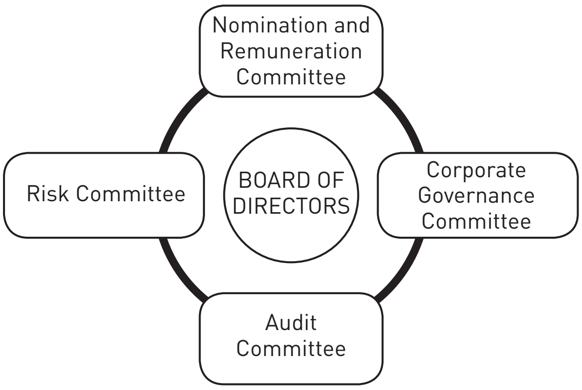
* Reports to the Board Risk Committee

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

Board Committees' Structure

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

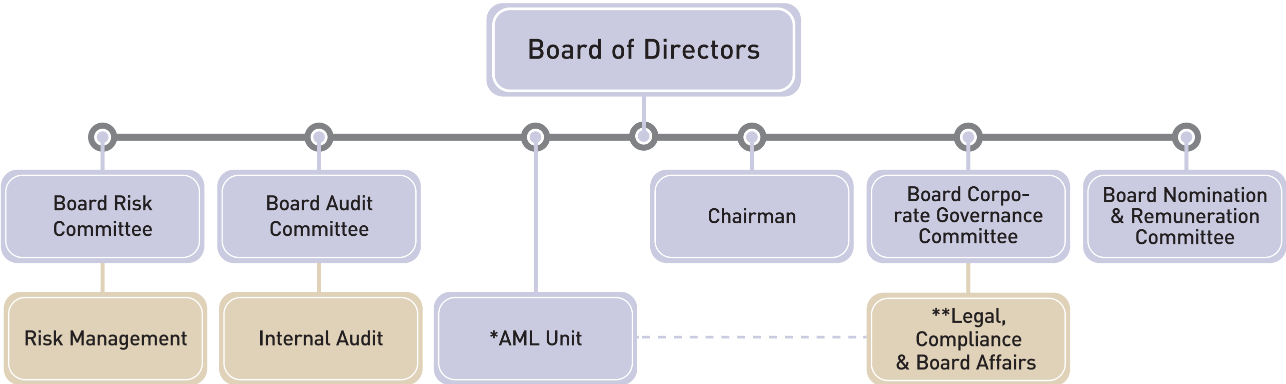
1. Board Corporate Governance Committee
2. Board Audit Committee
3. Board Risk Committee
4. Board Nomination and Remuneration Committee



Each of the above committees has its own by-laws, 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 web page.

Governance Organization



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

** Reportrs to CEO on legal affairs

Board of Directors

The Board of Directors is comprised of elected members with diverse academic and professional backgrounds. Board members are properly and continuously trained to be able to pre-empt and tackle all the challenges that the Bank may face.

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, customers, 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 implemented;
- Ensure that the Bank has adequate policies and processes in place for all the 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 matters relating to their duties and responsibilities as Board members.

The Chairman of the Board of Directors plays a key role in the proper functioning of the Board and the 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 encourages 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 on the agenda of the Board meeting. Board members are provided with all the 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 a meeting. The Board Secretary, under the supervision of the Chairman, is responsible for the follow-up on the implementation of the Board's resolutions.

Board Meetings and Attendance

During 2016, the Board of Directors met regularly and Directors received information between meetings about the activity of the Bank and its management committees. There were 6 Board meetings and 15 Board committee meetings during 2016.

	Board Meetings	Audit Committee	Corporate Governance Committee	Risk Committee	Nomination and Remuneration Committee
Number of Meetings in 2016	6	7	2	4	2
Omar Kutayba Alghanim	4	*	2	*	*
Ali Morad Behbehani	5	*	*	4	*
Bader Abdulmohsen El-Jeaan	5	*	*	4	2
Bader Nasser Al Kharafi	5	*	2	3	*
Jassem Mustafa Boodi	6	*	*	*	2
Khaled Faisel Ali Al Mutawa	5	6	*	*	*
Sayer Bader Al Sayer	4	*	2	*	*
Omar Hamad Youssef Al Essa	6	6	*	*	2
Farouk Ali Bastaki	6	6	*	*	*

* Not a member of the committee.

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. The Board of Directors was also evaluated by an external agency and rated relatively to their peers.

Board Corporate Governance Committee

1. Committee's Scope of Activity

The Board Corporate Governance Committee oversees the overall process of Corporate Governance in the Bank and ensures compliance with the relevant CBK instructions on Corporate Governance. The Committee ensures that the depositors and shareholders' interests are protected and the 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.

2. Composition of the Committee

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

3. 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.

4. Key Achievements in 2016

- Approved the Confidentiality Policy;
- Reviewed and approved the AML Unit activity;
- Reviewed and approved the Compliance and Disclosure Unit's activity;
- Updated the Bank's governance list;
- Approved the amendments to the Corporate Governance Manual and the Whistle Blowing Policy;
- Ensured compliance of the Bank's related parties with implementing governance requirements and rules;
- Reviewed the process of monitoring and reporting under the Whistle Blowing policy.

5. Changes During the year

No changes in the composition of the Committee and its scope of activity took place in 2016.

Board Audit Committee

1. 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 work in the best interest of the Bank and its shareholders to enhance shareholder value, while taking into account the legitimate interests of other stakeholders. The Audit Committee's role is to ensure the adequacy of the Bank's internal and external audit, highlight the accounting issues of material impact on the financial statements, review the Bank's internal control systems, the integrity and adequacy of the Bank's internal control and risk management system, the Bank's processes for monitoring compliance with laws, regulations and code of conduct, and ensure sufficiency of all the resources available in control functions. Furthermore, the Board Audit Committee appraises the performance of the General Manager-Internal Audit and recommends to the Board of Directors the nomination, termination, appointment and remuneration of the external auditors. Since its effectiveness is directly linked to that of the Board of Directors, the Board Audit Committee works closely with the Executive Management to obtain any information required.

2. Composition of the Committee

- Farouk Ali Akbar Abdullah Bastaki, Chairman
- Omar Hamad Youssef Al-Essa, Deputy Chairman
- Khaled Faisal Al Mutawa, Member
- Sadeq Al Saraf, Secretary

3. 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.

4. Key Achievements in 2016

- Supervised the activities of the Internal Audit Division, including review of its plans, strategies, procedures, follow-up activities, organisational structure, together with its financial and staffing budgets;

- Revised its by-laws as part of the regular assessment of its role and to align the same with best practices, CBK guidelines and Internal Audit Standards;

- Approved the Internal Audit's updated three year Risk Based Plan for 2017-2019 and reviewed the issues, action plans and recommendations in the Internal Audit reports;

- Held meetings with the Chief Internal Auditor, External Auditors and Bank's Compliance Officer without the presence of the Banks Executive Management;

- Reviewed the scope and approach of External Auditors' audit plans for the year ending 31 December 2016;
- Reviewed and recommended the annual and quarterly financial statements to the Board of Directors;
- Reviewed the issues, action plans and recommendations in the CBK mandated Internal Control report;
- Approved the Internal Audit revised methodologies including inter alia risk assessment, risk rating and audit cycle;
- Furthermore, in accordance with international best practices the Board Audit and Board Risk Committee held their 3rd joint annual meeting to discuss issues which encompassed both the committees;

5. Changes During the year

No changes in the composition of the Committee and its scope of activity took place in 2016.

Board Risk Committee

1. 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 the risk issues facing the Bank. The Committee reviews significant risk exposures, 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 or 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.

2. Composition of the Committee

- Bader Abdulmohsen El-Jeaan, Chairman
- Ali Morad Yusuf Behbehani, Deputy Chairman
- Bader Nasser Mohammed Al Kharafi, Member
- Sadeq Al Saraf, Secretary

3. 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.

4. Key Achievements in 2016

- Reviewed and recommended the risk policies and structures for approval and ratification by the Board;
- Held a joint meeting with the Board Audit Committee to review internal controls;
- Reviewed and recommended updates to the Risk Appetite document for approval by the Board;
- Reviewed performance of structured workout and remedial accounts;
- Reviewed status and action plan on large concentration credits;
- Reviewed the status of significant legal cases;
- Reviewed and discussed the Bank's liquidity profile and Liquidity Risk management plans;
- Reviewed the status and implementation plans of key IT projects across the bank.

5. Changes During the Year

No changes in the composition of the Committee and its scope of activity took place in 2016.

Board Nomination and Remuneration Committee

1. Committee's Scope of Activity

The Board Nomination and Remuneration Committee submits recommendations to the Board of Directors on the nomination of the Board members, and reviews their skills, capabilities and qualifications in accordance with the Bank's approved policies and standards as per 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.

The Committee reviews with the 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. In conducting its role, the Committee prepares and reviews annually a Remuneration Grading Policy to be submitted to the Board of Directors.

2. Composition of the Committee

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

3. 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.

4. Key Achievements in 2016

- Continued to monitor and promote the Kuwaitization plan for the Bank;
- Successfully oversaw the launch and completion of Ajyal Graduate Development Program;
- Supported the development of Middle Management Modular Program for Kuwaitis to build a leadership pipeline;
- Recommended and approved executive compensation payouts;
- Approved and executed the training plan for the Board of Directors;
- Approved and executed the plan for Board Effectiveness Assessment;
- Completed third party audit of Executive compensation;
- Completed the selection and appointment of the new CEO;

5. Changes During the year

No changes in the composition of the Committee and its scope of activity took place in 2016.

Remuneration Policy

The Bank's Executive Remuneration is designed to aid in attracting, motivating and retainting of leadership talent responsible for 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 differentiation based on performance; and
- Fair and equitable – ensures the mix of fixed and variable rewards those are relevant at 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 yet prevents 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 from the lowest to the highest grade.

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 shall review the performance of all employees annually and may award eligible employees a merit increment as 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 various jobs in the organization based on a structured methodology of evaluating those jobs.

Promotion Increment

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

The Remuneration Policy is fully compliant with regulatory requirements including application of "claw back" regulations that will 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 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. These 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.

Total Remuneration paid to senior management, material risk takers, risk management and financial & control functions:

(KD Thousands)	**2016**		2015	
Total value of remuneration awards for the current fiscal year	**Unrestricted**	**Deferred**	Unrestricted	Deferred
Fixed remuneration				
- Cash - based	**3,356**	**-**	3,172	-
- Shares and share-linked instruments	**-**	**-**	-	-
- Other	**-**	**-**	-	-
Variable remuneration				
- Cash - based	**1,701**	**-**	1,676	-
- Shares and share-linked instruments	**-**	**219**	6	778
- Other	**233**	**-**	322	-

(KD Thousands)	**2016**		2015	
Employee categories	**Number of employees in the category**	**Total remuneration paid[2]**	Number of employees in the category	Total remuneration paid
Senior Management[1]	**14**	**4,097**	13	4,688
Material risk takers	**6**	**854**	6	764
Risk Management	**3**	**391**	3	323
Financial & Control functions	**2**	**167**	4	179

1. The compensation of the senior management has been disclosed in note 23 to the financial statements.
2. 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 their assistants.

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 **KD 2,485 thousand** (2015: KD 3,152 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 **KD 2,291 thousand** (2015: KD 3,005 thousand).

Disclosure and Transparency

Gulf Bank is committed to providing timely, consistent, and accurate information to its stakeholders, which is consistent with legal and regulatory requirements within transparency framework. It ensures consistent disclosure practices are applied and all members of 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 containing the details of its disclosure requirements and corporate responsibilities.

Code of Ethics

The code of ethics is considered one of the most important components of the corporate governance framework and is being promoted through the code of conduct which is adopted by the Board of Directors and the Executive Management in daily interactions with employees, customers and all of the Bank's stakeholders.

Conflict of Interest

Gulf Bank adopts a conflict of interest policy to achieve the maximum level of transparency and objectivity towards its customers.

Confidentiality

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

Insider Information

In line with the instructions issued by the regulatory authorities, Gulf Bank initiated clear board-approved policies and procedures governing the handling of insider information and precluding employees, members of the Board and Executive Management from exploiting such information for personal benefit. These procedures have been circulated to all relevant staff, and a declaration has been obtained from Gulf Bank insiders acknowledging that they are aware of the legal implications and penalties stemming from the misuse of such insider information.

Whistle Blowing Policy

In compliance with CBK instructions, and further to the Bank's commitment to the shareholders and third parties, and in pursuance of the highest level of ethics and business integrity requirements, the Bank has a "Whistle Blowing Policy". The policy encourages positive and proactive interaction between the Board, Executive Management and employees for the purpose of achieving and maintaining the highest standards of professionalism, transparency and integrity. The policy aims at detecting any practices that are unlawful, or in breach of regulations and sound professional behavior, so as to be remedied in a timely manner. It also provides confidentiality and ensures full protection to the whistle blower.

Compliance and Disclosure Unit

The Unit supervises the Bank's compliance with all resolutions, regulations and instructions issued by the regulators including CBK, CMA, Boursa Kuwait and the Ministry of Commerce. This Unit advises the Board in advance with regard to the conformity of their contemplated resolutions with 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 all 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 and management of the bank, and any other matters required under the rules and regulations issued in this regard, mainly under CBK Instructions on Corporate Governance related to Disclosure and Transparency, in addition to Law No. 7 of 2010 on the Establishment of Capital Markets Authority and Regulating the Securities Activity.

Customer Complaints Unit

Further to its proactive commitment to identify adequate solutions to the complaints raised by customers (individuals), Gulf Bank established an independent unit specialized in handling customer complaints , reporting directly to the CEO. This Unit has its own policies and procedures, along with a proper mechanism to handle customer complaints in accordance with the relevant CBK instructions. The activity of this unit allowed the Bank to successfully enhance customer satisfaction, trust and loyalty.

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 in order to ensure compliance with the relevant instructions issued by the CBK, Capital Market Authority, Boursa Kuwait and Ministry of Commerce.

The Board Affairs Division is also 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.

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 2016 are:

• Kuwait Investment Authority	18.5%
• Alghanim Industries	14.0%
• 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 to the Internal Controls, through constant evaluations to meet the emerging needs and activities of the Bank and to 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 applicability and sufficiency.
- Existence of several Board level and Management level Committees (including Board Risk committee, Board Audit Committee, Board Corporate Governance Committee, Board Nomination and Remuneration Committee, Asset and Liability Committee and Credit Committees among others) which provides governance and oversight on all significant areas. It also ensures that key objectives are monitored and supervised through these specialized Committees formed for this purpose.
- 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 by Internal Audit Group, which assesses the Bank's Operations, processes and systems, as per the approved annual Audit plan. Internal Audit focuses on the areas of significant risks, 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 External Auditors as per the requirement of local laws and regulations, and submit such audit reports in the form of Management letters to Board of Directors 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 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 to ensure appropriate implementation of controls to address identified issues.

The Bank also conducts an Internal Control Review by an external audit firm, as required by CBK regulations. The latest report was issued in June 2016 and included no significant findings (Annexure-A). A summary of ICR report for the year ended 31 Dec 2015 was presented to the Board of Directors during 2016 and was reviewed and approved by the latter.

Annexure-A

Report on Internal Control Systems

28 June 2016

PricewaterhouseCoopers
Al-Shatti and Co., Arraya Tower II
23rd - 24th Floor
P.O.Box 1753, Safat 13018, Sharq, Kuwait
T: +965 2227 5777 - F: +965 2227 5888
www.pwc.com

The Board of Directors
Gulf Bank K.S.C.
State of Kuwait

Dear Sirs,

In accordance with our letter of engagement dated 24 February 2016, we have examined your accounting and other records and have also examined and evaluated the internal control systems, which were applied during the year ended 31 December 2015 with regard to the following areas of your bank:

1. Corporate Governance
2. Consumer Banking
3. Corporate Banking
4. Treasury
5. Investments
6. International Banking
7. Anti-money Laundering
8. Risk Management
9. Operations
10. Information Technology
11. Human Resources
12. Finance
13. Legal Affairs
14. Facilities Management
15. Customer Complaints
16. Internal Audit
17. Compliance
18. Preservation of Confidentiality of Customer Information and Data
19. Securities Activities
20. Fraud Prevention and Control

The examination was conducted in accordance with International Auditing Standards and the requirements stated in the:

- Central Bank of Kuwait's (CBK) General Guidelines Manual dated 14 November 1996;
- CBK instructions on Corporate Governance (Instruction No. 2/BS/IBS/284/2012) dated 20 June 2012, including Pillar 4 of the instructions related to Risk Management and Internal Control Systems;

- CBK Instructions No. (2/BS/IBS/308/2013) dated 23 July 2013 on Combating Money Laundering Operations and the Financing of Terrorism;
- CBK Instructions No. (2/BS/IBS/278/2012) concerning "Preservation of the Confidentiality of their Customer Information and Data" issued on 9 February 2012.

The report covers our review of the level of adequacy of the bank's internal control systems in preventing embezzlement or any fraud incidents for the year ended 31 December 2015 taking into consideration CBK relevant instructions.

The report includes the follow-up on observations raised in the previous internal controls review report for the year ended 31 December 2014 and our opinion on the adequacy of the actions taken by the bank in that regard.

As members of the Board of Directors of Gulf Bank K.S.C, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems. In fulfilling that responsibility, estimates and judgments must be made to assess the expected benefits and related costs of management information and of control procedures. The objective is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that 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 in any accounting or 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.

In our opinion, having regard to the nature and scale of its business, during the year ended 31 December 2015, the accounting and other records and internal control systems in the areas examined by us were established and maintained satisfactorily in accordance with the requirements of the General Guidelines Manual issued by the Central Bank of Kuwait on dated 14 November 1996; CBK instructions on Corporate Governance (Instruction No. 2/BS/IBS/284/2012) dated on 20 June 2012 including Pillar 4 of the instructions related to Risk Management and Internal Control Systems; CBK Instructions No. (2/BS/IBS/308/2013) issued on 23 July 2013 on Combating Money Laundering Operations and the Financing of Terrorism; CBK Instructions No. (2/BS/IBS/278/2012) concerning Preservation of the Confidentiality of their Customer Information and Data dated 9 February 2012 and in accordance with International Auditing Standards, with the exception of the matters set out in Appendices 3 and 4 attached to this report. These exceptions do not have a material impact on the fairness of the financial statements for the year ended 31 December 2015.

Furthermore, the Bank has established a process of quarterly follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the exceptions identified during the course of the Internal Control Review.

Yours faithfully,

Khalid Ebrahim Al-Shatti
License No. 175A
PricewaterhouseCoopers (Al-Shatti and Co.)

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 12% by 2014 and 12.5%, 13% by 2015 and 2016 respectively. 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). 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%.The additional requirement is to be met by 2016.

The table below details the regulatory capital for Gulf Bank (the "Bank") as at 31 December 2016 and 31 December 2015:

			(KD Million)
Composition of Capital	**31-Dec-16**	31-Dec-15	Variance
Common Equity Tier 1 Capital : instruments and reserves			
Directly issued qualifying common share capital plus stock surplus	**457.8**	457.8	-
Retained earnings	**116.6**	94.0	22.6
Accumulated other comprehensive income (and other reserves)	**69.9**	57.2	12.7
Common Equity Tier 1 capital before regulatory adjustments	**644.3**	609.0	35.3
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)**	(70.7)	(0.1)
Total regulatory adjustments to Common equity Tier 1	**(70.8)**	(70.7)	(0.1)
Common Equity Tier 1 capital (CET1)	**573.5**	538.3	35.2
Additional Tier 1 capital : instruments	**-**	-	-
Additional Tier 1 capital : regulatory adjustments	**-**	-	-
Additional Tier 1 capital (AT1)	**-**	-	-
Tier 1 capital (T1=CET1+AT1)	**573.5**	538.3	35.2
Tier 2 capital : instruments and provisions			
Directly issued qualifying Tier 2instruments plus related stock surplus	**100.0**	-	100.0
General provisions included in Tier 2 capital	**47.2**	44.9	2.3
Tier 2 capital before regulatory adjustments	**147.2**	44.9	102.3
Tier 2 capital : regulatory adjustments	**-**	-	-
Tier 2 capital	**147.2**	44.9	102.3
Total capital (TC= T1+T2)	**720.7**	583.2	137.5
Total risk weighted assets	**3,897.8**	3,748.2	149.6

Composition of Capital	**31-Dec-16**	31-Dec-15	*(KD Million)* Variance
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	**14.7%**	14.4%	0.3%
Tier 1 (as a percentage of risk weighted assets)	**14.7%**	14.4%	0.3%
Total capital (as a percentage of risk weighted assets)	**18.5%**	15.6%	2.9%
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%**	-	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**3.5%**	2.5%	1.0%
National minima	**-**	-	-
National Common Equity Tier 1 minimum ratio	**10.5%**	9.0%	1.5%
National Tier 1 minimum ratio	**12.0%**	10.5%	1.5%
National total capital minimum ratio excluding CCY and DSIB buffers	**13.0%**	12.5%	0.5%
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 2016 and 31 December 2015:

			(KD Million)
Credit Risk Exposures	**31-Dec-16**	31-Dec-15	Variance
Credit risk weighted assets	**3,775.7**	3,591.6	184.1
Less: Excess general provision	**(175.0)**	(139.7)	(35.3)
Net credit risk weighted exposures	**3,600.7**	3,451.9	148.8
Market risk weighted assets	**1.6**	1.7	(0.1)
Operational risk weighted exposures	**295.5**	294.6	0.9
Total Risk Weighted exposures	**3,897.8**	3,748.2	149.6

Regulatory Capital Requirements			*(KD Million)*
Credit Risk	**31-Dec-16**	31-Dec-15	Variance
Cash items	**-**	-	-
Claims on sovereigns	**3.2**	-	3.2
Claims on public sector entities (PSEs)	**4.5**	4.7	(0.2)
Claims on banks	**42.6**	22.9	19.7
Claims on corporates	**261.3**	223.3	38.0
Credit derivative claims (protection seller)	**2.2**	2.7	(0.5)
Regulatory retail exposures	**155.8**	137.7	18.1
Past due exposures	**4.9**	4.7	0.3
Other exposures	**54.0**	53.0	1.0
Credit risk capital requirement	**528.6**	449.0	79.6
Less : Excess general provision	**(24.5)**	(17.5)	(7.0)
Net Credit Risk Capital Requirement	**504.1**	431.5	72.6

Market Risk	31-Dec-16	31-Dec-15	Variance
			(KD Million)
Interest rate position risk	**-**	-	-
Foreign exchange risk	**0.2**	0.2	(0.0)
Capital requirement for market risk	**0.2**	0.2	(0.0)
Capital requirement for operational risk	**41.4**	36.8	4.6
TOTAL CAPITAL REQUIREMENT	**545.7**	468.5	77.3

Capital adequacy ratios (per cent)	31-Dec-16	31-Dec-15	Variance
Tier 1 ratio	**14.7%**	14.4%	0.3%
Total capital adequacy ratio	**18.5%**	15.6%	2.9%

The total risk-weighted exposure as at 31 December 2016 is **KD 3,897.8 million** (2015: KD 3,748.2 million), requiring a regulatory capital at **14%** (2015: 12.5%), of **KD 545.7 million** (2015: KD 468.5 million).

The Bank's regulatory capital as at 31 December 2016 is **KD 720.7 million** (2015: KD 583.2 million), translating to a capital adequacy ratio of **18.5%** (2015: 15.6%).

RISK MANAGEMENT

Organization of Governance and Risk Management

The Risk Management Policy document, approved by the Board on 8th July 2015 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 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 further to 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.

The Bank has also introduced a RAROC (Risk Adjusted Return on Capital) model as a pricing tool for credit facilities granted to corporate clients. It is based on the premise that pricing is to be aligned with the risk embedded in the proposal. The model helps to make informed decisions, create shareholder value and allow proper pricing to Bank's clients. The RAROC Model has been fully automated and integrated into the decision making process.

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 31 December 2016 is 18.49% (2015: 15.56%) and the corresponding Capital Adequacy Ratio under ICAAP is 17.54% (2015: 14.36%).

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 of movements in market values or prices, including currency rates, interest rates and credit spreads that 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 to the open currency position limits set by CBK. The Bank does not trade in fixed income or equity.

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 financials. 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 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. Note 24 (E) to the financial statements explains operational risk in detail and also outlines the Bank's policy and framework to manage it.

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 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.

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 2016 and 31 December 2015 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-16**	31-Dec-15	Variance
Funded Gross Credit Exposure	**5,684.4**	5,616.6	67.80
Unfunded Gross Credit Exposure	**1,568.9**	1,577.1	(8.2)
Total Gross Credit Risk Exposure	**7,253.3**	7,193.7	59.6

Funded gross credit risk exposure for 2016 is 78.4% (2015: 78.1%) 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 2016 and 31 December 2015 are detailed below:

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

	2016			2015		
(KD Thousands)	**Funded**	**Unfunded**	**Total**	Funded	Unfunded	Total
Cash items	**48,832**	**-**	**48,832**	49,328	-	49,328
Claims on sovereigns	**1,102,011**	**17**	**1,102,028**	1,095,528	31	1,095,559
Claims on public sector entities (PSEs)	**191,445**	**1,489**	**192,934**	147,990	1,223	149,213
Claims on banks	**477,343**	**324,926**	**802,269**	398,563	276,147	674,710
Claims on corporates	**1,920,363**	**1,121,573**	**3,041,936**	1,849,698	1,124,212	2,973,910
Credit derivative claims (Protection seller)	**-**	**86,891**	**86,891**	-	88,653	88,653
Retail exposures	**1,216,886**	**40,283**	**1,257,169**	1,162,462	41,202	1,203,664
Past due exposures	**85,752**	**84**	**85,836**	105,960	346	106,306
Other exposures	**485,611**	**1,203**	**486,814**	680,665	9,143	689,808
Total	**5,528,243**	**1,576,466**	**7,104,709**	5,490,194	1,540,957	7,031,151

Average funded gross credit risk exposure for 2016 is **77.81%** (2015: 78.08%) 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 2015 to 31 December 2016 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 2016 and 31 December 2015 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 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%**

Total gross credit risk exposures as at 31 December 2015 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	62,131	-	-	-	-	-	62,131
Claims on sovereigns	1,100,753	62,781	-	-	-	-	1,163,534
Claims on public sector entities (PSEs)	127,555	40,559	-	-	5,084	-	173,198
Claims on banks	20,261	265,855	205,043	37,697	228,614	554	758,024
Claims on corporates	2,691,802	235,730	6,551	9,870	99,926	-	3,043,879
Credit derivative claims (Protection seller)	-	89,532	-	-	-	-	89,532
Retail exposures	1,259,473	165	687	217	293	-	1,260,835
Past due exposures	89,732	-	-	-	-	-	89,732
Other exposures	544,810	4,226	774	2,879	-	167	552,856
Total	5,896,517	698,848	213,055	50,663	333,917	721	7,193,721
Percentage of gross credit risk exposure by geographical region	82.0%	9.7%	3.0%	0.7%	4.6%	0.0%	100.0%

The majority of the Bank's credit exposure is in Kuwait which comprises **KD 5.79 billion** (**80%** of total gross credit exposure) at 31 December 2016, compared with KD 5.90 billion (82% of total gross credit exposure) at 31 December 2015.

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2016 and 2015, broken down by geographical region and standard credit risk portfolio are shown below:

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%

Total gross credit risk exposures as at 31 December 2015 (Average) - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	49,328	-	-	-	-	-	49,328
Claims on sovereigns	1,044,684	50,643	-	232	-	-	1,095,559
Claims on public sector entities (PSEs)	99,075	40,631	-	-	9,507	-	149,213
Claims on banks	19,168	214,695	174,891	65,700	199,707	549	674,710
Claims on corporates	2,705,593	140,256	4,510	5,220	118,331	-	2,973,910
Credit derivative claims (Protection seller)	6,878	81,775	-	-	-	-	88,653
Regulatory retail exposures	1,201,663	209	919	233	442	198	1,203,664
Past due exposures	106,306	-	-	-	-	-	106,306
Other exposures	677,023	4,403	1,021	7,035	-	326	689,808
Total	5,909,718	532,612	181,341	78,420	327,987	1,073	7,031,151
Percentage of gross credit risk exposure by geographical region	84.1%	7.5%	2.6%	1.1%	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 2016 and 31 December 2015 are shown below:

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%**

Total gross credit risk exposures as at 31 December 2015- Industry wise

(KD Thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Constr-uction	Manufa-cturing	Real Estate	Other Services	Total
Cash items	-	62,131	-	-	-	-	-	-	62,131
Claims on sovereigns	-	233,907	-	-	35	-	-	929,592	1,163,534
Claims on public sector entities (PSEs)	-	-	6,785	84,024	-	-	-	82,389	173,198
Claims on banks	-	660,595	4,129	40,897	13,805	62	2,076	36,460	758,024
Claims on corporate	2,540	360,083	442,675	88,100	945,479	354,286	366,313	484,403	3,043,879
Credit derivative claims (Protection seller)	-	89,532	-	-	-	-	-	-	89,532
Regulatory retail exposures	1,204,057	-	22,521	194	21,957	4,926	-	7,180	1,260,835
Past due exposures	15,346	-	16,197	-	106	34	50,985	7,064	89,732
Other exposures	118,094	6,097	-	-	-	-	268,203	160,462	552,856
Total	1,340,037	1,412,345	492,307	213,215	981,382	359,308	687,577	1,707,550	7,193,721
Percentage of gross credit risk exposure by industry segment	18.6%	19.7%	6.8%	3.0%	13.6%	5.0%	9.6%	23.7%	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 2016 and 31 December 2015 are shown below:

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%

Total gross credit risk exposures as at 31 December 2015

(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	62,131	-	-	-	-	-	62,131
Claims on sovereigns	573,958	213,012	172,351	76,379	99,829	28,005	1,163,534
Claims on public sector entities (PSEs)	125	4,750	41	155	22,204	145,923	173,198
Claims on banks	328,006	95,141	34,069	118,595	92,110	90,103	758,024
Claims on corporates	228,904	842,694	411,354	213,978	650,523	696,426	3,043,879
Credit derivative claims (Protection seller)	-	-	-	30,350	59,182	-	89,532
Regulatory retail exposures	132,544	16,832	15,119	21,248	105,482	969,610	1,260,835
Past due exposures	76,810	205	44	148	1,265	11,260	89,732
Other exposures	118,303	345,379	20,222	18,500	11,619	38,833	552,856
Total	1,520,781	1,518,013	653,200	479,353	1,042,214	1,980,160	7,193,721
Percentage of gross credit risk exposure by residual maturity	21.1%	21.1%	9.1%	6.7%	14.5%	27.5%	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 2016 and 31 December 2015 are shown below:

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

	Impaired Loans (NPLs)			
(KD Thousands)	**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%**
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%**

Impaired loans and provisions (by industry segment) as at 31 December 2015

	Impaired Loans (NPLs)			
(KD Thousands)	Past due portion	Balance outstanding	Specific Provision Cash and Non cash	Specific Provision Cover
Personal	15,346	29,302	13,957	47.6%
Financial	-	-	10	0.0%
Trade and commerce	16,195	17,347	1,163	6.7%
Crude oil and gas	-	-	-	0.0%
Construction	47	169	2,791	1651.5%
Manufacturing	20	31	11	35.5%
Real estate	50,985	50,985	-	0.0%
Others	7,060	7,802	752	9.6%
Total	89,653	105,636	18,684	17.7%

Non-performing loans ('NPL's') have decreased by KD 12.2 million in 2016 (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 2016 (by Industry Segments)

	Charge/(Release) for impairment provision		
(KD Thousands)	**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**

Provision Charges and Write - offs during 2015 (by Industry Segments)

	Charge/(Release) for impairment provision		
	Specific Charge	General Charge	Total Charge
Personal	2,522	4,503	7,025
Financial	10	(1,597)	(1,587)
Trade and commerce	(48)	296	248
Crude oil and gas	-	581	581
Construction	235	(149)	86
Manufacturing	11	8,451	8,462
Real estate	20,000	32,079	52,079
Others	1,984	9,385	11,369
Total	24,714	53,549	78,263

Specific charge mentioned above excludes **KD 22.5 million** (2015: KD 25.8 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 2016 and 31 December 2015 are shown below:

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

	Impaired Loans (NPLs)			
(KD Thousands)	**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%**

Impaired loans and provisions (by Geographical Region) as at 31 December 2015

	Impaired Loans (NPLs)			
(KD Thousands)	Past due portion	Balance outstanding	Specific Provision Cash and Non cash	Specific Provision Cover
Kuwait	89,653	105,636	18,684	17.7%
Other Middle East	-	-	-	0.0%
Western Europe	-	-	-	0.0%
USA & Canada	-	-	-	0.0%
Asia Pacific	-	-	-	0.0%
Rest of World	-	-	-	0.0%
Total	89,653	105,636	18,684	17.7%

The total credit exposure after applying the relevant Basel III standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2016 and 31 December 2015, broken down by standard credit risk portfolio, are shown below:

Gross credit risk exposure before CRM as at 31 December 2016

	Gross credit exposure			Credit exposure before CRM			
(KD Thousands)	**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**

Gross credit risk exposure before CRM as at 31 December 2015

	Gross credit exposure			Credit exposure before CRM			
(KD Thousands)	Funded	Unfunded	Total	Funded Credit Exposure	Unfunded Credit After CCF	FX Contracts After CCF	Total Before CRM
Cash items	62,131	-	62,131	62,131	-	-	62,131
Claims on sovereigns	1,163,499	35	1,163,534	1,163,499	17	159	1,163,675
Claims on PSEs	171,516	1,682	173,198	171,516	902	-	172,418
Claims on banks	454,626	303,398	758,024	454,626	149,721	1,481	605,828
Claims on corporates	1,909,772	1,134,107	3,043,879	1,909,772	515,519	1,542	2,426,833
Credit derivative claims(protection seller)	-	89,532	89,532	-	89,532	-	89,532
Retail exposures	1,221,610	39,225	1,260,835	1,221,610	17,260	-	1,238,870
Past due exposures	89,655	77	89,732	89,655	38	-	89,693
Other exposures	543,821	9,035	552,856	543,821	8,817	-	552,638
Total	5,616,630	1,577,091	7,193,721	5,616,630	781,806	3,182	6,401,618

Credit Risk Mitigation and Credit Risk-Weighted Assets

Under the Basel III standardised 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 2016, **80%** (2015: 70%) 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 monthly if held through a portfolio manager.

In certain cases, personal/corporate guarantees from high net worth individuals or companies are also used to help secure credit facilities. The personal/corporate guarantees do not constitute eligible CRM techniques for capital adequacy purposes under the Basel III standardised approach.

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 2016 and 31 December 2015 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 2016

		Credit Exposure/CRM				Risk - Weighted Assets		
(KD Thousands)	**Exposure before CRM**	**Eligible Real Estate**	**Eligible Financial**	**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**

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2015

		Credit Exposure/CRM				Risk - Weighted Assets		
(KD Thousands)	Exposure before CRM	Eligible Real Estate	Eligible Financial	Eligible Guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	62,131	-	-	-	62,131	-	-	-
Claims on sovereigns	1,163,675	-	17	-	1,163,658	-	-	-
Claims on PSEs	172,418	-	4,160	-	168,258	32,635	5,084	37,719
Claims on banks	605,828	-	713	-	605,115	172,006	10,934	182,940
Claims on corporates	2,426,833	142,175	487,286	-	1,797,372	11,062	1,775,249	1,786,311
Credit derivative claims(protection seller)	89,532	-	-	-	89,532	21,548	-	21,548
Retail exposures	1,238,870	218	131,070	-	1,107,582	-	1,101,571	1,101,571
Past due exposures	89,693	29,498	21,303	-	38,892	-	37,341	37,341
Other exposures	552,638	15,557	200,429	-	336,652	-	424,191	424,191
Total	6,401,618	187,448	844,978	-	5,369,192	237,251	3,354,370	3,591,621

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 a 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 2016 and 31 December 2015 are shown in the following table:

			(KD Thousands)
Market Risk	**31-Dec-16**	31-Dec-15	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**126**	135	(9)
Total Capital requirement for market risk	**126**	135	(9)
Market risk - weighted assets	**1,575**	1,688	(113)

On 31 December 2016 total market risk capital charge of **KD 126 thousand** (2015: KD 135 thousand) was equivalent to market risk-weighted assets of **KD 1.6 million** (2015: KD 1.7 million).

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 2016 and 31 December 2015 are shown in the following table:

Operational Risk as at 31 December 2016

(KD Thousands)	**3 year average gross income**	**Beta factor**	**Operational 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**

Operational Risk as at 31 December 2015

(KD Thousands)	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	24,915	18%	4,485
Commercial banking	76,369	15%	11,455
Retail banking	63,594	12%	7,631
Total	164,878		23,571
Total operational risk weighted exposure			294,638

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 2016 total operational risk capital charge of **KD 23.6 million** (2015: KD 23.6 million) was equivalent to operational risk-weighted exposure of **KD 295.5 million** (2015: KD 294.6 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 2016 and 31 December 2015 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 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

Information related to the licensed Bank's equity position in the Banking book as at 31 December 2015

(KD Thousands)	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities- available for sale	19,624	27,209	46,833
Unrealised gains in equity securities (part of CET1)	(3,713)	4,965	1,252
Regulatory capital details			
Regulatory capital requirement	2,355	3,265	5,620
Income statement details			
Income from disposal of investment securities			6,910

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

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.

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-16	31-Dec-15	Variance
	Leverage ratio framework			
	On-balance sheet exposures			
1.	On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	**5,467,115**	5,437,716	29,399
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)**	**5,467,115**	5,437,716	29,399
	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**	89,532	(29,852)
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**	89,532	(29,852)
	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)	**2,562,569**	2,179,559	383,010
18.	(Adjustments for conversion to credit equivalent amounts)	**(1,632,848)**	(1,341,352)	(291,496)
19.	**Off-balance sheet items (sum of lines 17 and 18)**	**929,721**	838,207	91,514
	Capital and total exposures			
20.	Tier 1 capital	**573,492**	538,256	35,236
21.	Total exposures (sum of lines 3, 11, 16 and 19)	**6,456,516**	6,365,455	91,061
	Leverage ratio			
22.	**Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))**	**8.88%**	8.46%	0.43%

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)

	Item	31-Dec-16	31-Dec-15	Variance
1.	Total consolidated assets as per published financial statements	**5,467,115**	5,437,716	29,399
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**	89,532	(29,852)
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	**929,721**	838,207	91,514
7.	Other adjustments	**-**	-	-
8.	Leverage ratio exposure	**6,456,516**	6,365,455	91,061

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in Middle East and Africa – **2016**

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Implementation of the Year
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Guinness World Records

Al Danah's **KD1 Million** is the
Largest Prize Linked to a Bank Account
in the world – **2017**

FINANCIAL STATEMENTS

EY
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Ernst and Young
Al Aiban, Al Osaimi and Partners
P.O. Box 74
18–21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte.

Deloitte and Touche
Al-Wazzan and Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 and 9
P.O. Box 20174 Safat 13062 or
P.O. Box 23049 Safat 13091 Kuwait
Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

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 2016, 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 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

a) 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 and in Note 12 to the financial statements.

Our audit procedures include the 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 specifically challenged management's assessment of the recoverable amount.

For the selected non-performing loans, we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. Additionally, we selected samples of performing loans and assessed whether any indicators existed of additional default risk. We also assessed whether the financial statements disclosures appropriately reflect Bank's exposure to credit risk.

Other information included in the Bank's 2016 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Bank's 2016 Annual Report, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our 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 and its executive regulation and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, and its executive regulation or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

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

WALEED A. AL OSAIMI

LICENCE NO. 68 A
EY
(AL-AIBAN, AL-OSAIMI and PARTNERS)

TALAL YOUSEF AL-MUZAINI

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

23 January 2017
Kuwait

INCOME STATEMENT

Year Ended 31 December 2016

	NOTES	2016 KD 000's	2015 KD 000's
Interest income	3	**179,645**	167,348
Interest expense	4	**(62,865)**	(48,453)
Net interest income		**116,780**	118,895
Net fees and commissions	6	**31,374**	30,093
Net gains from dealing in foreign currencies and derivatives	7	**9,292**	8,503
Realised gains from disposal of investment securities		**4,041**	6,910
Dividend income		**4,761**	2,020
Other income		**2,393**	2,035
Operating income		**168,641**	168,456
Staff expenses		**42,134**	40,986
Occupancy costs		**4,121**	3,874
Depreciation		**2,818**	2,318
Other expenses		**14,108**	13,061
Operating expenses		**63,181**	60,239
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**105,460**	108,217
Charge of provisions:			
- specific	5	**2,958**	70,446
- general	12,18	**37,593**	7,817
Loan recoveries, net of write-off	12	**2,503**	(14,455)
Impairment loss on investment securities		**5,913**	3,424
Impairment loss on other assets	14	**11,396**	-
		60,363	67,232
OPERATING PROFIT		**45,097**	40,985
Directors' remuneration	22	**135**	135
Contribution to Kuwait Foundation for the Advancement of Sciences		**451**	415
National Labour Support Tax		**1,117**	1,018
Zakat		**451**	415
PROFIT FOR THE YEAR		**42,943**	39,002
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	**15**	13

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2016

	2016	2015
	KD 000's	KD 000's
Profit for the year	**42,943**	39,002
Other comprehensive income		
Items that are reclassified or may be reclassified subsequently to the income statement:		
Investment securities:		
- Net realised gains on disposal	**(2,932)**	(6,995)
- Impairment loss	**5,913**	3,424
- Net unrealised gains (losses)	**1,442**	(4,473)
Items that are not to be reclassified subsequently to the income statement:		
Revaluation of premises and equipment	**(391)**	127
Other comprehensive income for the year	**4,032**	(7,917)
Total comprehensive income for the year	**46,975**	31,085

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	NOTES	**2016 KD 000's**	2015 KD 000's
ASSETS			
Cash and cash equivalents	9	**665,520**	837,048
Treasury bills and bonds	10	**372,919**	245,609
Central Bank of Kuwait bonds	11	**376,240**	361,425
Deposits with banks and other financial institutions		**108,013**	34,107
Loans and advances to banks	12	**136,606**	80,858
Loans and advances to customers	12	**3,445,997**	3,633,591
Investment securities	13	**146,181**	115,117
Other assets	14	**186,642**	101,439
Premises and equipment		**28,997**	28,522
TOTAL ASSETS		**5,467,115**	5,437,716
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**480,364**	261,384
Deposits from financial institutions	15	**824,680**	726,032
Customer deposits	16	**3,395,340**	3,837,422
Subordinated Tier 2 bonds	17	**100,000**	-
Other liabilities	18	**93,239**	74,622
TOTAL LIABILITIES		**4,893,623**	4,899,460
EQUITY			
Share capital	19	**304,813**	304,813
Statutory reserve	20	**21,433**	16,923
Share premium	20	**153,024**	153,024
Property revaluation reserve	20	**18,610**	19,001
Treasury shares reserve	21	**24,246**	24,246
Fair valuation reserve		**5,553**	1,130
Retained earnings		**116,570**	89,777
		644,249	608,914
Treasury shares	21	**(70,757)**	(70,658)
TOTAL EQUITY		**573,492**	538,256
TOTAL LIABILITIES AND EQUITY		**5,467,115**	5,437,716

Omar Kutayba Alghanim
(Chairman)

Antoine Daher
(Chief Executive Officer)

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year Ended 31 December 2016

	NOTES	**2016 KD 000's**	2015 KD 000's
OPERATING ACTIVITIES			
Profit for the year		**42,943**	39,002
Adjustments:			
Effective interest rate adjustment		**(401)**	(1,445)
Unrealised fair value (gains) losses on credit default swaps	7	**(495)**	369
Realised gains from disposal of investment securities		**(4,041)**	(6,910)
Dividend income		**(4,761)**	(2,020)
Depreciation		**2,818**	2,318
Loan loss provisions	5,12,18	**40,551**	78,263
Impairment loss on investment securities		**5,913**	3,424
Impairment loss on other assets		**11,396**	-
Foreign exchange movement on subordinated loans		**-**	120
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**93,923**	113,121
(Increase)/decrease in operating assets:			
Treasury bills and bonds		**(127,310)**	(57,523)
Central Bank of Kuwait bonds		**(14,815)**	226,791
Deposits with banks and other financial institutions		**(73,906)**	(12,107)
Loans and advances to banks		**(56,311)**	47,132
Loans and advances to customers		**147,878**	(128,389)
Other assets		**(96,599)**	3,005
Increase /(decrease) in operating liabilities:			
Due to banks		**218,980**	(93,293)
Deposits from financial institutions		**98,648**	47,363
Customer deposits		**(442,082)**	175,698
Other liabilities		**19,241**	(5,585)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES		**(232,353)**	316,213
INVESTING ACTIVITIES			
Purchase of investment securities		**(75,580)**	(95,969)
Proceeds from sale of investment securities		**47,067**	58,633
Purchase of premises and equipment		**(3,684)**	(2,986)
Dividends income received		**4,761**	2,020
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(27,436)**	(38,302)
FINANCING ACTIVITIES			
Net proceeds from issue of Subordinated Tier 2 bonds	17	**100,000**	-
Dividend paid	22	**(11,640)**	-
Purchase of treasury shares		**(99)**	(4,190)
Repayment of subordinated loans		**-**	(44,040)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**88,261**	(48,230)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(171,528)**	229,681
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**837,048**	607,367
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**665,520**	837,048
Additional cash flows information			
Interest received		**182,043**	171,035
Interest paid		**54,206**	49,886

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2016

	Share capital	Proposed bonus shares	RESERVES Statutory reserve	Share premium	Property revaluation reserve	Treasury shares reserve	Fair valuation reserve	Retained earnings	Subtotal reserves	Treasury shares	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
At 1 January 2015	290,298	14,515	12,824	153,024	18,874	24,246	9,174	54,874	273,016	(66,468)	511,361
Profit for the year	-	-	-	-	-	-	-	39,002	39,002	-	39,002
Other comprehensive income for the year	-	-	-	-	127	-	(8,044)	-	(7,917)	-	(7,917)
Total comprehensive income for the year	-	-	-	-	127	-	(8,044)	39,002	31,085	-	31,085
Issue of bonus shares (Note 22)	14,515	(14,515)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(4,190)	(4,190)
Transfer to reserve	-	-	4,099	-	-	-	-	(4,099)	-	-	-
At 31 December 2015	304,813	-	16,923	153,024	19,001	24,246	1,130	89,777	304,101	(70,658)	538,256
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 income for the year	-	-	-	-	(391)	-	4,423	-	4,032	-	4,032
Total comprehensive 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**

The attached notes 1 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

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 2016 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 23 January 2017. 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.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012. The new executive regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the executive regulations of Law No 25 of 2012.

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 2016. 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 16 and IAS 38 : Clarification of Acceptable Methods of Depreciation and Amortisation

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

Amendments to IAS 1 Disclosure Initiative

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

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

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

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2016 also 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.

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

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 agreements

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 defined benefit plan is unfunded and is computed based on the liability that would arise on involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

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 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.

2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

IFRS 9: Financial Instruments:

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

a. Classification and measurement

The adoption of this standard will have an effect on the classification and measurement of Bank's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

b. Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS become mandatory on 1 January 2018.

c. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, and lease receivables 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').

Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment or considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Bank is in the process of quantifying the impact of this standard on the financial statements, when adopted.

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 does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

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.

2.4 Significant accounting judgements, estimates and assumptions (continued)

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

Amendments to IAS 7 Statement of Cash Flows

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

Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. The Bank, however, expects no material impact from the adoption of the amendments on its financial position or performance.

3. INTEREST INCOME

	2016 **KD 000's**	2015 KD 000's
Treasury bills, bonds and Central Bank of Kuwait Bonds	**9,848**	7,438
Placements with banks	**3,716**	1,657
Loans and advances to banks and customers	**166,081**	158,253
	179,645	167,348

4. INTEREST EXPENSE

	2016 **KD 000's**	2015 KD 000's
Sight and savings accounts	**3,669**	4,332
Time deposits	**49,319**	39,413
Bank borrowings	**5,910**	4,708
Subordinated Tier 2 bonds	**3,967**	-
	62,865	48,453

5. SPECIFIC PROVISIONS

	2016 **KD 000's**	2015 KD 000's
Loans and advances to customers		
– Cash (Note 12)	**2,497**	71,391
– Non-cash (Note 18)	**461**	(945)
	2,958	70,446

6. NET FEES AND COMMISSIONS

	2016	2015
	KD 000's	KD 000's
Total fees and commission income	**38,023**	37,327
Total fees and commission expense	**(6,649)**	(7,234)
	31,374	30,093

Total fees and commission income includes **KD 225 thousand** (2015: KD 284 thousand) from fiduciary activities.

7. NET GAINS FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

	2016	2015
	KD 000's	KD 000's
Unrealised fair value gains (losses) on credit default swaps (Note 18)	**495**	(369)
Income from credit default swaps	**253**	324
Net trading income (expenses)	**748**	(45)
Foreign exchange transactions	**8,544**	8,548
	9,292	8,503

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 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 2016.

	2016	2015
	KD 000's	KD 000's
Profit for the year	**42,943**	39,002
Weighted average number of shares outstanding during the period,	**Shares**	Shares
net of treasury shares	**2,910,062,757**	2,916,064,162
	Fils	Fils
Basic and diluted earnings per share	**15**	13

9. CASH AND CASH EQUIVALENTS

	2016 KD 000's	2015 KD 000's
Balances with the Central Bank of Kuwait	**218,584**	246,626
Cash in hand and in current accounts with other banks and other financial institutions	**158,374**	183,591
Deposits with banks and other financial institutions maturing with in 30 days	**288,562**	406,831
	665,520	837,048

10. TREASURY BILLS AND BONDS

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

	2016 KD 000's	2015 KD 000's
Maturing within one year	**159,635**	193,132
Maturing after one year	**213,284**	52,477
	372,919	245,609

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.

	2016 KD 000's	2015 KD 000's
Central Bank of Kuwait Bonds	**376,240**	361,425

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 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	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**

At 31 December 2015:

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	Total KD 000's
Personal	1,359,353	-	-	-	1,359,353
Financial	214,447	65,415	-	-	279,862
Trade and commerce	349,450	6,785	-	-	356,235
Crude oil and gas	103,407	29,338	-	45,980	178,725
Construction	252,714	53,113	-	-	305,827
Manufacturing	352,998	6,374	-	-	359,372
Real estate	713,927	-	-	-	713,927
Others	264,423	107,865	-	-	372,288
Gross loans and advances to customers	3,610,719	268,890	-	45,980	3,925,589
Less: Provision for impairment					(291,998)
Loans and advances to customers					3,633,591
B. Loans and advances to banks					
Gross loans and advances to banks	-	30,815	46,283	4,553	81,651
Less: Provision for impairment					(793)
Loans and advances to banks					80,858

Movement in provision for impairment:

	2016 KD 000's	2015 KD 000's
At 1 January	**292,791**	239,614
Amounts written-off	**(22,543)**	(25,775)
Charge to the income statement	**40,680**	78,952
At 31 December	**310,928**	292,791

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 were **KD 216,523 thousand** (2015: KD 178,340 thousand).

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 68,952 thousand** (2015: KD 14,723 thousand) and recoveries of **KD 66,449 thousand** (2015: KD 29,178 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:

	2016 KD 000's			2015 KD 000's		
	Corporate lending	Consumer lending	Total	Corporate lending	Consumer lending	Total
At 1 January	**267,237**	**25,554**	**292,791**	217,380	22,234	239,614
Amounts written-off	**(5,000)**	**(17,543)**	**(22,543)**	(25,775)	-	(25,775)
Charge to income statement	**24,979**	**15,701**	**40,680**	75,632	3,320	78,952
At 31 December	**287,216**	**23,712**	**310,928**	267,237	25,554	292,791

Refer note 24A for financial assets by class individually impaired.
Provision for non-cash facilities of **KD 9,838 thousand** (2015: KD 9,967 thousand) is included under other liabilities (Note 18).

13. INVESTMENT SECURITIES

	2016 KD 000's	2015 KD 000's
Equity securities- available for sale		
Quoted	**16,477**	19,624
Unquoted	**26,726**	27,209
Debt securities- available for sale		
Quoted	**18,593**	23,251
Unquoted	**17,324**	1,504
Held to maturity securities		
Quoted	**67,061**	43,529
	146,181	115,117

During the year, the Bank obtained possession of investment securities valued at **KD 34,157 thousand** (2015: KD Nil) held as collaterals in settlement of debts from customers. These investment securities were fully disposed off during the year.

14. OTHER ASSETS

	2016	2015
	KD 000's	KD 000's
Accrued interest receivable	**22,435**	24,833
Sundry debtors and others	**19,426**	22,016
Repossessed collaterals (refer movement below)	**144,781**	54,590
	186,642	101,439

Movement in repossessed collaterals:

	2016	2015
	KD 000's	KD 000's
At 1 January	**54,590**	63,683
Additions		
- Real estate properties	**121,000**	10,895
Disposals	**(19,413)**	(19,988)
Impairment loss	**(11,396)**	-
At 31 December	**144,781**	54,590

Investment securities amounting to **KD Nil** (2015: KD 1,918 thousand) are accounted for as investments available for sale and are consequently fair valued using quoted market prices (Level 1) and the balance amounting to **KD 3,457 thousand** (2015: KD 13,566 thousand) is 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 3,457 thousand** (2015: KD 10,064 thousand) and real estate properties amounting to **KD 2,500 thousand** (2015: KD Nil).

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2016 KD 000's	2015 KD 000's
Due to banks		
Current accounts and demand deposits	**53,046**	3,250
Time deposits	**427,318**	258,134
	480,364	261,384
Deposits from financial institutions		
Current accounts and demand deposits	**68,730**	66,793
Time deposits	**755,950**	659,239
	824,680	726,032

16. CUSTOMER DEPOSITS

	2016 KD 000's	2015 KD 000's
Current accounts	**1,262,745**	1,160,563
Savings accounts	**355,009**	357,430
Time deposits	**1,777,586**	2,319,429
	3,395,340	3,837,422

Customer deposits include **KD 12,135 thousand** (2015: KD 12,394 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

17. SUBORDINATED TIER 2 BONDS

During the year, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD 100,000 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

	2016 **KD 000's**	2015 KD 000's
Accrued interest payable	**24,033**	15,374
Deferred income	**4,943**	7,895
Provisions for non-cash facilities (refer movement below)	**9,838**	9,967
Fair value loss provision on credit default swaps (Note 28)	**18**	513
Staff related provisions	**15,589**	13,222
Others	**38,818**	27,651
	93,239	74,622

Movement in provisions for non-cash facilities:

	2016 **KD 000's**	2015 KD 000's
At 1 January	**9,967**	10,656
Write-back to the income statement	**(129)**	(689)
At 31 December	**9,838**	9,967

19. SHARE CAPITAL

	2016 **KD 000's**	2015 KD 000's
Authorised, issued and fully paid shares	**304,813**	304,813

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2016 is **3,048,127,898** (2015: 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

	2016	2015
Number of treasury shares	**138,148,846**	137,687,846
Percentage of treasury shares	**4.53%**	4.52%
Cost of treasury shares (KD 000's)	**70,757**	70,658
Weighted average market value of treasury shares as at 31 December (KD 000's)	**31,498**	38,277

Movement in treasury shares was as follows:

	No. of shares	
	2016	2015
Balance as at 1 January	**137,687,846**	116,816,493
Purchases	**461,000**	14,785,407
Bonus shares	**-**	6,085,946
Balance as at 31 December	**138,148,846**	137,687,846

This includes 13,641,280 treasury shares costing KD 5,488 thousand, which represent collaterals repossessed in settlement of debts from customers. The balance in the treasury share reserve of **KD 24,246 thousand** (2015: KD 24,246 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 **7 fils** per share (2015: 4 fils) on the outstanding issued share capital as at 31 December 2016. The Cash dividend, if approved by the shareholders' assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the Annual General Meeting.

During the year, the shareholders at the Annual General Meeting (AGM) held on 9 March 2016 approved a cash dividend of 4 fils per share (2014: Nil) for the year ended 31 December 2015. The cash dividend was paid subsequently.

During the previous year, the shareholders at the AGM held on 9 March 2015 approved the distribution of bonus shares of 5% on the outstanding issued share capital as at 31 December 2014 amounting to KD 14,515 thousand representing 145,148,947 shares of 100 fils each.

Directors' remuneration of **KD 135 thousand** (2015: KD 135 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 members		Number of related parties			
	2016	2015	**2016**	2015	**2016**	2015
Board members					**KD 000's**	KD 000's
Balances						
Loans and advances	**1**	-	**11**	5	**111,649**	65,155
Deposits	**8**	6	**35**	22	**424,712**	435,458
Commitments/derivatives						
Guarantees /letters of credit	**1**	1	**8**	7	**25,086**	4,423
Forward foreign exchange contracts	**-**	-	**2**	-	**24,852**	-
Transactions						
Interest income	**1**	-	**14**	10	**2,799**	1,642
Interest expense	**3**	1	**9**	7	**5,293**	3,310
Net fees and commissions	**1**	1	**9**	9	**209**	67
Other expenses	**-**	-	**7**	7	**486**	479
Executive management						
Balances						
Loans and advances	**2**	2	**-**	-	**53**	64
Deposits	**11**	13	**-**	-	**889**	764
Commitments						
Guarantees /letters of credit	**-**	1	**-**	-	**-**	1
Transactions						
Interest income	**2**	2	**-**	-	**3**	4
Interest expense	**13**	13	**-**	-	**14**	16

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **2.25%** to **5%** (2015: 2 % 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 2016 was **KD 73,705 thousand** (2015: KD 48,264 thousand).

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

	2016	2015
	KD 000's	KD 000's
Salaries and other short-term benefits	**3,785**	3,656
End of service/termination benefits	**111**	149
	3,896	3,805

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

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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. All 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.

Business Banking Credit Committee ('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 2016**	Maximum exposure 2015
	KD 000's	KD 000's
Cash and cash equivalents (excluding cash in hand)	**613,770**	774,917
Treasury bills and bonds	**372,919**	245,609
Central Bank of Kuwait bonds	**376,240**	361,425
Deposits with banks and other financial institutions	**108,013**	34,107
Loans and advances to banks	**136,606**	80,858
Loans and advances to customers:		
- Corporate lending	**2,222,959**	2,419,925
- Consumer lending	**1,223,038**	1,213,666
Debt investment securities (Note 13)	**102,978**	68,284
Other assets	**41,861**	46,849
Total	**5,198,384**	5,245,640
Contingent liabilities and commitments	**1,702,027**	1,648,460
Credit default swaps	**59,680**	89,532
Foreign exchange contracts (including spot contracts)	**138,684**	85,257
Total	**1,900,391**	1,823,249
Total credit risk exposure	**7,098,775**	7,068,889

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 2016 is **12%** (2015: 16%).

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

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

bank guarantees.

As of 31 December 2016, **31%** (2015: 36%) 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 also introduced a Portfolio Risk Rating process through which the overall portfolio quality is being assessed at regular intervals and deliberated upon in 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 that will lead to further improvement in asset quality.

RAROC Model

The Bank also introduced a RAROC (Risk Adjusted Return on Capital) model as a pricing tool for credit facilities granted to corporate clients. It is based on the premise that pricing is to be aligned with risk embedded in the proposal. After having satisfied that all the prerequisites (such as good and consistent Obligor Risk Ratings, system of Facility Risk Ratings based on collateral mitigation, estimation of Probability of Defaults, Calculation of Loss Norms by each facility rating and Reasonable Validation & Calibration) are in place, RAROC Model has been introduced in the Bank and this will help to make the right decisions, create shareholder value and allow proper pricing to customers. RAROC Model has been fully automated and integrated to the decision making process.

24. **FINANCIAL INSTRUMENTS (continued)**

A. **CREDIT RISK (continued)**

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.

2016	**Neither past due nor impaired**			**Past due but not impaired**	**Total**
	High	**Standard**	**Acceptable**		
	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**

2015	Neither past due nor impaired			Past due but not impaired	Total
	High	Standard	Acceptable		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash and cash equivalents (excluding cash in hand)	774,917	-	-	-	774,917
Treasury bills and bonds	245,609	-	-	-	245,609
Central Bank of Kuwait bonds	361,425	-	-	-	361,425
Deposits with banks and other financial institutions	34,107	-	-	-	34,107
Loans and advances to banks	81,651	-	-	-	81,651
Loans and advances to customers:					
- Corporate lending	1,063,736	1,074,763	429,683	41,677	2,609,859
- Consumer lending	1,138,646	-	-	71,448	1,210,094
Debt investment securities (Note 13)	68,284	-	-	-	68,284
Other assets	46,849	-	-	-	46,849
	3,815,224	1,074,763	429,683	113,125	5,432,795

79% (2015: 89%) of the past due but not impaired category is below 60 days and **21%** (2015: 11%) is between 60-90 days.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Financial assets by class individually impaired

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**

2015	Gross exposure	Impairment provision	Fair value of collateral
	KD 000's	KD 000's	KD 000's
Loans and advances to customers:			
- Corporate lending	76,510	2,331	75,169
- Consumer lending	29,126	13,652	170
	105,636	15,983	75,339

	2016		2015	
	Assets	**Off balance sheet items**	*Assets*	Off balance sheet items
	KD 000's	**KD 000's**	*KD 000's*	KD 000's
Geographic region:				
Domestic (Kuwait)	**4,255,809**	**1,293,486**	4,456,600	1,275,238
Other Middle East	**689,650**	**185,184**	555,891	160,919
Europe	**168,024**	**109,515**	140,075	98,007
USA and Canada	**12,750**	**21,357**	27,201	20,583
Asia Pacific	**72,148**	**289,161**	65,872	267,949
Rest of world	**3**	**1,688**	1	553
	5,198,384	**1,900,391**	5,245,640	1,823,249
Industry sector:				
Personal	**1,397,077**	**-**	1,328,175	-
Financial	**930,389**	**702,136**	906,706	615,546
Trade and Commerce	**347,851**	**234,902**	345,151	214,436
Crude Oil and Gas	**146,811**	**34,535**	94,273	36,485
Construction	**292,731**	**643,167**	302,789	691,887
Government	**1,202,489**	**1,134**	1,087,488	1,035
Manufacturing	**249,706**	**58,477**	321,936	45,454
Real Estate	**449,886**	**8,987**	673,303	16,805
Others	**181,444**	**217,053**	185,819	201,601
	5,198,384	**1,900,391**	5,245,640	1,823,249

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 has sold credit protection for the underlying bonds/FRNs issued by GCC sovereign or public sector entities and is therefore exposed to the default risk of the issuers. The Bank sets credit limits for each issuer based on risk analysis and monitors the exposure arising from CDS sold against these approved limits. The Bank's management does not intend to pursue this line of business and is not undertaking any new transactions. The outstanding CDS are scheduled to mature in 2017.

These instruments are disclosed in Note 28. This credit risk exposure is 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:

	2016			2015		
	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
KWD	**(+) 25**	**2,006**	**-**	(+) 25	2,362	-
USD	**(+) 25**	**349**	**(4)**	(+) 25	217	(53)

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:

24. FINANCIAL INSTRUMENTS (continued)

C. CURRENCY RISK (continued)

	2016			2015		
	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**	**(384)**	**328**	+5	(339)	364

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 that exceed a one year 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 with adequate back-up facilities; monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and 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%.

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):

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2015:

	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	837,048	-	-	-	-	-	837,048
Treasury bills and bonds	-	43,142	73,621	76,369	52,477	-	245,609
Central Bank of Kuwait bonds	92,850	169,850	98,725	-	-	-	361,425
Deposits with banks							
and other financial institutions	-	24,107	-	10,000	-	-	34,107
Loans and advances to banks	-	19,728	11,381	31,109	18,640	-	80,858
Loans and advances to customers	126,423	480,728	769,312	296,809	473,224	1,487,095	3,633,591
Investment securities	-	4,593	-	-	34,182	76,342	115,117
Other assets	54,256	13,134	-	-	34,049	-	101,439
Premises and equipment	-	-	-	-	-	28,522	28,522
Total assets	1,110,577	755,282	953,039	414,287	612,572	1,591,959	5,437,716
Liabilities:							
Due to banks	72,189	55,542	69,198	64,455	-	-	261,384
Deposits from financial							
institutions	152,363	174,042	135,688	263,565	374	-	726,032
Customer deposits	2,054,886	668,224	510,019	460,607	143,686	-	3,837,422
Other liabilities	35,254	13,886	11,057	12,197	2,228	-	74,622
Total liabilities	2,314,692	911,694	725,962	800,824	146,288	-	4,899,460

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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 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**

At 31 December 2015	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	10,838	-	215,099	37,854	-	263,791
Deposits from financial institutions	88,107	17,671	205,584	424,374	-	735,736
Customer deposits	1,633,477	216,966	1,338,379	682,054	-	3,870,876
Other liabilities*	26,543	3,595	26,952	17,532	-	74,622
Total undiscounted liabilities	1,758,965	238,232	1,786,014	1,161,814	-	4,945,025

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

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

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
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**

At 31 December 2015:	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
Contingent liabilities	34,158	43,998	168,039	798,341	446,754	1,491,290
Commitments	140	35,473	120,157	-	1,400	157,170
	34,298	79,471	288,196	798,341	448,154	1,648,460

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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 2016:					
Forward foreign exchange	**65,280**	**18,710**	**15,468**	**19,825**	**119,283**
At 31 December 2015:					
Forward foreign exchange	573	23,941	25,112	-	49,626

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 managed through the Risk Management Department 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. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management.

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	**2016 Effect on equity KD 000's**	2015 Effect on equity KD 000's
Kuwait Stock Exchange	+5%	**737**	881
New York Stock Exchange	+5%	**69**	144

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:

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**

2015	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	19,527	6,622	-	26,149
Debt securities	23,251	1,504	-	24,755
	42,778	8,126	-	50,904

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 **KD 20,609 thousand** (2015: KD 20,684 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 2016 were **KD 67,061 thousand** (2015: KD 43,529 thousand) and **KD 66,730 thousand** (Level: 1) (2015: KD 43,388 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:

	2016 KD 000's	2015 KD 000's
Guarantees	**1,320,869**	1,299,019
Letters of credit	**192,496**	192,271
	1,513,365	1,491,290

As at the reporting date the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 188,662 thousand** (2015: KD 157,170 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	
	2016 KD 000's	2015 KD 000's	**2016 KD 000's**	2015 KD 000's	**2016 KD 000's**	2015 KD 000's
Operating income	**138,075**	136,885	**12,073**	14,338	**150,148**	151,223
Segment result	**71,742**	50,099	**2,146**	9,593	**73,888**	59,692
Unallocated income					**18,493**	17,233
Unallocated expense					**(49,438)**	(37,923)
Profit for the year					**42,943**	39,002
Segment assets	**3,766,421**	3,797,144	**1,596,363**	1,510,611	**5,362,784**	5,307,755
Unallocated assets					**104,331**	129,961
Total Assets					**5,467,115**	5,437,716
Segment liabilities	**2,682,905**	3,142,049	**2,041,414**	1,637,377	**4,724,319**	4,779,426
Unallocated liabilities and equity					**742,796**	658,290
Total Liabilities and Equity					**5,467,115**	5,437,716

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 2016 or 2015.

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 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**

At 31 December 2015:				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional total amount	Within 3 months	3-12 months	1 year Over
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	264	(427)	49,626	24,514	25,112	-
Credit default swaps (Note 18)	-	(513)	89,532	-	30,350	59,182
	264	(940)	139,158	24,514	55,462	59,182

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 2016 and 31 December 2015 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2016	2015
	KD 000's	KD 000's
Risk weighted assets	**3,897,800**	3,748,264
Capital required	**545,692**	468,533
Capital available		
Tier 1 capital	**573,492**	538,256
Tier 2 capital	**147,196**	44,895
Total capital	**720,688**	583,151
Tier 1 capital adequacy ratio	**14.71%**	14.36%
Total capital adequacy ratio	**18.49%**	15.56%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2016 and 31 December 2015 are calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2016	2015
	KD 000's	KD 000's
Tier 1 capital	**573,492**	538,256
Total Exposure	**6,456,516**	6,365,455
Financial leverage ratio	**8.88%**	8.46%

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 2016 and 31 December 2015 are included under the 'Risk Management' section of the annual report.