بيت التمويل الكويتي
Kuwait Finance House

38th Annual Report

Kuwait Finance House (K.S.C.P.) and Subsidiaries

2016

بسم الله الرحمن الرحيم

In the name of Allah the Most Gracious, the Most Merciful.

Ye who Believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers (278). If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly (279).

Al Baqara (278 - 279) Al-Quran

His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

His Highness
Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
The Prime Minister

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Kuwait Finance House (KFH)

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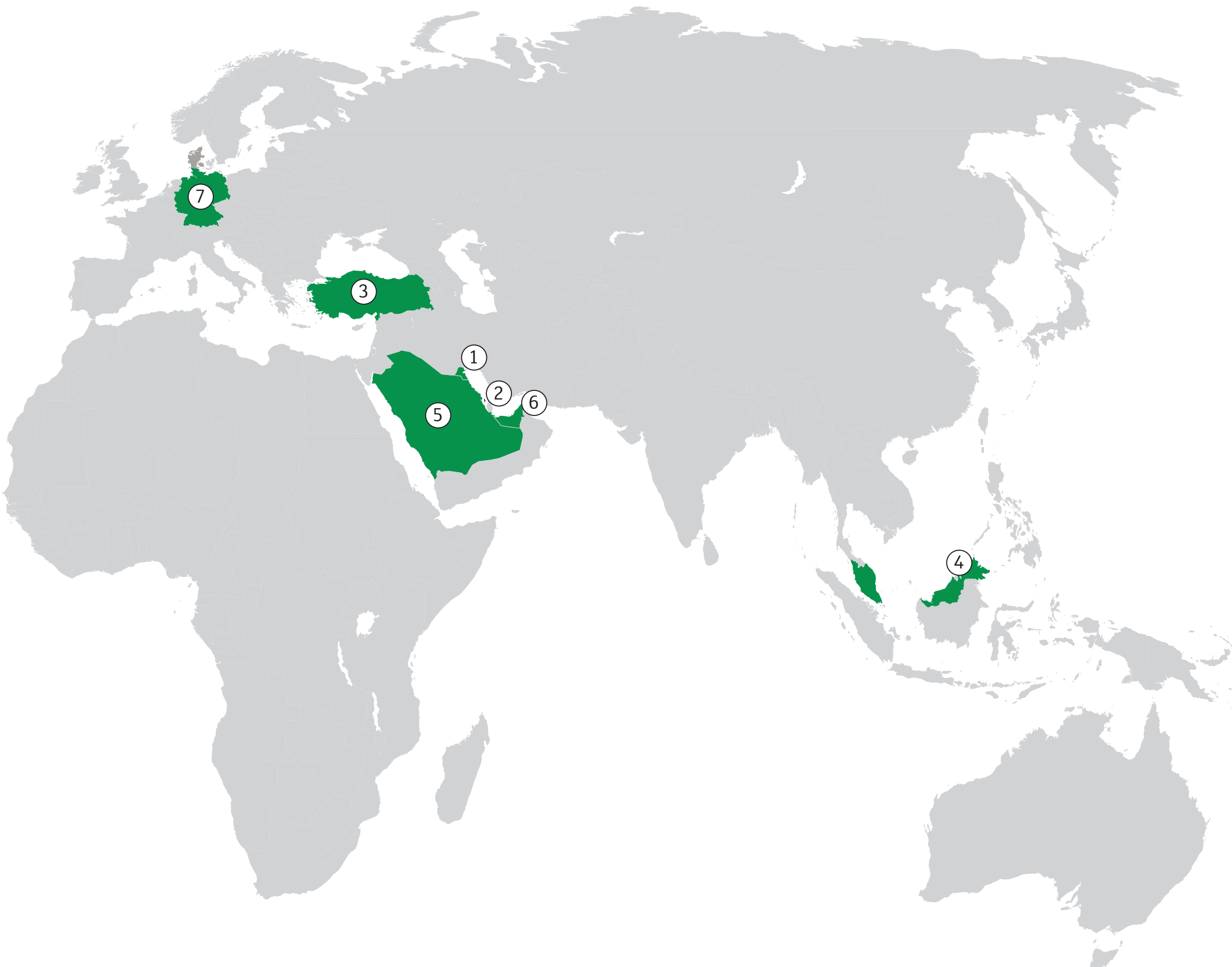
KFH's Group Overview

Global Integrated Operations

Leading the Islamic finance industry, KFH Group offers a wide range of Islamic products and services across several regions, with over 480 branches, more than 990 ATMs and approximately 15,370 employees.



• Kuwait Finance House (KFH) was the first Islamic bank established in Kuwait in 1977. Today, KFH has become one of the leading Islamic banking institutions in the world, and one of the largest financiers in both the local and regional markets.

• KFH's largest shareholders include: Kuwait Investment Authority (Direct), Kuwait Awqaf Public Foundation (Direct), Public Authority for Minors' Affairs (Direct), The Public Institution for Social Security (Indirect).

• Kuwait Finance House is a publically listed company on Boursa Kuwait (Ticker "KFIN")

1- Kuwait Finance House K.S.C.P. - Kuwait
2- Kuwait Finance House B.S.C. - Bahrain
3- Kuwait Turkish Participation Bank - Turkey
4- Kuwait Finance House - Malaysia (Berhad)
5- Saudi Kuwaiti Finance House S.S.C.
6- Kuwait Turkish Participation Bank - Dubai
7- KT Bank AG - Germany

Vision

To lead the international development of Islamic financial services and become the most trusted and sustainably most profitable Shari'a-compliant bank in the world.

Mission

To deliver superior innovation and customer service excellence while protecting and enhancing the interests of all our stakeholders.

Values

Leadership and Innovation
Partnership and Accountability
Compliance to Islamic Shari'a.

Chairman's Message

Praise be to Allah the Almighty, and Peace and Blessings be upon our Prophet Muhammad (PBUH), his family and companions.

Dear Esteemed Shareholders, Assalamu Alaikum Warahmatu Allah Wabarakatuh…

On behalf of myself, my fellow colleagues and members of the Board of Directors of Kuwait Finance House ("KFH" / the "Bank"), I would like to present to you KFH Group Annual Report for the year 2016.

Considering the unprecedented economic, oil and geopolitical developments which have prevailed worldwide, year 2016 may be considered as the year of challenges for the region in general and the banking sector in particular. These challenges were reflected clearly on capital market performances, subdued local and global economic growth drives, lack of confidence in the European Economy especially after Brexit and the sluggish growth in China. These factors have led to an increase in raw material prices and continued tightening of Federal monetary policy.

Despite the economic challenges, with a clear commitment to our valued customers and stakeholders, KFH has attained a remarkable and well balanced performance during 2016, through its prudent and flexible business model and efficient risk management methods.

KFH Group has maintained the distinguished leading position of its operations locally, regionally and internationally, thus enhancing shareholders profit to reach KD 165.2 Million i.e. an increase of 13.3% y-o-y in 2016. Also, we have achieved remarkable and tangible progress on the rate of return on shareholders' equity.

Group's main financial indicators continued their ascending trend including increase in profitability and enhancement of capital adequacy ratio to reach 17.88%, well above the required 15%. We have also observed and adhered to Basel regulations on fixed liquidity ratios, which has enabled us to face market challenges, and future potential regulatory requirements.

Our well balanced performance is attributed to the positive group synergy, professional and efficient execution of our integrated strategy, proper well bonded relations and coordination among all parties whether at head office or in various countries where the group operates including Turkey, Bahrain, Malaysia, Germany, Saudi Arabia and others. This remarkable performance is achieved through a set of successful strategic initiatives which were the cornerstone in reinforcing and supporting governance and banking services at the group level.

We have implemented a set of policies and procedures during the year to improve efficiency of daily communications, ensure smooth inflow of information at the group level, provide new and innovative solutions to customers and offer several investment funds inside and outside Kuwait. Also, we have managed to offer a Sukuk Fund with variable US$ returns as well as a real estate fund in USA.

Financing Income increased in 2016 to reach KD 718 Million. By the grace of Allah, we have achieved net shareholders profit of KD 165.2 Million while earnings per share reached Fils 32.01. Total assets approximated to KD 16.5 Billion. KFH customers' deposits reached KD 10.7 Billion. Meanwhile, total operating expenses declined for the second consecutive year by KD 35.5 Million i.e. 11%, (KD 31.5 Million or 8% in 2015 compared to 2014). These figures reflect the robust financial position that KFH is occupying which led the group to achieve the results even during the hard times encountered by local and global economy. KFH Group endeavoured to preserve KFH assets and achieve best financial results.

With regards to asset management by the Grace of Allah, KFH Group has managed to strengthen returns on investments following extensive 3-years efforts through KFH Capital Company, restructuring of investments and improvement of assets quality, thus improving capital adequacy ratios. All these activities are in line with our strategy to focus on and develop core banking business.

While we are committed to achieve remarkable and rewarding long term returns for shareholders, the board proposes to the general assembly to distribute cash dividends by 17%, bonus shares by 10% and distribute profit on investment deposits and saving accounts as shown in table No. (1)

Table (1) Depositors' profit rates

Account Type	2016	2015
"Al-Khumasiya" Investment Deposits	2.40%	2.35%
"Mustamera" Investment Deposits	2.20%	2.15%
"Al-Sedra" Investment Deposits	1.50%	1.50%
"Dimah" Investment Deposits (6 months)	1.425%	1.30%
Investment Saving Accounts	0.65%	0.73%

We have successfully managed to lead the Islamic bank's market share by financing major projects in Kuwait including participation in the Kuwait Government Debt Program of KD 700 Million. We have also financed the clean fuel project for Kuwait National Petroleum Company which is the largest banking syndication transaction in the history of Kuwait where KFH contributed KD 275 Million of the total KD 490 million.

Kuwait Finance House – Turkey has successfully issued the largest Ijara Sukuk transaction to the private sector in Turkish market amounting TL 300 Million. Other Sukuks were also issued to enhance and support its capital position amounting to a US$ 350 Million (Second Tier) for a 10-year term with 7.9% returns.

KFH – Bahrain has financed several projects, namely Bahrain Marasi project amounting US$ 3 Billion in addition to Deerat Al-Oyoun project, value of which exceeded US$ 730 Million which aimed to build more than 3 thousand residential units in Bahrain. We have also completed construction of Wadi Al-Sail Mall which is the first development project among 3 other projects initiated by a group subsidiary.

KFH group received, during the year, highly distinguished banking awards namely, the Best Islamic Financial Institution in the Gulf and Best Islamic Project Finance Provider from Global Finance Magazine. KFH has also won several other remarkable and significant awards from Islamic Finance News (IFN) both as the "Best Islamic Bank in Kuwait" as well as "Best Global Islamic Bank" for the year 2016, as part of Global Islamic Finance Awards (GIFA) and Best SME Customer Service Award by Banker Middle East in addition to several other awards received during the year in appreciation of its multiple activities and services.

The Following table shows KFH's credit ratings during 2016 from 3 major global rating agencies:

Table (2) Highlights KFH Credit Ratings 2016

Rating Agency	Long Term	Short Term	Outlook
Fitch	A+	F1	Stable
Moody's	A1	P-1	Negative
Standard & Poor's	A-	A-2	Negative

We have, during 2016, expanded our programs to participate in local society activities. In this respect, KFH has paid KD 7.5 Million to Zakat House in recognition of the importance of projects that would serve society and accentuate the humane side of our business. Our focus covers other projects and activities aiming to achieve social growth and development at the educational and health sectors, provide environmental care and support youth initiatives and other vital sectors.

In recognition of the importance of technology and innovation, we have developed and upgraded IT infrastructure, expanded banking solutions by using modern technology introduced new digital banking services to customers along with other direct services provided through our extensive branch network covering 480 branches, In addition to ATMs network spread worldwide. This comes as part of customer centric, service oriented innovative program.

On the banking innovation and development aspects, KFH group has enhanced its accomplishments by implementing several initiatives, such as, the launch of its website (kfh.com) which comprises several modifications and characteristics to appear as a new brand. KFH innovation centre has also participated in reinforcing innovation and development at the group level by launching employees' competition which has resulted in adopting several new ideas and products. The best ten innovative ideas received from various staff members including our subsidiaries operating in Kuwait, Turkey, Malaysia and Bahrain were honoured.

KFH enhanced its effective communication channels with society through its social media where followers exceeded 600 Thousand Followers. KFH's social media has efficiently promoted customer service and banking products awarness, round the clock, in a unique and modern touch to cope up with the new-gen life style requirements.

We would like to avail this opportunity to convey our sincere gratitude and appreciation to our shareholders and customers for their continuous and valuable support. We are confident by the grace of Allah that we will continue to achieve rewarding returns for our shareholders and depositors. Also, I would like to avail this opportunity to convey sincere gratitude and appreciation to all our employees at the group levels, as well as, the members of the honourable Fatwa & Sharia Supervisory Board for their distinguished and outstanding efforts in accrediting our functions and activities.

Finally, I would like to convey our sincere thanks, gratitude and appreciation to His Highness the Amir of Kuwait Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, may Allah safeguard, His Highness the Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, may Allah safeguard, and His Highness The Prime Minister Sheikh Jaber Al-Mubarak Al-Sabah, may Allah safeguard. Our thanks and appreciation are also extended to His Excellency Dr. Mohammed Al-Hashel, Central Bank of Kuwait Governor and all regulatory authorities for their ongoing support to the banking sector in the State of Kuwait.

May Allah grant us Success.

Hamad Abdulmohsen Al-Marzouq
Chairman

Board of Directors

Mr. Hamad Abdul Mohsen Al Marzouq

Chairman since March 2014

Chairman of the Executive Committee and Member of the Governance Committee

Mr. Al Marzouq holds a Master's Degree in International Finance and Business Management from Claremont University in the U.S. awarded in 1987 and a Bachelor's Degree in Industrial Systems Engineering from the University of Southern California in the U.S. awarded in 1985.

He has been a board member of the Kuwaiti Banks Association (KBA) since 2002 and has been the association's Chairman from 2010 to 2016. Mr. Al Marzouq has been a Board Member of the Kuwait Institue of Banking Studies (KIBS) from 2003 to 2014, and a Board Member of the Public Authority for Applied Education and Training (PAAET) from 2007 to 2016. He held the position of Member of the Board of Trustees of the Arab Academy for Financial and Banking Sciences from 2004 to 2009 and was a Member of the Union of Arab Banks from 2003 to 2010.

Mr. Al Marzouq has a wealth of banking and financing experience both inside and outside Kuwait spanning more than Thirty years. He has held key leadership positions in different banking, financial and regulatory institutions.

He was Chairman of Ahli United Bank – Kuwait (AUBK) from 2002 to 2014, and was Vice Chairman of AUBK in the U.K. from 1998 to 2014, in Egypt from 2006 to 2014, in Bahrain from 2000 to 2014, and in Amman from 2007 to 2014. He was also Vice Chairman of Iraqi Commercial Bank from 2006 until early 2014.

He was also a Board Member of Kuwait and Middle East Company for Finance and Investment based in Kuwait and the company's Vice Chairman then Chairman from 2002 to 2010. He held the position of Vice Chairman of Middle East Financial Investment Company in the Kingdom of Saudi Arabia from 2009 to 2013 and was a Deputy Chairman of the Board of Directors of Al Ahli Bank in Qatar from 2004 to 2013.

Mr. Al Marzouq held key executive positions at the Central Bank of Kuwait where he acted as Assistant Director of the Technical Affairs Office in 1990, served as the Deputy Manager of Financial Control from 1992 to 1996 and then served as Director of Financial Control Department from 1996 to 1998. Mr. Al Marzouq started his career at the Kuwait Investment Company as an Investment Officer in the U.S. investment portfolio and derivatives department from 1987 until 1990.

Mr. Abdul Aziz Yaaqub Al Nafisi

Vice Chairman since March 2014

Chairman of the Nominations and Remunerations Committee, and Member of the Executive Committee.

Mr. Al Nafisi holds a Bachelor's Degree in Economics from Whittier College in the U.S. awarded in 1977.

He has held the position of Chairman of the Mobile Communication Company "Zain" since 2005, and held the position of Vice Chairman until 2013.

Mr. Al Nafisi has a wealth of experience from both inside and outside Kuwait. He held many prominent leadership positions in financial institutions and investment companies. He also has vast experience in the real estate sector and the telecommunication sector, in which he has held many leadership positions.

He was the Chairman of Mada Communication Company from 2001 to 2011 and acted as Chairman of Al Madar Finance and Investment Company from 1998 to 2004. Mr. Al Nafisi was a Board Member of Withaq Takaful Insurance Company from 2000 to 2004 and was a Board Member of Kuwait Investment Projects Company from 1993 to 1996. He also held the position of Chairman of KFIC Financial Brokerage Company from 1989 to 1992.

Currently, Mr. Al Nafisi holds the position of the General Director of Abdul Aziz Al Nafisi General Trading Company. He had previously held several executive positions including the General Director of Al Nafisi Real Estate Group from 1996 to 2010. He held the position of Deputy General Director of Yaqoub Al Nafisi Establishment General Trading and Contracting from 1984 to 1999, and Managing Director of KFIC Financial Brokerage Company from 1989 to 1990. Mr. Al Nafisi started his professional career as the Head of Banking Facilities Department at Burgan Bank from 1978 to 1981.

Mr. Fahd Ali Al Ghanim

Board Member since 2014

Chairman of the Investment Committee, and Member of the Executive Committee and the Audit & Compliance Committee.

Mr. Al Ghanim holds a Bachelor's Degree in Civil Engineering from Kuwait University awarded in 2002.

He is currently Chairman of Aayan Ijara and Investment Company, a position that he has held since 2011. He has also been the Vice Chairman of Al Ahlia Heavy Vehicles Selling and Import Company since 2011. He was the Chairman of the Restructuring Committee at Aayan Ijara and Investment Company from 2010 to 2011 and Kuwait Industrial Company for Construction since 2004. Mr. Al Ghanim has been a Board Member and Trustee of Kuwait Sports Club since 2007, and has been the CEO of Al Ghanim and Sons Group of Companies for Cars since 2005.

Mr. Al Ghanim held the position of the Chairman and CEO of Al Ahlia Heavy Vehicles Selling and Import Company from 2005 to 2011.

He acted as Board Member in several local companies including the International Company for Electronic Payment from 2005 to 2010, the First Slaughterhouse Company from 2003 to 2005, and was the CEO of Al Ghanim and Sons Group of Companies from 2002 to 2005.

Mr. Muad Saud Al Osaimi

Board Member since 2014

Member of the Executive Committee, the Risk Committee, and the Investment Committee.

Mr. Al Osaimi holds a Bachelor's Degree in Finance from George Mason University in the U.S. awarded in 2001.

He served as a Board Member of several companies including Kuwait Gate Holding Company from 2004 to 2014, Kuwaiti Financial Center Company from 2008 to 2011 and Al Raya Holding Company from 2005 to 2009.

Mr. Al Osaimi has been the Deputy General Manager of Global Retail Company since 2003. He previously worked at the Investment Department of Aayan Leasing and Investment Company in 2002 and completed an 18 month specialized training program at the Kuwaiti Investment Authority (KIA) in 2001.

Mr. Khaled Salem Al Nisf

Board Member since 2014

Member of the Executive Committee, the Risk Committee and the Investment Committee.

Mr. Al Nisf holds a Bachelor's Degree in Finance from the Faculty of Commerce, Economy and Political Sciences, at Kuwait University awarded in 1995. He also pursued specialized courses in financial statements analysis at the Institute of International Research.

He held the post of Board member from April 2001, and Vice Chairman from July 2016 to date in the Kuwiati Digital Computer Company. He holds the position of Board Member at Al-Shamiya Holding Company since September 2016 and still. He holds the position of Board Member at Al Tadamon Holding Company since May 2016 and still.

Mr. Al Nisf held the position of Chairman of the Executive Board specialized in setting strategies and implementation at Al Nisf Company. He has held the position of CEO at Mohamed Bin Yusuf Al Nisf Company, Al Tadamon Company and Trading, and Industrial Equipment Company since 2008.

He previously held the position of Investment and Finance Manager at Al Nisf Companies from 1997 to 2008, and was the Managing Director of the Company from 1995 to 2007.

Mr. Noorur Rahman Abid

Board Member since 2014

Chairman of the Audit and Compliance Committee and Member of the Nominations and Remunerations Committee.

Mr. Abid has been a Fellow Chartered Accountant from Institute of Chartered Accountants in England and Wales (ICAEW) since 1976.

He was appointed as Assurance Leader for Ernst & Young Middle East and North Africa in 1999, and has nearly 40 years of extensive experience within the profession.

In 2012, Mr. Abid received the World Islamic Banking Conference Industry Leadership Award in recognition for his contribution to the Islamic banking industry.

He previously served as Chairman of the Accounting Standards Committee, and Vice Chairman of Accounting and Auditing Standards Board of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions). He is currently a member of the Board of Trustees of the AAOIFI. In addition, Mr. Abid serves also as a member of the Board and the Audit Committee of Meezan Bank, the largest Islamic Bank in Pakistan.

He is also a member of the Board of Arcapita Company in Bahrain and Chairman of its Audit Committee.

He is a member of the Board of Dr. Soliman Fakeeh Hospital in Jeddah and Chairman of its Audit Committee and a member of its Nominations and Remunerations Committee

Mr. Khaled Abdulaziz Al-Hassoun

Board Member as Representative of the Kuwait Investment Authority (KIA) since 2007

Member of the Executive Committee, the Nominations & Remunerations Committee, and the Investment Committee.

Mr. Al-Hasson holds a Bachelor of Business Administration (BBA) Degree in marketing, from Kuwait University awarded in 1985.

He has headed the Real Estate Department at the Kuwait Investment Authority (KIA) since 2006, and has been a Board Member of the Arab Investment Company, Kingdom of Saudi Arabia, since 2012.

Furthermore, He was the Vice Chairman of the Moroccan-Kuwaiti Consortium for Development, Morocco, from 2004 to 2012, Kuwaiti Livestock Transporting and Trading Company from April 2001 to 2007, Rural Export & Trading Company, Australia from 2001 to 2004, Emirates Livestock and Meat Products Trading Company, UAE, from 2004 to 2007, Agricultural Food Products Company, Kuwait, from 1996 to 2000, Arab Industry and Mining Company, Mauritania, from 1998 to 2000, Kuwait-Algeria Investment Fund, Algeria, from 1999 to 2004, Egyptian Kuwaiti Real-Estate Development Company, Egypt, from 1999 to 2007, and Kuwait Small Projects Development Company (KSPDC) from 1999 to 2001.

Mr. Ahmad Abdullah Al-Omar

Board Member as Representative of Kuwait Investment Authority (KIA) since 2007

Chairman of Risk Committee, and Member of the Audit and Compliance Committee.

Mr. Al-Omar holds a Bachelor of Commerce (BCom) Degree in Accounting, from Kuwait University awarded in 1972.

He has been the Chairman of the Board of the Kuwaiti Investment Company, Kuwait, from July 2013 to June 2015, and for the Kuwaiti United Investment Company, Damascus, affiliated to Kuwait Investment Authority (KIA) since July 2008. He holds the position of Head of Debt Settlement Office at Kuwait Investment Authority (KIA) since July 1999.

Mr. Al-Omar served as a Board Member in the Boards of various companies inside and outside Kuwait, including “Societe Nationale Industrielle et Miniere” (SNIM) as representative of Arab Company for Mining, Mauritania, from 2002 to 2007, and the Livestock Transporting and Trading Company. He held the position of Chairman of the Investment Committee, as a representative of Kuwait Investment Authority (KIA) from 2001 to 2007, and Board Member of the Arab Mining Company as a representative of KIA from 2000 to 2007.

He acted as the Chairman of Board of the Agricultural Food Products Company, Kuwait, from 2000 to 2001, and held the position of Chairman of the Liquidation Committee of Al-Enmaa Investment Company, Bahrain, and Mines and Industry Company, Ajman, UAE, in 1986 and 1988 respectively.

Mr. Barrak Ali Alsheatan

Board Member as Representative of the Public Authority for Minor's Affairs (PAMA) since 2015

Member of the Nominations & Remunerations Committee and the Governance Committee.

Mr. Alshitan received his Bachelor Degree in Accounting from Kuwait University in 1990. Positions held by Mr. Alshitan include the following: General Manager of the Public Authority for Minors Affairs, Board Member of Zakat House since 2015, member of the board of trustees of the Martyr's Office, Vice Chairman of Amlak Real estate Co. Since March 2015 and Chairman of National Offset Company.

He previously assumed several high-ranking positions, such as Board Member at the Central Bank of Kuwait, representing the Ministry of Finance, Board Member of Kuwait Investment Company and Board member of the Public Authority for Direct Investment.

Mr. Alshitan occupied several executive positions including Assistant Undersecretary – General Accounting Affairs – Ministry of Finance from 2007 to 2015, System & Follow up Controller in 2000, Department Manager – Steering & Organization Dept. 2006 at the Ministry of Finance, and Accounting Controller from 1996 to end of 2000. In addition, he headed the Accounting Steering Section from 1993 to 1996 bearing in mind that he commenced his professional career as a researcher at the Accounting Steering Department in 1990 at Ministry of Finance.

Mr. Ra'ed Khaled Al Kharafi

Board Member as representative of Kuwait Public Awqaf Foundation since 2015

Chairman of the Governance Committee and Member of the Risk Committee

Mr. Al Kharafi holds B.Sc in Management (Business Administration) from Cairo in 2007, and Diploma in Management from College of Business Studies affiliated to the Public Authority for Applied Education and Training, Kuwait in 1993.

Mr. Al Kharafi is a member of the Fact Finding Committee affiliated to the Ministry of Justice, Kuwait since 2015, and member of the Board of Directors for Real-Estate Assets Management Company (Ream), as a representative of Kuwait Public Awqaf Foundation, and Acting Board Member at the Zakat House, representing the Kuwait Public Awqaf Foundation, starting from 2015.

He holds the position of Deputy Secretary General for Developing Resources and Investment at the Kuwait Public Awqaf Foundation as an Assistant Undersecretary since February 2015. He worked at Kuwait Fund for Arab Economic Development immediately after his graduation in 1993, then he was promoted to Head of Public Relations in 1996, and to Deputy Manager of Admin Affairs Department from 2000 to 2015.

He is Member of the Supervising Committee of the Awqaf Properties Investment Fund at the Islamic Development Band, Jeddah, Kingdom of Saudi Arabia, as a representative of Kuwait Public Awqaf Foundation since August 2016.

Mr. Al Kharafi held several other professional posts, including the Chairman of the Board of Directors of one of the largest retail centers in Kuwait in 2005. Prior to this, he held the position of Fund Custodian in 2003, and then appointed as Vice Chairman of the Board of Directors in 2004 at the same retail center.

Fatwa & Shari'a Supervisory Board's Report 2016

Kuwait Finance House

To the respected KFH shareholders,

Assalamu alaykum warahmatu Allah wabarakatuh,

Praise be to Allah the Almighty and Peace and Blessings be upon our Prophet Muhammad (PBUH), his family and his companions.

We have reviewed and endorsed the policies, products, services and the activities that KFH had carried out in 2016. We have also conducted the necessary review to provide our opinion on KFH compliance with Shari'a rules and principles through the fatwas, resolutions and recommendations that we have issued.

To achieve this compliance assurance, the Fatwa and Shari'a Supervisory Board held 40 meetings during the year 2016, in which it had reviewed and endorsed samples of the contracts and agreements after obtaining the necessary information to issue its opinion. The Shari'a Control and Advisory Department conducted its Shari'a Audit on randomly selected samples of all operations and transactions of KFH with the shareholders, investors and others in accordance with the Annual Shari'a Audit plan for all the Bank's departments and its subsidiaries. The Shari'a Board has also received the periodic reports that the Shari'a Control and Advisory Department has prepared about the Shari'a Audit process and operations, site visits and the compliance status of the process and implementation of the fatwa and resolutions issued by KFH Fatwa and Shari'a Supervisory Board.

We have also obtained all necessary information and clarifications to give us sufficient evidence to provide reasonable confirmation that KFH and its subsidiaries had complied with Shari'a rules and principles in all its operations that have been presented to the Fatwa and Shari'a Supervisory Board.

Through the process and steps that we followed to ascertain the compliance of KFH to the Shari'a rules, we confirm the following:

First: That the contracts and transactions which KFH had entered into during the financial year ending on 31 December 2016 as presented to us had complied with the Shari'a rules, principles and resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Second: That the profit distribution and loss bearing on the investment accounts are in compliance with the terms of our approval in accordance with the rules and principles of Shari'a.

Third: That all income that has been received from non-Shari'a compliant sources or by means prohibited by Shari'a have been cleansed and donated to charitable purposes.

Fourth: That the Zakat calculation has been carried out in accordance with the Companies' Zakat Manual issued by Kuwait Zakat House, and in accordance with the resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Peace be upon our Prophet Muhammad, his family members and companions and praise be to Allah, the Lord of the Universe.

Shaikh/Dr Sayyid Mohammad Abdul Razzaq Al-Tabtabae
Chairman

Shaikh/Dr. Anwar Shuaib Abdulsalam
Shari'a Board Member

Shaikh/Dr. Esam Abdulrahim Ghareeb
Shari'a Board Member

Shaikh/Dr. Khaled Shuja Al-Otaibi
Shari'a Board Member

Shaikh/Dr. Mubarak Jaza Al-Harbi
Shari'a Board Member

Fatwa & Shari'a Supervisory Board

Sheikh Dr. Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e

Chairman of the Board

Head of Advisory Committee for implementation of Sharia rules and regulations, Head of Personal Status Advisory Committee at the State of Kuwaitis - Member of the board of trustees of AAOIFI - Former Dean of the Faculty of Shari'a and Islamic Studies at Kuwait University, and a member of the teaching staff – Head of Fatwa and Sharia Supervisory Committee at KFH – Kuwait.

He received his bachelor's degree in 1988, Master's degree in 1993 and PhD in Islamic Jurisprudence in 1996 from the Supreme Institute of Justice at Al-Imam Muhammad Ibn Saud Islamic University in Riyadh.

Sheikh Dr. Mubarak Jaza Al-Harbi

Member of the Board

He is a Former Head of the Department of Comparative Islamic Jurisprudence and Shari'a Governance at the Faculty of Shari'a and Islamic Studies at Kuwait University, and a member of the Fatwa and Shari'a Supervisory Board for Kuwait Finance House in Bahrain.

He is also a member of the Fatwa Board at the Ministry of Awkaf and Islamic Affairs - Kuwait, and a member of Fatwa & Shari'a Supervisory Boards at various Islamic financial institutions and organizations.

Received his PhD in 2002 from the Faculty of Darul-Ulum at Cairo University.

Sheikh Dr. Anwar Shuaib Abdulsalam

Member of the Board

He Holds the position of the Chairman of the Fatwa and Shari'a Supervisory Board of Kuwait Finance House in Turkey - Former Head of the Department of Islamic Jurisprudence and Usul Al-Fiqh at the Faculty of Shari'a and Islamic Studies at Kuwait University. He is also a member of Fatwa & Shari'a Supervisory Boards at various Islamic financial institutions and organizations.

Received his PhD in Islamic Jurisprudence from Al-Azhar University in 1999.

Sheikh Dr.Khaled Shuja` Al-Otaibi

Member of the Board

He is a member of the teaching staff at the Department of Islamic Jurisprudence and Usul Al-Fiqh at the Faculty of Shari'a and Islamic Studies of Kuwait University. He is also a head of the Shari'a Supervisory Board at Kuwait Zakat House, a general advisor for the Kuwait Hajj Delegation and an Imam and Orator at the Ministry of Endowments and Islamic Affairs - State of Kuwait. Sh. Al-Otaibi is also a member of Fatwa & Shari'a Supervisory Boards at various Islamic financial institutions in Kuwait.

He received his PhD in 2000 from the Faculty of Shari'a and Islamic Studies at the Islamic

University of Madinah.

Sheikh Dr. Esam Abdul-Raheem Ghareeb

Member of the Board

He is a lecturer at the Department of Islamic Jurisprudence and Usul Al-Fiqh at the Faculty of Shari'a and Islamic Studies, Kuwait University. He is also a member of the teaching staff at the Faculty of Shari'a and Law at Kuwait University, and former Assistant Dean of Student at the Faculty of Shari'a and Islamic Studies at Kuwait University.

He received his PhD degree in 2000 from the University of Birmingham, United Kingdom.

Economic Developments

First: Global Economic Developments

The global economic performance was weak for the fifth consecutive year recording a low growth of 3.1% in 2016. The decline in oil prices and the monetary easing policies in the advanced countries contributed largely to the global economic growth. However, the continued slow growth in the emerging economies and several developed countries, namely the Euro zone and Japan, imposed further limitations on the global economic growth in addition to the increase in unemployment rates, the continued political disturbances and wars in several geographies, increasing numbers of immigrants and the world wide spread of terrorism .

Global inflation rates remained unexpectedly low. Pursuant to the International Monetary Fund's (IMF) estimates, inflation rates reached 0.7% in the advanced economies in 2016 which was caused mainly by the fluctuations in the Chinese economy, increase of corporate debts and retreating profitability, weakening of banks budgets, massive decline of currency rates impacting budgets, devaluation of assets owned by global sovereign investors in addition to the increased supply of offered commodities and services. Inflation in the emerging markets and developed economies, however, relatively declined to 4.5% as compared to 4.7% 2015, as per IMF report.

Growth deeply retreated in the developed economies where indicators showed that growth ratios descended to 1.6% in 2016 compared to 2.1% in 2015. This was mainly subsequent to several economic and political shocks , such as , Britain's exit from the European Union, the massive fluctuations in the Chinese markets, the uncertainties concerning Fedral Reserve's rate hikes that came in late 2016, in addition to the unexpected outcome of the US presidential elections.

Second: Economic Developments in the USA, Euro Zone and Middle East

Despite the unknown future of the US monetary and political policy by the new president, the US economy witnessed significant growth during the last quarter of 2016. This economic growth encouraged the continuity of capital inflow, more spending on infrastructure, improved business revenues, increased employment and local consumption and decline in inventory, which urged the Federal Reserve to increase its interest rate. However, the energy concentrated bonds markets were exposed to further decline. The International Monetary Fund's estimates concerning the US growth retreated to 1.6% in 2016 compared to 2.6% in 2015 due to the absence of clear future vision with regards to the new US policy. The largest contributor to the modest global economic growth was mainly backed by the US consumers' spending .

The US Dollar maintained its strong position by increasing 6% against other currencies, as a result of, uncertainties pertaining to global growth. The US labor market showed significant growth as the economy began to reach full employment, whereby, unemployment ratios declined and real time labor income increased. The Federal Reserve's increase of the interest rate in December 2016 was the second hike in nine years.

The Euro zone growth rate declined to 1.7% compared to 2% in 2015. A state of uncertainty prevailed in the EU state members due to its inability to surpass the economic and fiscal crises in order to achieve the projected growth. As the British voted to exit the European Union its economy witnessed slight decline at 2% in growth as compared to 2.2% in 2015. In spite of the EU's quantitative easing program procedures and mitigation of lending cost, relative growth prevailed in Germany's and Italy's economies at 1.7% and 1% respectively , while France witnessed a continued recession .

Japan's economy depended significantly on its local demand spending as growth remained slow due to the low oil prices with high concerns about the political and economic tensions in the Middle East and the world wide spread of terrorism.

China's GDP recorded its highest global rate at 6.6% in 2016 after its second position behind India in 2015. The fluctuated Chinese economic growth in 2016 was the main cause of the global financial markets perplexity witnessed at the beginning of the year in light of the reformation steps announced by the Chinese government to support the Yuan versus US$ and mitigation of the capital the outflow exiting China, whereby, foreign reserves declined to 5 years low. The Yuan descended to its 8 years low losing 7% within one year. China adopted several steps to increase its government spending, such as, construction of renewable energy projects reaching US$ 32 Billion and becoming the global pioneer in this field.

Growth increased in the Middle East and Northern Africa (MENA) at 3.8% compared to 2.5% in 2015. Meanwhile, growth in Saudi Arabia declined in 2016 to 1.4% from 4.1% the previous year. On the other hand, Turkey witnessed several political tensions and events that have impacted its Lira against the US Dollar.

Third: Economic Development in Kuwait

The decline of oil prices in 2016 caused additional pressure on Kuwait's financial position which drove the government to cut down its spending by adopting more deliberate cost containment measures towards subsidy grants, such as, the partial subsidy lifting of fuel prices and on some consumables. In the past, Kuwait has also raised electricity charges on residential and commercial properties in order to recover the equilibrium of the general budget and mitigate deficit.

IMF anticipated that the economic growth would increase to 2.6% in 2016 compared to 1.2% in 2015. Oil prices closed high in 2016 at US$ 55/ Barrel. There is prevailing optimistic sentiment towards the oil price momentum, as OPEC resolved to reduce its daily production by 1.2 Million to reach 32.5 Million barrel per day for a period of 6 months effective January 2017.

In December 2016, CBK increased its interest rate by 0.25% to become 2.5% subsequent to the US Federal Reserve's interest rate hike by 0.50% to become 0.75%. CBK's rate increase was the first in 2016 and the second since 2015.

According to CBK's data issued in 2016, the banks' credit facilities exceeded KD 34.7 Billion, marking an increase of 2.9% compared to 2015. This growth was mainly from increase in retail credit facilities by 3.4% that reached KD 14.4 Billion primarily derived from the increase of instalments financing and other personal financing facilities by 8% and 3.5%, respectively. Credit allocated to the trade sector increased by 1%, while credit granted to the non-banking financial institutions increased by 10.5%. Credit granted to the other economic sectors led by the oil sector witnessed significant increase by 63.4% in comparison to year 2015. However, the credit volume granted to the industrial sector retreated by 7.2% and 1.5% for the real estate sector. This decline was a result of the 3.6% drop in the credit granted to the real estate financing (nearly KD 7.7 Billion), despite the significant 7.2% increase in real estate construction activities reflected in the expansion of road projects, public buildings , and infrastructure services in various parts of Kuwait .

The Kuwaiti local banks deposits increased to KD 40.6 Billion in 2016 by 4.4% from 2015. This was a result of private sector's deposits growth to KD 34 Billion equivalent to an annual growth of 2.8%, at the same time the government sector deposits grew by 13.6%.

Inflation level increased to 3.5% compared to 3% in 2015. The inflationary increase was mainly due to the transportation sector's significant hike in fuel prices by 10.5% and the residential services by 6.4%.

With regards to the real estate market, trading reached its lowest in 5 years at KD 2.5 Billion, thus marking 26% decline compared to 2015. This was a result of drop in both residential and investment sectors demand by 31% and 38.5% respectively. On the other hand, the commercial real estate sector witnessed remarkable growth by more than 29%.

Trade volume in Kuwait Stock Exchange descended to its lowest in 10 years recording value of KD 2.9 Billion with an annual decline of 27%. Other trading sectors indicators dropped in quantity and number of transactions. The average daily trading reached KD 11.3 Million as the price index improved by recording 2%. The weighted index declined by 0.4% on annual basis.

Chief Executive Officer's Statement & Management Discussion

In continuation of its remarkable success, KFH has maintained stability and achieved growth during 2016 despite the challenges encountered during the year. The bank achieved a growth rate of 13.3% amounting KD 165.2 Million in net profit attributable to shareholders of the bank during 2016 and a growth by 8.2% in net operating income compared to preceding year (less non-recurring investment income). These results have incarnated the success of the policies and plans adopted by KFH and applied by the executive management to establish certain pillars and foundations that would achieve growing ratios of sustainable revenues for KFH Group dependent on sustainable operational performance. Our achieved goal is an inseparable part of a chain of activities focused on banking business, quality service, technology, customer and employee satisfaction, enhancement and encouragement of innovation and creativity, optimized spending, sound management of risk and governance, expansion of market share . While observing flexibility of organizational structure, enhancement of cooperation and coordination among subsidiary banks, setting a permanent mechanism to ensure smooth inflow of information and unification of procedures, continued structuring of investments given best market fundamentals and build national human resources to lead and bear responsibility.

We achieved set goals successfully despite the challenges prevailing in the general operational environment in the local market and the markets where KFH subsidiary banks operate abroad. KFH culture is currently focused on products diversification and customer service concurrently through cross-selling which considers customer as an integrated entity and ensures an adequate management of the joint relationship. Professional values and principles are developed, without impacting performance trend, by simplifying service and product provision procedures. Similar activities are consolidated under a single hub to achieve simplicity of procedures and quality control in a parallel effort that would mitigate human involvement in certain cases and increase it in some other cases.

Significant and outstanding integrity was achieved among the various group's functions, such as, financial control, audit, IT, risk department, and human resources, that contributed remarkably to management's cost optimization plan successfully. Total operating expenses declined for the second consecutive year by KD 35.5 Million or 11% (KD 31.5 Million or 8% in 2015 compared to 2014). In addition, 61% of KFH Group net profit was realized through entities in Kuwait while the contribution of subsidiaries abroad approximated 39%. Remarkable success achieved is underpinned by easing procedures, cancellation of recurring operations, strengthening relations among group subsidiaries and benefiting from their experience in the development, re-drafting, and review of procedures to accelerate task completion process.

Growth in high quality assets, stability of deposits base, expansion of group network and launching of new innovative products were all highly significant factors in achieving a highly distinguished performance this year.

On the aspect of focusing on banking business, operational revenues resulting from banking activities represent the main part of the financial statements. We continued to introduce high quality banking products and services to enhance our market share and encounter competition. This was achieved via two angles, the first covering the increase in the number of branches which has reached 65 branches in Kuwait and 481 branches worldwide. We have also developed ATM systems to be a vital instrument for branches to mitigate work pressure. ATM systems were replaced by highly sophisticated and developed systems of Al-Shamel System which provides, in addition to the traditional functions, other services including cash deposit service and retail and corporate cheque deposit. New security programs and applications were launched to protect customer's transactions and instant bank cards issuance system was implemented at the group level. Needless to say that KFH is the first bank in Kuwait to offer Super-Premium Debit Cards in the State of Kuwait and issued two distinguished cards, Visa Debit Infinite and Visa Signature, to the new high networth tiers of (Elite) and (Pioneers) customers.

KFH launched new products and services including the "Winner" account to attract a new tier of payroll customers. Also reclassified high networh tier customers into (Elite) and (Pioneers) with the introduction of new incentives and advantages for each category by highly specialized relationship managers. New tiers target customers with medium credit. We have also added to the Gold account the facility to trade and open accounts online through KFH website. To align with the needs of the customer, we have introduced Zakat payment service through ATM machines to save their time and effort.

KFH lays great emphasis on customer care, thus aiming to maintain and preserve customer trust. In this respect,

Executive Management

we have increased banking services provided to Premium customers and offered them a set of investment funds, such as, variable US$ Sukuk Fund as well as the Real Estate Fund in USA.

Retail banking services and Private Banking services recorded outstanding results beyond all expectations. These achievements were the result of the implementation of certain initiatives, thus aiming to focus on customers in various group sectors, enhance customers' satisfaction, conduct researches and studies to obtain opinions, listen to their suggestions and record their complaints through complaints unit.

To enhance IT channels and to foster modern technology as one of the means to provide customer service, mitigate costs, achieve speed and security, KFH has developed telephone banking services, enhanced its technical and human capabilities and transformed it into a marketing tool. We have also developed KFH website as a marketing and introductory hub for KFH group, comprising a set of modern and newly developed free technical services which our customer may benefit from through our website at any time and place. To this end, KFH launched the (PUSH) service for customer banking services and (MY Salary Link) service to inquire about salaries in addition to the operation of a new automated treasury system at the group level and the operation of an integrated automated system to manage customer relations and reiterate KFH emphasis on this aspect.

To enhance direct sale function role as a hub to increase sales, KFH is in the process of implementing a wide spread program to enhance the capabilities of KFH sales team through the recruitment of employees who are able to develop the group's ambitious plans.

On the retail finance side, KFH has developed highly distinguished products for individuals to fulfil their needs of construction finance. KFH provides several products and multiple solutions in cooperation with accredited suppliers. We have continued to add unique and high quality services to customers in the Kuwaiti market by providing new offers of educational and medical finance services in cooperation with highly reputable and distinguished educational and medical organizations in a way that would contribute to the enhancement of cost optimization and movement of economic wheel. Furthermore, KFH has developed new products in the fields of vehicle finance during the year including finance, operational and leasing finance for various types of vehicles through our showrooms spread all over Kuwait.

Corporate finance portfolio achieved growth by 17.5% with a total value KD 293 Million as the portfolio value was KD 1.673 Billion in 2015 increased to KD 1.966 Billion in 2016.

In continuation of our customer care, KFH has launched in 2016 "I Care" program which acts as an extension of the initiative (We Care) launched in the past. This initiative lays responsibility on employees' shoulders to provide the best services internally and externally. To this end KFH has honored more than 100 employees in this program which will continue its activity and momentum during 2017.

KFH group has succeeded in spreading and distributing its products and services, currently applied at head office, to various parties and markets where it operates. It is also possible now to acquire KFH products like Marriage finance and residential finance in Turkey. We have introduced new investment accounts in Malaysia. Also offered trade finance products for import and export purposes in Germany, and offered Agency (Wakala) Investment Account in Bahrain. In this context, a special unit was established at the head office to coordinate the development of products and services at the group level.

KFH has enhanced its position as one of the providers of trade finance and project finance as its corporate finance department continued to expand its customers' base by re-building banking relations and enhancing the service level in general and focusing on major corporate customers. A significant number of customers was added during 2016, cross - selling operations were executed and various service and products packages were added to this tier, thus enhancing revenues and commissions resulting from finance activity.

For development and improvement of service quality, namely corporate banking services, service quality function continued to spread quality awareness among customer service employees, overcome work challenges efficiently through the establishment of several programs to monitor and measure performance, identify customer satisfaction, prepare periodical work performance level and evaluate work environment in general, thus aiming to enhance KFH image in customers minds. Several surveys and questionnaires were executed to identify customers' satisfaction levels.

On the local level, KFH has arranged several major transactions to finance infrastructure projects. KFH has subscribed in financing the development project of Kuwait International Airport. On major local projects side, KFH has arranged a syndicated Islamic finance transaction amounting KD 490 Million out of a total project value KD 1.2 Billion in favor of Kuwait National Petroleum Company to finance clean fuel project. This transaction is considered as one of the biggest syndicated finance transactions in the history of Kuwaiti banks. In the context of local infrastructure project finance, KFH has participated in the finance of petrochemicals sector in the re-finance of the syndicated take over transaction in favor of Equate Petrochemicals Company with a total value of US$ 5 Billion.

On international level, KFH has arranged several cross-border finance transactions to invest in the opportunities available in the group markets. KFH – Turkey has managed to issue a 5 years Sukuks amounting US$ 500 Million in addition to other Sukuks to enhance a US$ 350 Million capital and a local currency Ijara Sukuks amounting TL 300 Million. Kuwait - Turkey has established the first portfolio management company among participating banks in Turkey for the management of investment portfolios.

KFH – Bahrain succeeded in financing the construction of three thousand residential units coving a total area of 1.2 Million square meters in Deerat Al-Oyoun project with a value exceeding US$ 730 Million in addition to the launch of Mazaya Program owned by the Ministry of Housing in Bahrain. KFH has inaugurated, during the year, Wadi Al-Sail Mall which was completed by one of the group subsidiaries. Also, KFH Bahrain succeeded in launching Marasi Al-Bahrain which is one of Diyar Al-Muharraq projects amounting US$ 3 Billion.

KFH seeks to develop work environment by re-designing and simplifying credit procedures. Accordingly, it has focused mainly on banking services for SME sector in Kuwait. This sector is considered as one of the promising sectors comprising 24 thousand companies. Also, as part of the state endeavor to support and enhance such projects in accordance with sharia compliant instruments, contracts and agreement has been finalized with the Small and Medium Enterprise Development Fund. The year 2016 witnessed the launch of (Tamweel online) service for companies. Full support was provided to all concerned departments and customers were encouraged and enhanced to participate in this unique service. These steps aimed to achieve cost optimization and mitigate operational risks related to financial transfers.

Group treasury achieved another year of remarkable and continued success by providing effective services and solutions for management of liquidity through its diversified products. Group treasury aimed to improve basic operational ratios by making a significant decline in its activity in the low returns money market, thus leading to a remarkable increase in the rate of return on assets.

Several agreements were drafted and finance lines were developed including Murabaha and credit facilities between KFH group and Islamic and Conventional banks. Group treasury has expanded its investment in fixed returns and trading the primary and secondary money markets. Being a very active market maker, group treasury has realized total Sukuk trading amounting US$ 11.4 Billion. Group treasury maintained its leading position as a main market dealer in coordination with International Islamic Liquidity Management Corporation, thus becoming the premium dealer with total trades exceeding US$ 2 Billion in the Initial Offering market.

To enhance and encourage our employees' capabilities we have launched an integrated program at the group level to instigate our employees' creativity and innovation capabilities and grant valuable rewards to outstanding performance. KFH has enhanced and supported its social role by enhancing youth activities and making several contributions in the field of health, educational, environment and social service.

In regard to Investment restructuring, KFH exited one of its subsidiaries, restructured other companies and offered certain real estate assets for public auctions to activate the real estate market and cope with market developments.

Global rating agencies have greatly appreciated KFH's growth ratios and assets quality improvements. Meanwhile, KFH received several awards including the distinctive award in banking transfers (Straight Through Processing STP), Best Financial Institution in the Middle East by Citi Bank etc.

Kuwait - Turkey received the Islamic Financial Institution Award in Turkey from Global Finance Magazine (Global Finance), while KFH-Bahrain has received the Best Wealth Management Bank Award and Best Corporate Banking award in the Middle East from CPI Financial.

Finally, I would like to avail this opportunity to convey our sincere thanks and appreciations to all our shareholders and customers for their valuable support and trust. We shall always endeavor to achieve distinction, focus on our valuable customers, benefit from available opportunities and enhance the group's capabilities to encounter any challenges, achieve growth in the long run and realize remarkable returns for our shareholders.

Our success is mainly attributed to our employees and the valuable trust which our valued customers and shareholders bestowed upon us. On this occasion, we would like to convey our sincere thanks and appreciation for their valuable and continuous support. Our sincere thanks and gratitude are also extended to the Board of Directors and the Fatwa & Shari'a Supervisory Board at KFH Group for their distinguished efforts to enhance our credibility. We shall always exert our efforts to execute our plan in a disciplined and organized manner to achieve more success.

Mazin Al Nahedh
Group Chief Executive Officer

Financial Performance

KFH Group achieved net profit attributable to shareholders of the bank of KD 165.2 Million in 2016 compared to KD 145.8 Million in 2015 i.e. an increase by 13.3%. Meanwhile, earnings per share reached Fils 32.01 i.e. a growth by 13.2% compared to 2015 (Fils 28.27)

Financing income increased to approximate KD 718 Million i.e. an increase by 3.3% compared to KD 695 Million in 2015, thus reflecting KFH policy which targets the development and growth of sustainable profit by focusing on banking activities.

In continuation of KFH cost optimization policy which aims to enhance profit and improve financial performance indicators, total operating expenses for the group declined for the second consecutive year to reach KD 295 Million in 2016 compared to KD 330.5 Million in 2015 i.e. a decline by KD 35.5 Million or 11% (decline by KD 31.5 Million or 8% in 2015 compared to 2014). As a result, net operating income reached KD 365 Million i.e. a growth ratio by 8.2% compared to last year, excluding investment income which are of a non-recurring nature.

Provisions and impairments charged to the consolidated statement of income declined to reach KD 157.2 Million during 2016 compared to KD 183.6 Million in 2015 i.e. a decline by 14%.

Consolidated Financial Position 2016

Total consolidated assets approximated KD 16.5 Billion as at the end of 2016 while financing receivables approximated KD 8.2 Billion.

The group maintained a robust liquidity position where cash and balances with banks and financial institutions, and short term murabaha reached KD 4.4 Billion.

KFH Kuwait non-performing financing ratio declined to 1.67% as at the end of 2016 compared to 1.98% in 2015. Group non-performing financing ratio declined to 2.58% compared to 3.03% in 2015.

Depositors' accounts reached KD 10.7 Billion while total due to banks and financial institutions reached KD 2.9 Billion as at the end of 2016.

Equity attributable to the shareholders of the Bank

Shareholders' equity increased to reach KD 1.810 Billion i.e. an increase by 1.8% compared to KD 1.779 Billion as at the end of 2015. Capital adequacy ratio calculated as per Basel lll regulations reached 17.88% as at the end of the year, thus exceeding the 15% ratio determined by CBK.

Proposed dividends

The board proposed the distribution of cash dividends by 17% as at the year ended 31st December 2016 (17% in 2015) and the issuance of bonus shares by 10% (10% in 2015) of paid up capital subject to ordinary general assembly approval and finalization of legal procedures.

Directors remuneration reached KD 772 Thousand (KD 610 Thousand in 2015) which is considered within the limit permissible as per local regulations and subject to ordinary general assembly approval.

Key Financial Information "KD Million"

	2016	2015	2014
Financing Receivables	8,176	8,095	8,090
Depositors' accounts	10,662	10,709	10,881
Total shareholders' equity	1,810	1,779	1,745
Financing income	717.9	695.1	678.8
Net financing income	434.9	431.7	396.4
Net Profit attributable to shareholders of the bank	165.2	145.8	126.5
Earnings per share - Fils	32.01	28.27	24.53

Executive Management

Mr. Mazin Saad Al-Nahedh

Group Chief Executive Officer, Board Member KFH Turkey

Mr. Al-Nahedh received his Bachelor's degree in Finance from California State University Sacramento, U.S.A. in 1992.

He possess vast banking experience spanning more than 23 years. During his professional career, he assumed numerous leadership roles at the National Bank of Kuwait (NBK) including his role as a member of the Management Executive Committee from November 2010 to 2014. He also held the positions of Group General Manager, Retail Banking Group from 2011 to 2014 and Group General Manager, Corporate Banking Group from 2008 to 2011.

At NBK, Mr. Al-Nahedh also held the positions of Treasurer in 2008, Deputy General Manager of the Treasury Department in 2006 , Assistant General Manager of the Treasury Department in 2004 , and Executive Manager for the Treasury Department in 2001. In addition he was promoted to various leadership positions within the Treasury Department of the bank from 1994 to 2001. Mr. Al-Nahedh began his career at the National Bank of Kuwait as a Banking Relationship Manager in the Corporate Banking Department in 1993.

Mr. Shadi Ahmad Zahran

Group Chief Financial Officer

Mr. Zahran received his Master's degree in Business Administration (MBA) in Finance from the University of Manchester in the U.K. in 2014. He received his Bachelor's degree in Accounting from the University of Jordan in 1992.

He is a member of the board of trustees of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) and a member of the Board of Trustees of the General Council for Islamic Banks and Financial Institutions (CIBAFI). Mr. Zahran holds several professional certificates. He is a Certified Public Accountant (CPA) from the American Institute of Certified Public accountants (AICPA) in the U.S. since 1996 and Certified Bank Auditor (CBA) from the Bank Administration Institute (BAI) in the U.S. since 1999. He is also a Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain since 2006, and has been a Jordanian Certified Public Accountant (JCPA) since 1996.

Mr. Zahran joined Kuwait Finance House management team in July 2014 as Group Chief Financial Officer. He ascended in leading roles at Ahli United Bank Group, where he worked as General Manager of Finance in Kuwait from 2009 until 2014. He assumed the post of Head of Group Financial Control at Ahli United Bank in Bahrain from 2005 until 2009. From 2000 to 2005 he was the Head of Management Accounting & Financial Systems Management at Al-Rajhi Bank in the Kingdom of Saudi Arabia. He has also worked as External Auditor from 1992 to 2000 with international external audit firms, mainly Ernst & Young and Grant Thornton.

Mr. Fahad Khaled Al-Mukhaizeem

Group Chief Strategy Officer

Mr. Al-Mukhaizeem holds several specialized degrees from the United States of America including a Bachelor's degree in Engineering awarded in 1996 from Tufts University and a Bachelor's Degree in Economics from the same university. He continued his higher education at Boston University where he received a Master's degree in Business Administration (MBA) and a Master's Degree in Economics in 2000. Furthermore, he received a High Diploma in Leadership from Harvard Business School in 2008 and participated in several other specialized courses.

He enjoys more than 15 years' experience in the banking field. He commenced his career at KFH in the Strategic Planning Department in 2001. Thereafter, he worked at the Retail Banking Group until 2005 and assumed several leading positions at the bank until he reached his current position as Group Chief Strategy Officer.

Mr. Al-Mukhaizeem successfully supervised the execution of several initiatives concerning the development of the bank's business and operations, such as the establishment and formation of the Banking Products Department in 2003. Thereafter, he established the Marketing Department in 2005 and developed the Public Relations Department in 2006. He supervised several strategic programs for the bank during the period 2003 to 2013.

Before joining Kuwait Finance House, Al-Mukhaizeem served as an Assistant Professor at the Department of Economics in the Administrative Sciences College at Kuwait University for 5 years.

Mr. Leslie J Rice

Group Chief Risk Officer

Mr. Rice joined Kuwait Finance House as Group Chief Risk Officer in June 2016.

His extensive international banking career with Grindlays Bank in London. Before joining Kuwait Finance House, Mr. Rice was the General Manager, Risk Management at Boubyan Bank, Kuwait.

Mr. Leslie has significant banking experience in Finance and Compliance as well as Risk Management. His regional experience includes senior positions with Emirates NBD and Riyad Bank.

He is an Economics graduate and a fellow of the Chartered Institute of Management Accountants

Mr. Abdulwahab Essa Al-Rushood

Group Chief Treasury Officer

Mr. Al-Rushood received his Bachelor's degree in Mathematics and Computer Science from Western Oregon State College in the U.S awarded in 1987. He also successfully completed a specialized training course on Strategic Leading Management at Harvard University. In addition, he has attended numerous professional courses and executive programs in banking, finance and investment.

He currently, serves as a Member of Board for various companies inside and outside Kuwait such as Kuwait Finance House – Bahrain and Aviation Leasing & Finance Company (ALAFCO)- Kuwait. He represents the bank (KFH) at The General Council for Islamic Banks and Financial Institutions (CIBAFI) based in Bahrain and serves as a member of Consultative Group.

Mr. Al-Rushood's long professional career spans over 27 years in which he held many leading positions. He assumed the responsibility of Group Chief Treasury Officer at Kuwait Finance House in 2015. Earlier, he held the position of General Manager of Kuwait Treasury at KFH since 2013 and prior to this, he had served as a Head of the Treasury Department since 2005. Mr. Alrushood began his career at Kuwait Finance House as a Senior Dealer Money Market in 2002. Preceding to this, he has begun his professional career at Gulf Bank from 1988 to 2002 where he has developed various leading positions as well.

Previously, Mr. Al-Rushood served as a Chairman of KFH Labuan Berhad – Malaysia (Subsidiary of KFH Malaysia) from 2012 to 2013. Moreover, he had been a board member at Kuwait Finance House of Malaysia from 2007 to 2013, Liquidity Management House (KFH Investment Company) from 2008 to 2013, Development Enterprises Holding Company (DEH) from 2014 to March 2016 and (LMC) Liquidity Management Centre – Bahrain from 2006 until April 2016.

Mr. Srood Ahmed Sherif

Group Chief Information Officer

Mr. Sherif received his Bachelor's degree in Science from Mustansiriyah University in Iraq.

He assumed the position of Group Chief Information Officer at the Kuwait Finance House in 2014. He previously worked at the National Bank of Kuwait in 2013 as the Group Chief Information Officer where he was a member of numerous management committees.

Previously he worked as the Group Chief Information Officer at National Bank of Abu Dhabi in the U.A.E.

Mr. Sherif possesses specialized experience in the field of information technology at financial institutions, specifically in mapping the business objectives to the information technology strategies and application management. In addition, he also has experience in systems architecture, applications design & development and project management. Mr. Sherif also possesses a unique background in Managing large Data Centers and managing major information technology projects.

Mr. Ahmed Soud AlKharji

Group Chief Wholesale Banking Officer

Mr. Al-Kharji received his Master's Degree in Business Administration – majoring in Finance from San Diego University , State of California , USA in 1998. He received his Bachelor degree in science – majoring in finance – from Kuwait University in 1994.

Mr. Al-Kharji acquired several diplomas and passed several specialized professional training courses including Leadership Development course from Harvard University in 2008, a specialized course in Assets and Liabilities Management, and a specialized course in Credit Management at the Institute of Banking Studies in Kuwait during the period 1999 – 2001.

Mr. Al-Kharji holds several memberships , such as , board member at KFH Turkey and KFH Malaysia since 2014, Member of Credit Committee at KFH Kuwait, Head of Credit and Investment Committee, Member of Risk Committee at KFH Malaysia during the period 2014 – 2015. He was appointed as CEO and Managing Director at KFH Malaysia during the period 2015 – 2016 and was assigned to manage finance structuring for the International Banking Sector at KFH in 2013.

He was appointed as Acting General Manager of International Banking at Kuwait Finance House in 2014 for the management and control of this important sector. He also served as Deputy General Manager for International Banking Sector in 2013 and held the position of Senior Vice Chairman at Liquidity Management House in 2008.

Mr. Al-Kharji served as the Head of Investment Banking in KFH-Turkey in 2006. He joined KFH as an Assistant Manager at the International Investment Department in 2003, where he was promoted to Senior Manager at the same department.

He occupied several leading posts at the Central Bank of Kuwait, last of which was Head of Office Control Section during 1999 – 2003. He served as credit analyst at the Corporate Finance Department at Burgan Bank in 1999. He commenced his career as a Trainee Assist Financial Consultant in Merrill Lynch - San Diego, State of California, USA while studying for his Master's Degree.

Mr. Waleed Khaled Mandani

Group Chief Retail and Private Banking Officer

Mr. Mandani received his Bachelor's degree in Business Administration from the University of Arizona in 1992. He completed an Executive Management program from Harvard University specialized in decision-making strategies year 2015. He also completed the Executive Project Management & Leadership Program from Cornel University in New York during 2011.

Mr. Mandani attended several professional events such as BNP Paribas Offering & Asset Management Seminars in Geneva, London, Paris and Luxemburg. He also attended an Investment Analysis & Portfolio Management Euro Outlook for 2000 course held by Solomon Smith Barney Asset Management, a Risk Matrix program organized by J.P. Morgan and the "Derivative Fundamentals and Equity Valuation" by UBS in London. Furthermore, Mr. Mandani completed several specialized courses in the fields of Marketing, Finance and Treasury products at NBK.

Mr. Mandani served as CEO of Wealth Management at BNP Paribas in Kuwait and represented the bank at Kuwait Banking Association during the period from 2005 until 2014. He also worked as a Senior Manager for Private Banking & Institutions at Al-Ahli United Bank (Kuwait) from 2001 until 2005 and Head of Corporate & International Capital Markets at National Investments Co. from 1998 until 2001.

He started his professional career as a Treasury Corporate Officer (Dealing Room) at National Bank of Kuwait from 1993 until 1997.

Mr. Abdullah Mohammed Abu Al-Hous

Group Chief Operations Officer

Mr. Al-Hous received a Bachelor's degree in Business Administration (Finance) from Kuwait University in 1987. He also completed numerous specialized executive programs, such as General Manager Program (GMP) at Harvard Business School, USA (2008), Accelerated Development Program (ADP) at London Business School, UK (2007), and Young Managers Program (YMP) at Insead, France (2006).

He worked as the Chief Operations Officer at Warba Bank from 2011 to 2012. Prior to this he worked at the National Bank of Kuwait from 1994 to 2011, where he held the position of Deputy General Manager of Operations. He also worked as Senior Supervisor of Operations at Ahli United Bank Kuwait from 1992 to 1994.

Mr. Al-Hous began his career as a Credit Analyst at Gulf Bank from 1987 to 1992.

Mr. Frederick J Carstens

Group Chief Human Resources Officer

Mr Frederick Carstens obtained his Master's degree in Commerce from the University of Johannesburg, South Africa in 2006, and his Honours degree in Industrial Psychology from the University of the Orange Free State, South Africa in 1991, where he also obtained his Bachelor's degree in Personnel Management in 1990.

Mr Carstens joined the Management team in October 2016 and brings with him over 25 years of Human Resources experience, more than 16 years of Banking experience and he has been working in the region since 2006 where he has had senior Human Resources roles at NBK and Commercial Bank of Dubai.

Mr Carstens has extensive management experience in all aspects of Human Resources and is adept at driving change and transformation in the organizations that he is employed in.

Mr. Khaled Mohammed Al Jumaa

Group General Manager of Legal

Mr. Al Jumaa received his received his Bachelor's degree in Law from Kuwait University in 1988, Master's degree in Law from Edinburgh University, UK, in 1993 and PhD in International Economic Law from Wales University, UK in 1997, and.

He joined the group executive management team in 2015. Prior to which he served in several consultant positions in the legal field. He worked as Legal Consultant at the Central Bank of Kuwait in 2012 and the Legal Expert for the General Secretary of the Organization of Arab Petroleum Exporting Countries "OAPEC" in 1999.

Mr. Al Jumaa worked in the legal field at the Consultancy Group Bureau in 1998.

Prior to this he was appointed as Chief Legal Consultant for 10 years at Kuwait Oil Company from 1988 until 1998.

Mr. Fadi Ilyas Chalouhi

General Manager – Group Retail Banking

A well-renowned and seasoned banking professional with over 15 years experience in the financial industry, underpinned by a strong academic background and a solid experience in treasury, derivatives, asset management and retail banking.

He occupied the position of a Deputy General Manager, Head of Strategy, Product, Marketing, PMO, and Consumer Financing - Consumer Banking Group – National Bank of Kuwait during the period from 2011 till 2016. Earlier he served as Head of Corporate sales and Structuring Desk in Treasury Group – National Bank of Kuwait during the period from 2008 – 2011. Also he served earlier as Corporate sales and structuring Manager 2008 – 2011, Structured Products Manager – Treasury Group – National Bank of Kuwait during the period 2005 – 2008. Mr. Chalouhi holds a Master's Degree in Business Administration. He received his Bachelor degree in Computer Engineering and Communications from the American University of Beirut.

Mr. Abdul-Rasheed Mohammed Ibrahim

General Manager – Corporate Banking – Kuwait

Mr. Ibraheem received his Bachelors of Commerce Degree, majoring in Accounting from Asyut University. He held several professional and specialized training diplomas and training courses in the fields of investment, finance, credit, banking activities, advanced administrative development, planning, performance measurement, strategic planning and assets & liabilities management.

Mr. Ibraheem enjoys long and vast experience where he held several leading positions in other highly reputable banks and financial institutions. He worked as CEO at Tarek Al-Ghanem Holding Company in Kuwait during the period 2001 – 2012. Also, he assumed several leading posts at the National Bank of Kuwait including DGM – Corporate Banking in 2001, Executive Manager – Corporate Credit Department during the period 1995 – 2001. During this period he was a member in the board credit committee. He was appointed as Senior Credit Manager in 1991, also in 1988 he worked as Credit Relation Manager at NBK Also was a branch manager at the National Bank of Kuwait in 1984 where he started his career.

Mr. Gehad Albendari

Group General Manager Risk Management

Mr. Albendari received a Finance & Risk Management diploma from Wales University in the U.K. in 2014, a Computer Science & Information Systems diploma from the American University in Cairo (AUC) in 1997 and a Bachelor's degree in Accounting in 1996.

He holds several specialized professional certificates including the International Certificate in Banking Risk and Regulation (ICBRR) from the Global Association of Risk Professionals (GARP), which he received in 2009. He also received a Professional Risk Trainer certificate in 2011.

Mr. Albendari has more than 17 years' experience in risk management, auditing and internal control systems in financial institutions.

He rose to leadership positions within KFH Group up to his current role of Group General Manager Risk Department in February 2016. Prior to this, he held the position of Deputy General Manager – Portfolio & Enterprise Risk Management in 2013. In 2012, he held the position of Manager for Group Risk Unit and has worked as a Manager for the Risk Unit in 2007.

Mr. Albendari supervised successfully the implementation of several initiatives, namely: development of a robust enterprise wide risk management program for KFH group by establishing a framework, reviewing policies, designing a governance structure which ensures an independent oversight for assessing if respective functions are adhering to defined board approved strategy, risk policies, risk standards including risk tolerance/appetite and the effective escalation and decision making for corrective measures in addition to overseeing the implementation of the regulators' instructions including Basel I, II and III.

Mr. Abdullah Abdulmuhsen Al-Mejhem

General Manager – Private Banking

Mr. Al-Mejhem holds a Master's degree in business administration majoring in finance and investment. He received his Bachelor degree in Business Administration majoring in Accounting from Kuwait University.

He received a chartered accountant certificate – group (A). Also, received several training programs in various fields from Harvard School of Business i.e. decision making skills in various scenarios and strategic leadership. He received various training courses in work ethics, leadership and audit by Deloitte Company. Also passed the 2 years training program sponsored by Kuwait Investment Authority that was specialed in finance, investment, accounting. He received various other training courses held by global banking institutions , such as ,Citi Bank, JP Morgan, Credit Suisse and Kuwait Investment Authority office in London. He is a member at the Kuwait Accounting & Auditing Society , since 2001.

Mr. Abdullah joined Kuwait Investment Authority's Office in London and was nominated to work at Goldman Sachs in London as per an international agreement. Mr. Al-Mejhem is also member of the Kuwait Accountants and Auditors Society since 2001.

Mr. Al-Mejhem was promoted in several leading positions at Kuwait Finance House including DGM – private banking department in 2015, Executive Manager – Investment Consultancy in 2013, Executive Manager – Market and Liquidity Risk, Executive Manager – Investment Risks in 2012. He worked in the field of financial consultancy services and risk management in various accounting and audit consultancy institutions in Deloitte Company during the period 2009 – 2012.

Mr. Al-Mejhem served also in the International Real estate Department at Kuwait Finance House during the period from 2003 – 2006 and acquired 2 years of vast experience when he worked in the Kuwait Investment Authority Program during which he made several financial analysis and various projects based on live cases in investment environment in London. He had the opportunity to work for Goldman Sachs during which he submitted several specialized technical and financial analysis projects.

Corporate

Governance Report

Corporate Governance Report 2016

Introduction:

KFH operates according to the corporate governance rules and guidelines in place in the State of Kuwait and the instructions of the Central Bank of Kuwait in this regard. The Nomination, Remuneration and Governance Committee was established pursuant to the Board of Directors decision taken in its Meeting No. 7 held on 1/8/2011 titled (Nomination, Reward and Governance Committee). In the 43rd Board meeting held on 11th February 2013, the Governance Committee was separated from the Nomination and Reward Committee to conduct its functions under the name (Governance Committee). Accordingly, the Committee commenced its assigned operations in its first meeting dated 28 February 2013.

The Governance Committee was mandated to oversee the development of specific arrangements, provide the necessary consultancy services and assist the Board of Directors in fulfilling its regulatory obligations relating to appropriate governance practices by providing a set of guidelines on corporate governance and playing a leading role in drawing up governance policies.

The governance committee has reviewed and updated in 2016 a set of policies and procedures relating to governance rules and regulations at KFH and subsidiaries as per regulatory authorities' instructions. The committee has also discussed the proposed work plan to implement Sharia governance at Islamic banks as per Central Bank of Kuwait instructions.

KFH fully meets its corporate governance obligations and implements all mandatory requirements imposed by the Central Bank of Kuwait as well as the instructions of Capital Markets Authority instructions on corporate governance related to KFH subsidiaries, which are subject to Capital Markets Authority supervision. In this context, the Corporate Governance Manual of KFH and its subsidiaries has been prepared and published on KFH's website, and the compliance of the involved parties is monitored.

KFH has established a committee titled "Investment Committee" to enhance the Board role in fulfilling its responsibilities in the implementation of the banking operations and investment activities of the Bank as per KFH approved policies.

In general, KFH took the lead in the application of various aspects of the principles and standards of corporate governance, and is readily abiding by any newly introduced standards. The development of a number of related policies and procedures is under process.

Corporate Governance requirements are covered in the annual report as follows:

Ownership Shares:

Name	Ownership Form	Country	Ownership Ratio
Kuwait Investment Authority	Direct	Kuwait	24.079%
Public Authority for Minors Affairs	Direct	Kuwait	10.484%
General Foundation of Awkaf	Direct	Kuwait	7.296%
Public Institution for Social Securities	Indirect	Kuwait	6.57%

Board Members' Duties and Responsibilities

1 - General Responsibilities of the Board of Directors

The Board of Directors shall bear the overall responsibility of KFH including the development of strategic goals, risk strategy, sound governance principles, and the application and oversight of the proper application of these goals and principles in addition to the responsibility of supervising executive management including the CEO.

The Board of Directors shall bear full responsibility for KFH's operations and sound financial position. Accordingly, the Board shall ensure compliance with the Central Bank of Kuwait's requirements; preserve the interests of the shareholders, depositors, creditors, employees and other stakeholders and related parties. In this context, the Board shall ensure that KFH is being managed prudently and in line with KFH applicable rules, regulations and bylaws.

2 - Board Structure

Pursuant to KFH Articles of Association, the Board of Directors shall comprise ten members elected by the General Assembly through a secret ballot. Nomination was opened for membership in the Board was opened on the 24th March 2014. The General Assembly elected the board members. Accordingly, a new Board was formed in the 13th session. The Board office term is three years and a member may be elected for another term. The current Board of Directors consists of Chairman, Vice Chairman and eight board members who duly represent the quorum required for forming the Board Committees in accordance with sound governance principles set by the Central Bank of Kuwait.

2 -1 Chairman's Role

Considering the significance of this role, Chairman shall ensure proper functioning of the Board, maintain mutual trust board members, and ensure that the decision–making process is based on sound grounds and accurate information. He shall ensure exchange of view points with board members and ensure timely reporting of sufficient information to board members shareholders.

The Chairman shall play a major role in maintaining constructive relationship between the Board and the Executive Management and ensure KFH has sound governance principles in place.

3 - The Relationship between the Board of Directors and the Executive Management

KFH maintains cooperation and clear segregation of duties, functions and powers between the Board of Directors and Executive Management, thus satisfying a key requirement of the sound corporate governance. As such, the Board shall take responsibility to provide guidance and leadership, while Executive Management shall take responsibility for drawing up and implementing the strategies and policies approved by the Board while ensuring that the board and its members are totally independent from the executive management. The Board shall also ensure that Executive Management is in strict compliance with the policies preventing and prohibiting the activities and relations which might contradict and compromise sound principles of corporate governance i.e. Conflict of Interests Policy and the Remuneration Policy.

4 - Organizing Board Activities

The Board of directors held (18) meetings during 2016 during the current 13th session elected on 24th March 2014 i.e. (4) meetings during each quarter 2016 while the board members held (17) meetings during 2015 i.e. more than (4) meetings during each quarter of 2015. A meeting is called for whenever need arises. The number of meetings held exceeded regulatory requirements concerning corporate governance, which shall not be less than 6 meetings per year and not less than one meeting per quarter. The resolutions adopted during board meetings are binding and considered as an integral part of KFH records.

The Board adopted in 2016 a number of resolutions recorded in (12) minutes of board meetings issued by passing in 2016 while the committees made (2) minutes of resolutions by passing during 2016.

The Chairman discusses with executive management important issues which are proposed to be entered in the agenda and provides the board members with sufficient information in advance in in order to take decisions. The board secretary shall take down all board discussions, recommendations and voting results in the meeting. The responsibilities of the chairman and members of the board are set in writing and determined as per all related legislations and regulations.

5 - Board Meetings

List of board members names and number of meetings during 2016

Name	Meeting dates in 2016																		Attendance Ratio
	11 Jan	20 Jan	3 Feb	15 Feb	9 Mar	11 Apr	13 Apr	9 May	8 Jun	26 Jun	3 Jul	14 Jul	5 Sep	16 Oct	26 Oct	7 Nov	5 5 Dec	27 Dec	
Mr. Hamad Abdul Mohsen Al Marzouq Chairman	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	-	94%
Mr. Abdul Aziz Yaaqub Al Nafisi Vice Chairman	√	√	√	√	√	√	√	√	√	-	√	√	-	√	√	-	√	√	83%
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Fahd Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Ra'ed Khaled Al-Kharafi	-	√	√	√	-	√	√	√	√	√	√	√	√	-	√	√	√	√	83%
Mr. Noorur Rahman Abid	√	√	√	√	√	√	√	√	-	√	√	√	√	√	√	√	√	-	89%
Mr. Ahmed Abdullah Al-Omar	√	-	√	√	√	√	√	-	-	√	√	√	√	√	√	√	√	√	83%
Mr. Khaled Abdulaziz Al-Hassoun*	-	√	√	-	√	√	√	√	√	√	√	√	-	-	-	-	-	√	61%
Mr. Barrak Ali Alsheatan	√	√	√	-	√	√	√	√	√	-	-	-	√	√	√	√	√	√	78%

(√) Attendance (-) Absence

* Mr. Khaled Abdulaziz Al-Hassoun was on sick leave and could not attend due to his health condition.

6 - Board Committees

During its current thirteenth session, KFH Board formed five subcommittees to assist in carrying out the duties and responsibilities of KFH. The number of committees is considered appropriate to oversee the diversified activities of KFH. All the members of the Board of Directors take part in these committees. Board Committees include the following:

6.1 Audit and Compliance Committee

Audit and Compliance Committee was formed to assist the Board in fulfilling and complying with its supervisory responsibilities on the bank's accounting operations, financial control systems, internal audit controls, compliance and risk management systems as well as the management of financial reports in cooperation with internal and external auditors to ensure compliance with regulatory requirements.

The Audit Committee comprises three board members including the committee chairman and vice chairman. At least two of the members must have knowledge in financial matters in order to perform their duties as members of the committee. Their membership in this Committee coincides with their Board membership.

In 2016, the Committee held (6) meetings. The committee issued a resolution by passing. The Committee holds its meetings whenever required or upon the Committee chairman or the other two members' request.

The Audit Committee's duties and responsibilities comprise supervision on financial control regulations and systems at KFH and the reporting process as follows:

- Provide recommendations concerning external auditors' appointment, dismissal, fees, qualifications and objectivity of their professional opinion.
- Discuss the results of the interim and final audit with external audit and the resulting considerations along with any other issues external auditors wish to discuss.
- Sett appropriate standards to ensure execution of external audit operations.
- Review and discuss appointment and dismissal of the head of internal audit, head of compliance and head of money laundering and make recommendations to the board in this respect.

- Assess the performance of the internal audit, regulatory compliance and money laundering and making recommendations on the remunerations of the persons heading those departments.
- Ensure that external auditors issue a statement on the Bank's compliance with the governance rules and regulations issued by CBK as part of the report submitted to CBK.
- Review accounting documents, reports and information on a regular basis and review financial statements with the executive department and external auditor before forwarding the same to the chairman.
- Review accounting issues having significant impact on the financial statements.
- Supervise KFH internal audit rules and regulations and ensure sufficiency of human resources required for control functions.
- Review required allocations and ensure adequacy as per financial statements approved by the executive management.
- Carry out any other activities in line with KFH articles of association and applicable laws and as may be deemed suitable by the board applicable in KFH and the applicable laws as deemed by the Board.

Audit committee is authorized to acquire any information from, executive management. Also, it is entitled to invite, through official channels, any executive or board member to attend its meetings. The committee shall monitor the adequacy of internal controls at KFH.

A schedule of the names of Board Members in Audit and Compliance and the number of meetings held in 2016

Name	Meeting dates in 2016						Attendance %
	10 Jan.	19 March	10 April	13th Jul.	10th Oct	6th Dec	
Mr. Noorur Rahman Abid (Chairman of the Committee)	√	√	√	√	√	√	100%
Mr. Fahd Ali Al Ghanim	√	√	√	√	√	√	100%
Mr. Ahmed Abdullah Al-Omar	√	√	√	√	√	√	100%

(√) Attendance (-) Absence

6-2 Nomination and Remuneration Committee

The key role of the Nomination and Remuneration Committee is to assist the Board of Directors in meeting its obligations regarding the selection of qualified individuals for the Board and Executive Management membership and assess the performance of the Board and its committees. Also, the committee shall assists the Board in supervising short and long term remuneration systems. The committee shall recommend the board of directors' remunerations in accordance with Sharia laws and best international practices. The board of directors shall appoint the members of the said committee provided that they shall not be less than 3 members including head of committee. Committee membership duration shall be 3 years or the remaining period of the board membership duration.

The Committee shall hold its meetings whenever needed but not less than twice a year. The Committee held (8) meetings during 2016 to conduct its duties and functions.

The key functions of the Nomination and Reward Committee include but not limited to the following:

- Recommend nomination of persons qualified to act as Board members based on CBK approved policies, standards and instructions in regard to membership nominations. Nomination recommendations cover all candidates including those who are not recommended by the committee based on sound objective justifications.
- Recommendations to appoint the CEO and his deputies, Head of Financial Control and any other director reporting directly to CEO except the Head of Risk Management who shall be elected by the Risk Committee and the Head of Audit and Head of Compliance who shall be elected by the Audit and Compliance Committee as well as the Customer Complaints Manager.
- Annual review of the required board membership skills, determine skills to be enjoyed by the board members and committees and present suggestions on the board structure that serves the best interest of the bank.
- Annual evaluation of the overall performance of the Board and the performance of individual members.
- Determine authorities and functions of each executive or leading positions at the Bank and set required job responsibilities and qualifications in cooperation with Human Resources and concerned departments.

- Present suggestions on Bank fixed and variable remuneration policy structure and raising the same to the Board for approval.
- Conduct periodical review remuneration policy or when recommended by the Board and present recommendations to the Board to amend/ update such policy.
- Conduct a periodic assessment of the adequacy and effectiveness of the remuneration policy to ensure the achievement of the declared objectives.
- Present necessary recommendation to the Board in regard to Board members' remuneration.
- Review financial remuneration plan structures related to share options for board's approval.
- Study remuneration recommendations presented by executive management concerning remuneration, CEO remuneration and executive management remuneration.
- Cooperate with the Risk Committee to evaluate suggested incentives under the remuneration system.
- Conduct independent annual revision of the remuneration system to evaluate the Bank's compliance with the financial remuneration practices.
- Provide all remuneration granted to Bank representatives in subsidiaries.

Names of the Nomination and Remuneration Committee Members and number of meetings held in 2016

Name	Meetings dates during 2016								Attendance %
	19th Jan.	28th March	13th April	30th May	27th July	26th Oct.	16th Nov.	27th Dec.	
Mr. Abdul Aziz Yaaqub Al Nafisi (Chairman of the Committee)	√	√	√	√	√	√	√	√	100%
Mr. Khaled Abdulaziz Al-Hassoun	√	√	√	-	√	-	-	√	63%
Mr. Noorur Rahman Abid	√	-	√	√	√	√	√	-	75%
Mr. Barrak Ali Alsheatan	√	√	√	√	-	√	√	√	88%

(√) Attendance (-) Absence

*Mr. Khaled Abdulaziz Al-Hassoun was on sick leave and could not attend due to his health condition.

6.3 Risk Committee

The key role of the Risk Committee is to assist the Board of directors in meeting its obligations in terms of overall supervision on the current risk conditions, risk strategy and the bank's appetite towards credit, banking, real estate and investment activities risks as well as all related policies and procedures. The committee shall comprise minimum 3 members including the chairman and the deputy. Committee membership period shall coincide with the KFH board membership term.

The Committee held (7) meetings in 2016 in order to perform its duties and functions.

The Committee performs several duties and responsibilities as follows:

- Review and evaluate the policies and frameworks of risk management and ensure the implementation thereof in a sharia compliant manner.
- Review capability and effectiveness of risk management in the risk management program of risk with the institutions with whom the Bank deals.
- Ensure adequacy of risk appetite adopted by the Bank and the Board's trend in this respect and ensure identification of key risks.
- Review adequacy of Bank risk management practices on a quarterly basis at least.
- Review risk management standards and internal control to ensure proper management of material risks in Bank businesses and provide supervision over credit risk, capital market risk, liquidity risk, liability management, legal risk and all relevant risks.
- Review adequacy of risk management practices at least once a year.
- Review standards and trends of risk based capital adequacy.
- Review new regulatory instructions in capital markets and amendments made on accounting standards and other developments.
- Reviewing the risk department structure, duties and responsibilities and supervision of risk management and annual assessment of the head of risks.

Names of Board Members in the Risk Committee and the number of meetings held in 2016

Name	Meetings dates during 2016							Attendance %
	24th Jan.	21st Feb	10th April	5th June	20th June	11th Oct.	7th Dec.	
Mr. Ahmed Abdullah Al-Omar (Chairman of the Committee)	√	√	√	√	√	√	√	100%
Mr. Ra'ed Khaled Al-Kharafi	√	√	√	√	√	√	-	86%
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	100%
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	100%

(√) Attendance (-) Absence

6.4 Governance Committee

Governance Committee's main task is to assist the Board of Directors in performing its duties, supervising sound governance and develop governance policies and procedures. The committee shall monitor compliance with governance polices and governance guide by the board and its committees.

The Board Governance Committee comprises three Board members including the Committee Chairman and Vice chairman. Membership in this Committee coincides with Board membership.

The Committee holds its meetings whenever required provided that the number of meetings shall not be less than two meetings per year. The Committee held 3 meetings in 2016

The Governance Committee duties include the following:

- Develop governance manual and framework and provide suggestions on revision and updating from time to time.
- Review Bank policies and practices to ensure their adequacy in terms of governance standards.
- Review and assess professional code of ethics, code of conduct and other approved policies and guidelines in the Bank.
- Review key issues related to shareholders' relations and the Bank contributions to charity works.
- Review the corporate governance section in the annual report.
- Annual evaluation of performance in terms of the Governance Committee and its duties as well as the annual revision of the Committee authorities and functions.

Names of Board Members in the Governance Committee and the number of meetings held in 2016

Name	Meeting dates in 2016			Attendance
	3rd Jan	22nd May	5th Dec.	%
Mr. Ra'ed Khaled Al-Kharafi (Chairman of the Committee)	√	√	√	100%
Mr. Hamad Abdul Mohsen Al Marzouq	√	√	√	100%
Mr. Barrak Ali Alsheatan	√	√	√	100%

(√) Attendance (-) Absence

6.5 Executive Committee

The key role of the Executive Committee is to assist the Board of Directors in fulfilling its obligations in regard to investment and banking activities according to the authorities delegated by the Board to the Committee. The Board may assign to the Committee any other duties that may assist the Board in performing its duties and responsibilities. The Board shall appoint Committee members who shall not be less than five members. The Board also appoints the Committee Chairman from its members. The membership of the Committee shall be for three years or the period remaining from the Board term.

The Committee held (19) meetings in 2016 to perform its duties and functions. The committee issued a resolution by passing.

The key duties of the Executive Committee include but not limited to the following:

- Supervise strategy implementation mechanism and the Bank action plan, monitor performance efficiency. Review performance reports and present recommendation to the board in this respect.
- Review and approve performance reports financing transactions and investment offers presented by Executive Management according to the authorizations and delegations regulations set by the Board.
- Approve or reject any suggestions related to finance, liquidity and / or market risks based on the financial authorities and limits approved by the Board in regard to single customer credit concentration limits.
- Review management strategy in regard to proposed provisions and management plan to retrieve bad debts (if any).
- Periodic revision of the diversity and credibility of the finance portfolio.
- Coordination with the Risk Committee to prepare periodic reports for updating risk limits and possible increase of risks.

Names of Executive Committee Members and Number of Meetings held in 2016

Name	Meeting dates in 2016																			Attendance %
	6 Jan	20 Jan	3 Feb	17 Feb	15 Mar	30 Mar	1 May	9 May	22 May	8 Jun	22 Jun	27 Jul	5 Oct	19 Oct	3 Nov	16 Nov	30 Nov	14 Dec	27 Dec	
Mr. Hamad Abdul Mohsen Al Marzouq (Chairman of the Committee)	√	√	√	√	√	-	√	√	√	√	√	-	√	-	√	√	√	√	-	79%
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	-	√	√	√	√	√	√	√	95%
Mr. Khaled Abdulaziz Al-Hassoun*	√	√	√	√	√	√	√	√	√	√	√	√	-	-	-	-	-	-	√	68%
Mr. Fahd Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Abdul Aziz Yaaqub Al Nafisi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%

(√) Attendance (-) Absence

*Mr. Khaled Abdulaziz Al-Hassoun was on sick leave and could not attend due to his health condition

6.6 Investment Committee

A board resolution was issued to establish this committee in 2016. The main objective of the investment committee is to assist the board in setting up and laying the general principles of investment, supervise the bank's investment activities and its subsidiaries activities as per the authorities assigned by the board to this committee, and verify compliance with investment objectives of the bank. The committee held (4) meetings during 2016 to perform its duties and functions.

The main functions of the investment committee include but not limited to the following:

- The committee shall assist the banks board to execute its supervisory responsibilities over the bank's investment assets including investment funds and portfolio. The committee shall raise its recommendations to the board and follow up investments as per approved policies and procedures.
- Review reports related to the bank investments current status and the prevailing conditions in local and international markets in addition to all information that would enable the committee to perform its responsibilities professional. ly and efficiently.
- Update board on any material changes on the bank investments.
- Follow up the implementation of strategic policies and goals set by the board in regard to all investment activities.
- View all newly proposed investments and verify their conformity with the board plans and raise a recommendation to the board in this respect.
- Seek assistance of an outsource consultant to assist the committee in its missions.
- Present recommendations to the board in regard to any subject it may deem suitable.
- Acquire any information required in regard to the status of investment portfolio through CEO.
- Review executive management recommendations regarding the decisions for merging current investments and raise the same to the board.
- The committee shall practice any responsibilities and duties assigned by the board.
- The committee shall raise to the board a recommendation to increase or decrease the capital of the companies in which the bank is a shareholder.
- This covenant shall be reviewed and updated when required taking into consideration any changes in the bank business governance framework, strategies, regulations, policies or any other material factors. Amendments and updates made on the regulations must be approved by the board.

Names of investment committee members and number of meetings held in 2016

Name	Meeting dates in 2016				Attendance %
	14 Jul	19 Jul	24 Oct	14 Dec	
Mr. Fahd Ali Al Ghanim (Chairman of the Committee)	√	√	√	√	100%
Mr. Khaled Salem Al Nisf	√	√	√	√	100%
Mr. Muad Saud Al Osaimi	√	√	√	√	100%
Mr. Khaled Abdulaziz Al-Hassoun*	√	√	-	-	50%

(√) Attendance (-) Absence

*Mr. Khaled Abdulaziz Al-Hassoun was on sick leave and could not attend due to his health condition

Board of Directors Statement on the Internal Control Systems

Internal Control Systems

The Board is responsible for reviewing and approving the effectiveness of the Bank's system of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control, and compliance with laws and regulations. Senior Management is responsible for establishing and maintaining the system of internal control designed to manage the risk of failure to achieve the Bank's objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of material loss.

The Board, through its Committees, reviews regularly the effectiveness of the internal control systems as assessed by the various internal control functions. The Board also ensures that these functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively.

The Board also reviews the management letters issued by the external financial auditors and reviews the report on Accounting and Other Records and Internal Control System issued by the external auditor (other than the financial statements auditors). The external auditor's opinion in this respect is included in the Annual Report.

The Board believes that the internal control systems as of 31 December 2016 are adequate to provide reasonable assurance regarding the achievement of the Bank's objectives.

Independent Auditor's Opinion on the Internal Control Systems

The Board of Directors
Kuwait Finance House K.S.C.P.
P.O. Box 24989, Safat 13110

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 4, April 2016, we have examined the accounting and other records and internal control systems of Kuwait Finance House K.S.C.P. ('the Bank') which was in existence during the year ended 31 Decembe 2015.

We covered the following areas of the Bank:

- Bahrain Wholesale Banking
- Retail and Private Banking
- Information Technology
- Operations
- Treasury
- Group Financial Control
- Risk Management
- Anti-Money Laundering
- Legal Group
- Internal Audit
- Strategy and Corporate Affairs
- Sharia Control & Advisory
- Customer Complaints
- Human Resoures
- Fraud Preventive

The report includes evaluating the Internal Controls Systems as for following instructions and Regulatory requirements:

- Risk and Internal Control departments according to the fourth section of the instructions regarding the rules of Corporate Governance in Kuwaiti Banks.
- Anti-Money Laundering and Combating Terrorism Financing according to the Instructions of the Central Bank of Kuwait issued on 23.07.2013 regarding Anti-Money Laundering and Combating Terrorism Financing.
- Confidentiality of customer's information and data according to the instructions of the Central Bank of Kuwait issued on 02.09.2014.
- Applied internal control systems to prevent the fraud & embezzlement cases in the Bank.
- Securities Activities.

In addition to the above, we have also examined the accounting and other records and internal control systems of the following financial subsidiaries of the Bank.

- Kuwait Finance House, Bahrain
- Kuwait Finance House (Malaysia) Berhad
- Kuvyet Turk Participation Bank
- KFH Capitial Investment
- Aref Investment Company
- KFH Private Equity
- KFH Investments Company
- KFH Financial Services
- Saudi Kuwait Finance House
- E"amar

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January, 2016 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwaiti Banks and instructions dated 23 July 2013 concerning Anti-Money Laundering and Combating Financing of Terrorism, and instructions dated 9 February 2012 regarding confidentiality of customers information and International Standards on Assurance Engagements.

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

Because of inherent limitations in the 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 volumes of its operations, during the year ended 31 December 2015, the accounting and other records and internal control systems, in the areas examined by us were establised and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 14 November 1996 and instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwaiti Banks, instructions dated 23 July 2013 concerning Anti-Money Laundering and Combating Financing of Terrorism, and instructions dated 9 February 2012 regarding confidentiality of customer's information, with the exception of the matters set out in the report. These exceptions do not have a material impact on the fairness of the financial statements.

State of Kuwait
28 June 2016

Nayef M. Al Bazie
License No. 91- A
RSM Albazie & Co.

Remuneration Report

Remuneration Policy

KFH's Remuneration Policy is in line with its strategies and objectives and the Kuwaiti Labor Law in the private sector, and incorporates all the requirements of the CBK Corporate Governance Instructions issued in June 2012. The employees' remuneration includes both fixed and variable components, which include their salary, short-term and long-term incentives. The policy is designed to attract, retain and competitively reward those individuals with experience, skill, values and behaviors in order to achieve the Bank's overall goals.

Rewarding employees is directly linked to the Bank's short and long term performance. It also aligns the components of the remuneration packages with the Bank's long-term risk appetite. The policy has mechanisms in place to control the total remuneration based on the financial performance of the Bank, and in the case of poor performance, implementing a redemption mechanism in order to safeguard the Bank's interests.

The Bank's Board of Directors, with the assistance of the Nominations and Remuneration Committee, approves and modifies the Bank's remuneration policy and its design, and periodically reviews the process of its implementation and effectiveness to ensure that it is operating as intended.

Remuneration Components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the employee's grade in the Bank and the job function as well as market practice. The employee remuneration components are:

1. Basic salary
2. Benefits and allowances

The salaries reflect the individuals' skills and experience and are reviewed annually in the context of annual performance assessment. The salary packages are periodically benchmarked against comparable roles in other banks. They are increased, where justified, by role change, increase in responsibility or where justified by the latest available market data. Salaries may also be increased in line with local regulations.

The Bank has a formal performance management process for evaluating and measuring staff performance at all levels.

In the beginning of the year, the staff and their superiors plan and document the annual performance goals, required competencies and personal development plans for the staff. At the annual performance appraisal interview, the superiors of the staff and the reviewers evaluate and document performance against the documented goals. Decisions on adjustment of the employee's fixed salary and on performance-based incentives are made on the basis of annual performance review.

Other benefits like annual leave, medical leave and other leaves, medical insurance, annual ticket, and allowances are provided on the basis of individual employment contracts, local market practice and applicable laws.

Remuneration Disclosures as per the CBK Corporate Governance Instructions

As per the CBK's Corporate Governance Instructions, we have disclosed the remuneration paid to certain staff categories and the amounts paid to each category. The analyses include the fixed and variable parts of the remuneration package and methods of payment.

First: Board of Directors Remuneration

The financial remunerations paid to the Board of Directors are disclosed in Note (25) of the Annual Financial Statements.

Second: Remuneration of the Highest Paid Executives at KFH Kuwait

As per the CBK Corporate Governance Instructions, this section must include the total remuneration paid to the 5 highest paid senior executive officers, which includes their salary and short & long-term incentives in 2016. However, the group must also include the Chief Executive Officer (CEO), the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the Head of Internal Audit if any of them are not part of the top 5.

Hence, this section includes the total remuneration in 2016 of the top 5 highest paid executives at KFH Kuwait as well as 2 mandatory positions which were not part of the top 5. The total for this group (top 5 + 2) amounted to KD 2,200,091 The remuneration package of each executive included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

Third: Remuneration by Specific Staff Categories

1. CEO and his deputies and/or other Senior Executives whose appointment is subject to the approval of the regulatory and supervisory authorities:

The total remuneration paid to this category amounted to KD 3,316,511 The remuneration package of each executive in this category included fixed and variable pay components including salary (basic and monetary / non-monetary benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

2. Financial and Risk Control Staff:

The total remuneration paid to this category amounted to KD 3,579,488. The remuneration package of the staff in this category differed based on their grades as well as their individual employment contracts. The pay components included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives for eligible senior executives and termination benefits.

3. Material Risk Takers:

The total remuneration paid to this category amounted to KD 1,704,909 The category includes the top management and the Divisional Heads of the business functions with financial authorities and who delegate responsibilities to their respective divisional staff and are ultimately responsible and accountable for the risks taken by them. The total remuneration included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

Risk Management and Corporate Governance

KFH pays special care and attention to risk management and governance as prudence is one of the pillars of the banking business. Group Risk Management has a clear and firm footprint in KFH Group and plays a vital role in evaluating risk exposures on an enterprise-wide basis. The department concludes stress tests, monitors the Risk Profile and launched several strategic initiatives to support capital optimization. Meanwhile, GRM has updated its monitoring and reporting systems especially for Assets & Liabilities Management ("ALM") and Operational Risk Management ("ORM") platforms.

In compliance with the governance standards and requirements, the Governance Committee has reviewed and updated in 2016 a set of governance policies and procedures at KFH and subsidiaries as per the regulatory authorities' requirements. The committee has also discussed the proposed work plan to implement CBK instructions concerning "Sharia Governance at Islamic Banks".

As part of the continuous development of Risk Management practices across KFH Group, a number of strategic initiatives have been launched in 2016. These initiatives are driven by the Board of Directors and supported by Management as part of the entrenchment of Risk Management within the Group.

A key part of Group Risk Management's ("GRM") mission is to continuously drive improvements throughout the Group via the implementation of standardized frameworks and methodologies to ensure prudent business development.

Group Risk Management ("GRM") regularly conducts Stress Tests and Internal Capital Adequacy Assessments ("ICAAP") across KFH Group. The bank remains compliant with all regulatory requirements and internally developed Capital Adequacy Key Risk Indicators (KRIs).

A major achievement in 2016 was the implementation of the Capital Management Program, which involved internally identified initiatives to calibrate the Group's Risk Weighted Assets, the result of which was to increase the Capital Adequacy Ratio (CAR) from 16.6% in 2015 to reach 17.88% as at 31st December 2016.

GRM took significant steps in upgrading its measurement, monitoring and reporting systems, whereby bank-wide risk management is overseen and managed enterprise-wide on a holistic basis. Risk Exposures have been monitored, analyzed and recommendations communicated to the Board Risk Committee ("BRC") and Management on a quarterly basis. Adopting these recommendations across the Group resulted in significant improvements in CAR and the Asset Quality position for the KFH Group.

GRM also updated the Risk Appetite Framework (RAF) and regularly monitored KRIs across the Group. Accordingly, the 2016 growth was within the Board approved RAF.

Liquidity is regularly monitored and reported across the Group. Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") compliance and monitoring Group-wide ensures both regulatory compliance and the ability to service our depositors.

The International Financial Reporting Standard 9 ("IFRS9") project has been initiated jointly by both Finance Control and Risk Management with a target deadline of year end 2017. IFRS 9 has its roots in the Financial Crisis and its implementation will ensure more prudence in the earlier recognition of any dilution in asset quality.

The Operational Risk Management ("ORM") function has successfully enhanced its capabilities by implementing an industry recognized Operational Risk Framework for managing and monitoring key risks within the Group.

Similarly, KFH has upgraded its Anti-Money Laundering Framework to ensure compliance with continuously developing Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT") regulations.

Technology has been driving change at a rapid rate in the financial services industries and will continue to do so for the foreseeable future, bringing both innovation opportunities for growth, but also introducing new risks. As a result, KFH established a dedicated function to manage these risks in early 2016, which has developed a series of Group Technology Risk Polices and Frameworks to ensure industry recognized controls and practices are implemented within the technology infrastructure that supports the Bank's core businesses.

Capital Adequacy Disclosures

Capital Adequacy Disclosures - Basel III

Qualitative and quantitative disclosures related to Capital Adequacy Standard under Basel III have been prepared in accordance with Central Bank of Kuwait instructions and regulations issued as per their circular 2/RB, RBA/336/2014 dated 24 June 2014 General disclosures related to Capital Adequacy Standard under Basel II rely on calculating the minimum capital required to cover credit and market risks using the Standardized Approach and the minimum capital required to cover operational risk using the Basic Indicator Approach.

First: Group Structure

Kuwait Finance House (the “Bank”) and its subsidiaries› (collectively the “Group”) are engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari’a. The subsidiaries are fully consolidated into the Bank’s financial statements based on similar accounting policies and are accounted for using the equity method. Details about subsidiaries and associates are as follows:

1. Subsidiaries:-

1.1 **Kuwait Finance House (Malaysia) Berhard:** is a 100% (2015: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.2 **KFH Private Equity:** is a 100% (2015: 100%) owned investment company registered at the Cayman Islands. Its main activities comprise global private equity investments

1.3 **KFH Financial Services:** is a 100% (2015: 100%) owned subsidiary company, registered in Cayman Islands. It has one subsidiary and one associate company. Its main activity is in the real estate sector outside Kuwait.

1.4 **Kuwait Finance House Capital Investment Company K.S.C. (Closed):** is a 99.9% (2015: 99.9%) owned investment company. Its activities comply with Islamic Shari’a that include investments, Islamic financing services, equity trading, private equity investments, real estate investments and asset management services.

1.5 **Kuwait Finance House Real Estate Company K.S.C (Closed):** is a 99.9% (2015: 99.9%) owned real estate investment company. It is engaged in owning, sale and purchase of real estate, development of the company’s properties, development of properties and land on behalf of customers inside and outside Kuwait.

1.6 **Development Enterprises Holding Company K.S.C:** is a 99.9% (2015: 99.9%) owned subsidiary its main activities include owning long-term strategic assets through investment or financing in companies with industrial and commercial activities.

1.7 **Baitak Real Estate Investment Company S.S.C. (Closed):** is a 100% (2015: 100%) owned real estate investment company registered in the Kingdom of Saudi Arabia. Its main activities comprise investments and real estate development.

1.8 **Saudi Kuwaiti Finance House S.S.C. (Closed):** is a 100% (2015: 100%) owned subsidiary, registered in Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.9 **International Turnkey Systems Company K.S.C. (Closed):** is a 97% (2015: 97%) owned subsidiary whose activities include marketing, developing of hardware and software and other activities that include providing specialized technical consultancies.

1.10 **Kuwait Finance House B.S.C**.: is a 100% (2015: 100%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing products and banking services that comply with Islamic Shari'a, management of investment accounts on profit sharing basis and providing Islamic finance contracts including retail services. Subsidiaries› activities include services & communications sector and the real estate investment activities.

1.11 **Kuwait Turkish Participation Bank:** is a 62% (2015: 62%) owned Islamic bank registered in Turkey since 1989. Its main activities include providing Islamic banking and finance services, investment of funds on a profit/loss sharing basis. Subsidiaries› activities include financing real estate development.

1.12 **Aref Investment Group K.S.C. (Closed):** is a 53% (2015: 53%) owned investment company and is engaged in a wide variety of activities that include real estate investments and Islamic financing activities which comply with Islamic Shari'a. Aref's subsidiaries activities include the energy sector, educational services, medical services, transportation and information technology.

1.13 **Al Enma'a Real Estate Company K.S.C.P:** is a 56% (2015: 56%) owned subsidiary engaged in real estate activities including operating leases.

1.14 **Public Service Company K.S.C. P(Closed):** is a 80% (2015: 80%) owned subsidiary engaged in management consultancy and services.

1.15 **Turkapital Holding B.S.C. (C):** is a 51% (2015: 51%) owned subsidiary registered in Bahrain engaged in real estate, auto leasing and Islamic insurance.

1.16 **Muthana Islamic Index Fund:** is a 64% (2015: 63%) owned Fund engaged in Islamic equity investment activity.

1.17 **Al Salam Hospital Co. K.S.C. (Closed):** is a 76% (2015: 55%) owned subsidiary engaged in healthcare services.

1.18 **Muthana GCC Islamic Banks Fund:** is 93% (2015: 90%) owned Fund engaged in islamic equity investment activity.

1.19 **E'amar:** is a 100% (2015: 100%) wholly owned subsidiary registered in Cayman Islands engaged in islamic investments.

1.20 **Gulf International Automobile Trading Company K.S.C. (Closed):** is a 99.6% (2015: 99.6%) wholly owned subsidiary engaged in trading, import and export of used cars.

2. Direct Investment in Associates:

2.1 **Ibdar Bank** is a 40% (2015: 40%) owned bank registered in Bahrain. its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

2.2 **Sharjah Islamic Bank P.J.S.C. :** is a 20% (2015: 20%) owned bank registered in Sharjah – United Arab Emirates since 1975. its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

2.3 **ALAFCO – Aviation Lease & Finance Company K.S.C. (Closed):** is a 46% (2015: 53%) owned subsidiary. Its main activities include the purchase and leasing of aircraft according to Islamic Shari'a principles.

Second: Capital Structure

A- Capital Structure:

As at 31 December 2016, Tier (1) "Core Capital" amounted KD 1,853,574 Thousand, Tier (2) "Supplementary Capital" amounted KD 186,792 thousand.

(KD'000)

Capital Structure	Gross
Tier (1) Core Capital	
1- Share Capital	524,154
2- Disclosed reserves and Share Premium	1,145,754
3- Eligible Minority interest in consolidated subsidiaries	112,151
4- Retained earnings	194,854
5- Proposed issue of bonus shares	52,415
Total (1)	2,029,328
Deduction from Tier (1) – Core Capital	
1- Treasury shares	48,824
2- Goodwill	6,722
3- Other Intangibles	32,453
4- Dividends (Declared but not incurred)	87,755
Total (2)	175,754
A) Total Tier (1) capital.	1,853,574
Tier (2) Supplementary Capital	
Eligible Minority interest in consolidated subsidiaries	62,757
1- General provisions	124,035
Total (3)	186,792
B) Total tier (2) of capital	186,792
Total Available Capital	2,040,366

Third: Capital Adequacy Ratios

At 31st of December 2016 the total Capital Adequacy ratio 17.88% and Tier (1) 16.25%.

Fourth: Risk weighted assets and Minimum Capital Requirement

1- Credit risk

The minimum required capital for credit risk exposures was KD 1,460,659 thousand as at 31 December 2016

(KD'000)

Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	252,313	252,313	-	-
2	Claims on sovereigns	3,317,591	3,316,763	342,829	51,424
3	Claims on public sector entities	56,492	56,492	11,809	1,771
4	Claims on banks	2,199,030	2,199,030	537,352	80,603
5	Claims on corporates	3,261,365	2,642,959	2,186,303	327,945
6	Regulatory retail exposure	3,460,491	3,258,634	2,474,334	371,150
7	Qualifying residential housing financing facilities	539,366	289,362	80,256	12,038
8	Past due exposures	383,025	288,108	120,724	18,109
9	Inventory and commodities	44,518	44,518	62,548	9,382
10	Real estate investments	777,771	777,771	1,232,920	184,938
11	Investment and financing with customers	1,530,998	896,278	1,014,343	152,151
12	Other exposures	1,853,548	1,853,548	1,674,307	251,148
	Total	**17,676,508**	**15,875,776**	**9,737,725**	**1,460,659**

2- Market risk

Market Risk Weighted Exposure during the financial year 2016 amounted KD 458,125 thousand, based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 68,719 thousand .

One of the methods used to mitigate exchange rate risks for which the Islamic bank is exposed to, include netting of exchange of deposits transactions with banks and financial institutions.

3- Operational risk

Operational risk weighted exposures calculated during the year 2016 amounted to KD 1,213,071 thousand as per the Basic Indicator Approach. The amount calculated for operational risk weighted exposures is adequate to cover any projected risks to maintain a reasonable profit ratio for shareholders and investment account owners. The minimum required capital for operational risk exposures amounts to KD 181,961 thousand.

Risk Management

Risk management is an integral part of the decision-making processes for the Group. It is implemented through a governance process that emphasizes independent risk assessment, control and monitoring, overseen directly by the Board and senior management. KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and stock market regulations and risk management best practices. KFH operate a "three lines of defense" system for managing risk:

The first line of defense recognizes that risks are raised by the business units and within their business. In KFH all employees (credit officers, dealers, operations, etc.) are required to ensure the effective management of risks within their organizational responsibilities.

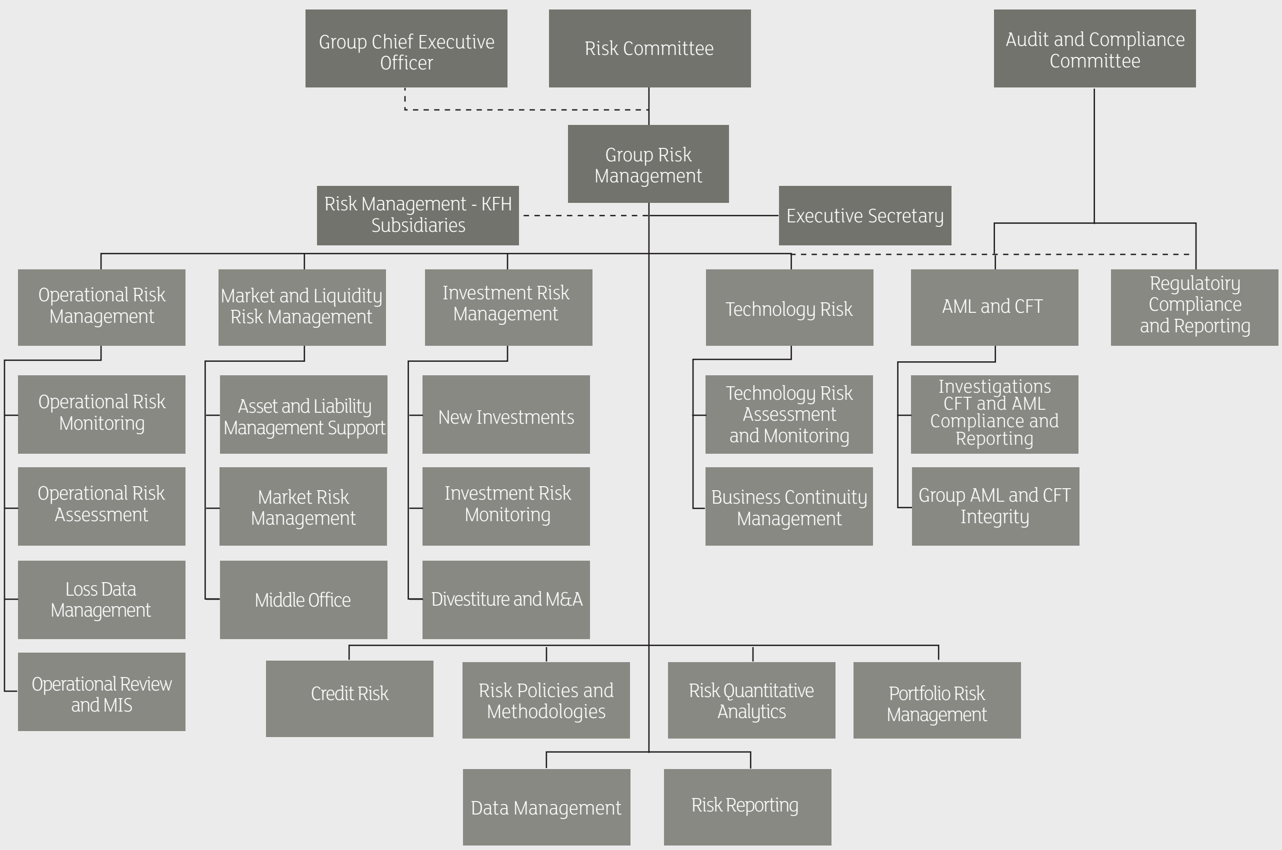
The second line of defense comprises the Financial Control Department and the Risk Management Department, which are responsible for ensuring that the risks are managed in accordance within the stated risk appetite.

The third line of defense is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

Risk Governance Structure at the Group Level

The Board of Directors is ultimately responsible for oversight of risk management and control in KFH. The Board sets the risk appetite for the Group. The Board delegates part of this responsibility to the Board Risk Committee ("BRC") and the Board Audit Committee ("BAC"). On the executive level, risk is managed by the executive management team, reporting to the BRC. KFH has an independent CRO who has the power of direct accessing to the BRC. KFH also has an independent internal audit manager who has the power of accessing to the BAC. Risks are managed on the Group level through committees includes the CRO such as the Credit Committee and ALCO.

Organizational structure of the Risk Management Department in Kuwait Finance House



The risk management in KFH is organized on functional lines. Risk management executives have explicit responsibility for Credit Risk and Market and Liquidity Risk, Investment Risk, Operational Risk, Portfolio Risk and Technology Risk. Regulatory Compliance and the Anti-Money Laundering ("AML") unit report directly to the Audit and Compliance Committee.

Risk Management is responsible for developing and implementing the processes of identifying, assessing, controlling, monitoring and reporting risks. Risk Management operates independently from the business units and provides a rigorous review and challenge for all investment and financing proposals as well as strategic initiatives such new products and markets. It also promotes better balance sheet management through capital optimization and works closely with the Treasury Department to mitigate the funding and liquidity related risks at all currencies in which the Group operates.

Culture of Risk Management, Training and Awareness-Raising

KFH strives hard to promote awareness of and strengthen the culture of risk management across the Group. With the strong support of the Board, KFH is upgrading its risk management policies and procedures and clarifying roles and responsibilities for managing risk. The aim is to ensure that risk is considered in all key financing, investment and funding decisions as well as in all key operations to protect the Bank from future loss and strengthen the value of the commitments to shareholders and depositors. Risk Management Department actively organizes workshops and awareness sessions across the Group to improve staff understanding of the risks inherent in their activities and the steps required to mitigate such risks.

Types of Risks

Kuwait Finance House and subsidiaries are exposed to various types. The main types of risks are credit, market, liquidity, operational, reputational and strategic risks.

Credit risk

KFH is exposed to credit risk which is the non-payment of funds issued by the Bank for the purpose of financing via many products (Tawarruq, Murabaha, Istisna›, Ijarah and/or any other sharia' compliance financing products). Credit risk arises from the customer's inability or non- willingness to pay or to meet his/her obligations towards the bank. Credit risk may arise from various factors such as the nature of customer activity, changes in market trends or failure in following the procedures/policies of granting finance to customer. Default may be completely or partially. Furthermore, default may result from non-cash financing products such as letter of credit when the customer is in default of paying the same to the beneficiary entity and the Bank is committed to pay on his/her behalf or letter of guarantee when the customer default to deliver the works in the contracts for the contract owner.

The risk can materialize in large exposures to individuals or groups or in concentrations of financing in any particular sector which is subject to financial stress.

Credit Risk Governance

Credit Risk Governance aims at establishing and maintaining a performing financing portfolio that minimizes the incidence of customer default. The process of risk management begins with the relationship manager who is responsible for developing an understanding of the customers financing needs and financial position with a view to ensuring that the customer is not exposed to excessive leverage in his financing activities. In KFH, credit decisions are taken, based on an assessment of the customer's ability to service debt. Precaution such as collateral is taken as security to mitigate loss in the event of a default by the customer.

With the exception of retail financing, applications for new or renewed financing are reviewed independently in the business before being submitted to the Risk Management Department for assessment and recommendation. The Credit Committee reviews all applications and approves or denies those that fall within its delegated authority. The CRO is a non-voting member in the Credit Committee and provides an independent recommendation. The CRO has the authority to escalate a proposal to the Board if he disagrees with the decision of the Credit Committee.

The Board takes the decisions regarding all proposals that are not included within the Credit Committee's delegated authorities.

In addition, Special Purpose Committee was established which is held once monthly, reviews the portfolio of the wholesale banking customers and analyses the performance of such portfolio. The Committee reviews also the customers in default, their collateral coverage ratios, exceptions granted, limits expiry etc.

Net Rated and Un-rated Credit Risk Exposures

(KD'000)

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Un-rated exposures
1	Cash item	252,313	-	252,313
2	Claims on sovereigns	3,316,763	3,117,326	199,437
3	Claims on public sector entities	56,492	-	56,492
4	Claims on banks	2,199,030	2,026,705	172,325
5	Claims on corporates	2,642,959	62,271	2,580,688
6	Regulatory retail exposure	3,258,634	-	3,258,634
7	Qualifying residential housing financing facilities	289,362	-	289,362
8	Past due exposures	288,108	-	288,108
9	Inventory and commodities	44,518	-	44,518
10	Real estate investments	777,771	-	777,771
11	Investment and financing with customers	896,278	130,610	765,668
12	Other exposures	1,853,548	-	1,853,548
	Total	**15,875,776**	**5,336,912**	**10,538,864**

Total Credit Risk exposures classified as “Self Financed” or “ Financed from Investment Account”

(KD'000)

Ser.	Credit risk exposures	Self financed	Finance form Investment Accounts
1	Cash item	155,175	97,138
2	Claims on sovereigns	2,040,353	1,277,238
3	Claims on public sector entities	34,743	21,749
4	Claims on banks	1,423,821	775,209
5	Claims on corporates	2,228,583	1,032,782
6	Regulatory retail exposure	2,194,629	1,265,862
7	Qualifying residential housing financing facilities	331,716	207,650
8	Past due exposures	236,621	146,404
9	Inventory and commodities	27,379	17,139
10	Real estate investments	478,579	299,192
11	Investment and financing with customers	941,984	589,014
12	Other exposures	1,140,278	713,270
	Total	**11,233,861**	**6,442,647**

Average Credit Risk exposures, average Self-Financed Assets and average Assets Financed from Investment Accounts on quarterly basis:

(KD'000)

Ser	Credit risk exposures	Average Credit Risk Exposure	Average Self-financed	Average Finance from Investment Accounts
1	Cash item	255,406	156,508	98,898
2	Claims on sovereigns	3,093,261	1,896,834	1,196,427
3	Claims on public sector entities	67,358	41,318	26,040
4	Claims on banks	2,395,614	1,545,380	850,234
5	Claims on corporates	3,486,476	2,348,605	1,137,871
6	Regulatory retail exposure	3,444,136	2,178,547	1,265,589
7	Qualifying residential housing financing facilities	579,465	355,254	224,211
8	Past due exposures	450,932	277,403	173,529
9	Inventory and commodities	50,345	30,870	19,475
10	Real estate investments	783,000	480,235	302,765
11	Investment and financing with customers	1,493,440	916,078	577,362
12	Other exposures	1,753,310	1,075,175	678,135
	Total	**17,852,743**	**11,302,207**	**6,550,536**

Excess Risk Concentrations

Concentration risks arise when several counterparties are engaged in similar activities in the same geographical area or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Group's performance to developments affecting a particular industry sector or geographical location.

In order to avoid excessive risk concentrations, the Bank's policies and procedures include specific guidelines to focus on maintaining diversified financial portfolios, thus establishing control over certain credit risk concentrations. Credit mitigation techniques are used by the Bank to manage risk concentrations both at the relationship and industry levels.

Geographical Distributions for Credit Risk Exposure

(KD'000)

Ser.	Credit Risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	31,373	-	211,174	9,761	5	252,313
2	Claims on sovereigns	2,296,251	-	779,208	221,829	20,303	3,317,591
3	Claims on public sector entities	43,822	-	-	12,670	-	56,492
4	Claims on banks	1,438,260	48,513	570,645	126,544	15,068	2,199,030
5	Claims on corporates	1,222,888	759	1,758,322	247,427	31,969	3,261,365
6	Regulatory retail exposure	2,630,718	2	689,025	140,440	306	3,460,491
7	Qualifying residential housing financing facilities	78,893	-	423,571	36,872	30	539,366
8	Past due exposures	320,977	179	25,047	36,822	-	383,025
9	Inventory and commodities	39,772	-	-	4,521	225	44,518
10	Real estate investments	675,647	53,865	2,283	45,976	-	777,771
11	Investment and financing with customers	1,224,713	-	22,235	284,050	-	1,530,998
12	Other exposures	1,072,368	59,492	159,533	84,136	478,019	1,853,548
	Total	**11,075,682**	**162,810**	**4,641,043**	**1,251,048**	**545,925**	**17,676,508**

Maturities of total Credit Risk exposures

(KD'000)

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	249,000	-	3,313	252,313
2	Claims on sovereigns	2,439,809	431,319	446,463	3,317,591
3	Claims on public sector entities	12,670	-	43,822	56,492
4	Claims on banks	1,651,442	424,477	123,111	2,199,030
5	Claims on corporates	942,463	985,298	1,333,604	3,261,365
6	Regulatory retail exposure	222,877	318,581	2,919,033	3,460,491
7	Qualifying residential housing financing facilities	6,650	17,115	515,601	539,366
8	Past due exposures	131,894	81,162	169,969	383,025
9	Inventory and commodities	5,121	1,368	38,029	44,518
10	Real estate investments	29,836	17,375	730,560	777,771
11	Investment and financing with customers	471,272	676,646	383,080	1,530,998
12	Other exposures	89,945	125,746	1,637,857	1,853,548
	Total	**6,252,979**	**3,079,087**	**8,344,442**	**17,676,508**

Main sectors of total Credit Risk exposures

(KD'000)

Ser.	Credit Risk exposures	Manufacturing & Trade	Banks and financial institutions	Construction & real estate	Government	Others	Total
1	Cash item	-	228,877	63	-	23,373	252,313
2	Claims on sovereigns	-	344,151	-	2,815,166	158,274	3,317,591
3	Claims on public sector entities	-	12,670	-	-	43,822	56,492
4	Claims on banks	2,026	2,118,985	12,371	-	65,648	2,199,030
5	Claims on corporates	1,275,153	165,262	861,413	45,523	914,014	3,261,365
6	Regulatory retail exposure	314,284	148,241	152,016	5,149	2,840,801	3,460,491
7	Qualifying residential housing financing facilities	-	-	78,633	-	460,733	539,366
8	Past due exposures	94,003	-	163,935	1,697	123,390	383,025
9	Inventory and commodities	2,116	-	1,721	-	40,681	44,518
10	Real estate investments	-	-	765,034	-	12,737	777,771
11	Investment and financing with customers	60,574	105,638	765,700	-	599,086	1,530,998
12	Other exposures	20,766	155,219	281,823	19,493	1,376,247	1,853,548
	Total	**1,768,922**	**3,279,043**	**3,082,709**	**2,887,028**	**6,658,806**	**17,676,508**

Past due and impairment provisions

Credit facilities are classified as "past-due" when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered as "past-due and impaired" if the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

"Past due" and "Past-due and impaired" facilities are managed and monitored as "irregular facilities" and are classified into the following four categories which are then used to guide the provisioning process:

Category	Criteria
Watchlist	Irregular for a period up to 90 days (inclusive)
Substandard	Irregular for a period between 91 and 180 days (inclusive)
Doubtful	Irregular for a period between 181 days and 365 days (inclusive)
Bad	Irregular for a period exceeding 365 days

The Group may also include a credit facility in one of the above categories based on management's judgment of a customer's financial and/or non-financial circumstances.

The Group's impaired and rescheduled financing portfolio (cash and non-cash, net of deferred and suspended profit) as at 31 December 2016 was KD 680,525 thousand (2015: KD 769,139 thousand) against which a specific provision of KD 248,264 thousand (2015: KD 187,109 thousand) has been made, as detailed below:

Exposures based on standard portfolios

(KD' 000)

Ser.	Description of credit risk exposures	Impaired and Rescheduled	Specific Provision	Net financing facilities	Specific Provision Write-off
1	Claims on corporates	401,841	207,044	194,797	27,923
2	Regulatory retail exposure	28,698	13,236	15,462	459
3	Qualifying residential housing financing Facilities	43,787	16,346	27,441	15,602
4	Investment and financing with customers	206,199	11,638	194,561	0
	Total	**680,525**	**248,264**	**432,261**	**43,984**

Exposures based on geographical

(KD' 000)

Ser.	Description of credit risk exposures	Impaired and Rescheduled	Specific Provision	Net financing facilities	Specific Provision Write-off
1	Middle East & North Africa	554,552	196,445	358,107	18,911
2	North America	439	251	188	7
3	Europe	80,385	44,622	35,763	15,486
4	Asia	45,149	6,946	38,203	9,580
5	others	-	-	-	-
	Total	**680,525**	**248,264**	**432,261**	**43,984**

Exposures based on Industrial

(KD' 000)

Ser.	Description of credit risk exposures	Impaired and Rescheduled	Specific Provision	Net financing facilities	Specific Provision Write-off
1	Manufacturing and Trade	80,234	30,795	49,439	25,077
2	Banks and financial institutions	78,869	61,253	17,616	2,664
3	Constructions & real estate	384,853	90,130	294,723	180
4	Others	136,569	66,086	70,483	16,063
	Total	**680,525**	**248,264**	**432,261**	**43,984**

General Provision Allocation

(KD' 000)

Ser.	Description of credit risk exposures	2016
1	Claims on banks	8,228
2	Claims on Corporates	231,088
3	Regulatory retail exposures	45,990
4	Investment and financing with customers	23,784
	Total	**309,090**

Applicable Risk Mitigation Methods

KFH ensures the diversification of exposures according to the standard portfolios, business sectors and geographical distributions borders. In addition to the continuous evaluation of risk mitigation methods against finance obligations and credit limits of the customer as per the analytical study of the customer's financial position.

Eligible collaterals and guarantees are calculated as per the CBK's instructions. Netting is applied for exchange of deposits with banks and financial institutions. Standard supervisory haircuts are applied on the eligible collaterals according to the CBK's regulations.

The Bank compliance with the credit concentration limits per customer and maintaining adequate ratios of liquid assets provides several methods to measure the quality and effectiveness of risk mitigation methods used to mitigate capital requirements.

Eligible Collaterals and Banking Guarantees given against Credit Risk Exposure

(KD'000)

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible Collaterals
1	Cash items	252,313	-
2	Claims on sovereigns	3,317,591	828
3	Claims on public sector entities	56,492	-
4	Claims on banks	2,199,030	-
5	Claims on corporates	3,261,365	618,406
6	Regulatory retail exposures	3,460,491	201,857
7	Qualifying residential housing financing facilities	539,366	250,005
8	Past due exposures	383,025	94,917
9	Inventory and commodities	44,518	-
10	Real estate investment	777,771	-
11	Investment and financing with customers	1,530,998	634,721
12	Other exposures	1,853,548	-
	Total	17,676,508	1,800,734

2. Market Risk

Market Risk is the risk that the value of an asset or liability will fluctuate as a result of changes in market prices or that may arise as a result of commodities prices, sukuk, share prices and real estate prices. In KFH, market risk exposure arises from fluctuations in foreign exchange rates which affect the banking and investment portfolio. The profit rate risks that the Bank is exposed to are limited as all Islamic financing and investment transactions are interest free and that all Islamic finance contracts i.e. Mudarabah and Musharakah are based on profit and loss sharing. Moreover, other Islamic finance transactions are related to real economic transactions such as purchase and sale of merchandise through Murabahah, Istisna', Ijarah or Salam transactions.

Market Risk Governance Framework

Treasury Department manages foreign exchange risk and commodity risk arising from their activities in KFH. Treasury also manages sukuk exposure risk. Equity price risk is managed through KFH Capital, the KFH's investment arm. The quantum of the exposures is measured and monitored by Risk Management Department and governed by ALCO. The activities of ALCO are overseen by the BRC. Real estate price risk arising from collateral pledged for financing facilities is managed by active monitoring of collateral values and topping up the collateral where the coverage of the debt is no longer acceptable at KFH.

3. Liquidity Risk

Liquidity risk is the risk arising from the inability of the Bank to meet its obligations when due as a result of unavailability of funds at an economically viable price. Liquidity risk may arise from unexpected withdrawals of deposits or an inability to sell assets in the market due to absence of buyers.

Liquidity Risk Governance Framework

Liquidity risk management in KFH is governed by the Liquidity Risk Management Framework. This sets specific responsibilities for Treasury Department, Risk Management Department and Financial Control Department to measure, monitor and assess the Bank's funding requirements in the short and medium term under both normal operating and stressed conditions which ensure the availability of sufficient liquidity to meet its commitments (both expected and unexpected). Furthermore, the bank is complying with all the Basel III regulatory requirements initiated by the CBK. The Bank has a contingency funding plan to bring in to operation where there is emerging evidences (based on triggers established in the Liquidity Risk Management Framework) of a future liquidity shortfall.

The Liquidity Risk Management Framework is the responsibility of the ALCO, which is in turn overseen by the BRC.

4. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It also includes losses resulting from failure to comply with Shari's requirements. Operational risk includes therefore, the risks of theft or fraud, legal risks from failure of contracts, losses arising from damage to physical assets, failures in regulatory compliance leading to fines or intensive scrutiny, failure of IT systems or suspending of service through external attacks on the Bank's operating and delivery processes.

Operational Risk Governance Framework

Since operational risk arise from a multitude of processes, the primary focus of operational risk management is in developing awareness of Internal Control weaknesses, strengthening the internal controls and installing additional risk mitigation where required.

The Operational Risk Framework comprises a process for assessing risk based on likelihood of occurrence and severity of the impact if it does occur. The lessons learned from previous operational risk events also provide opportunities to strengthen controls. The Head of Operational Risk works with the business through a Group of operational risk coordinators to improve understanding of Internal Control weaknesses and take preventative steps to mitigate the risk. The process is governed by the Risk Committee which is overseen by the Board.

5. Reputation Risk

The Bank defines reputation risk as risks arising from the negative perception by customers or other parties, such as shareholders, investors, employees or regulators that could adversely affect the Bank's ability to maintain current relationships or establish new relationships. In addition, given the Islamic nature of the Bank's activities, it is also exposed to the risk of reputation arising from non-adherence to Shari'a, which may lead to loss of customers.

Reputation Risk arises from a failure on the part of the Bank to perform as expected by its relevant stakeholders. As such this risk is mitigated through monitoring and managing the primary operational processes of the bank.

6. Strategic Risk

The Bank defines strategic risks as risks arising from changes in market conditions and the results of decisions of business units and strategies of competitors or inappropriate responses to market developments, which may lead to losing out on profitable investment opportunities. In addition, strategic risks also arise from failure to properly implement the strategic plan or from incorrect execution of the plan's objectives.

KFH's strategic plan was put in place after intensive cooperation from the Board of Directors and senior management and is managed pro-actively. Any deviations from the plan are raised with senior management in order to take the necessary actions to achieve the stated objectives.

Fifth: Investment Accounts Related Information

KFH provides a variety of investment saving accounts in order to encourage the customers to save and plan for their future along with benefiting from the profits of their saved amounts. Therefore, KFH offers such accounts to various age groups with various features and advantages where accounts can be opened in Kuwaiti Dinars as well as foreign currencies. Such accounts include: (Investment Saving Account in Kuwaiti Dinars and foreign currencies, Al-Rabeh Account, Baiti Account and Wakala based Corporates Call Account).

All investment saving accounts can be opened for both individuals (either adults or minors) and corporates according to the special conditions and provisions of such types of accounts. As for the call accounts, they are designed only for corporates and legal entities (committees, associations, etc.) a Wakala call account, which is an investment saving account based on ""Wakala "Shari'a principle.

All investment saving accounts are invested according to the Shari'a principles of "Mudarabah" and "Wakala" as per the conditions of the investment contract and profit-sharing ratios.

Investment Deposits

KFH provides many types of investment deposits for customers so as to avail large number of investment tools that help customer to invest and achieve safely and securely profits. KFH offers numerous types of investment deposits with different advantages and features in terms of investment tenure, profits ratios and distribution as well as currency. Such deposits include: Continues Deposit, Al-Dimah, Al-Nuwair, Al-Sedra, Al-Kawthar, Alkhumasiya, Investment Deposit in Foreign Currencies and Long Term Investment Plans.

Such deposits can be opened for individuals, corporates and legal entities (associations - unions - institutions - etc.), provided that the legal age for the customer is 21 years or above, and it is permissible for the Sharai guardian, by virtue of a court judgment, to open a deposit on behalf of minor.

The importance of investment deposits arises from providing greater stability to the banks operations. Hence, KFH can invest such investment deposits in various productive projects, either directly or through providing finance to third parties, noting that all accounts are invested in accordance with the Sharai principles of Mudarabah or investment Wakala.

Gold Account

Out of KFH' keenness on diversification of the product activities and keeping pace with the global economic changes that had been accompanied with increased global trends for buying and selling gold bullion, KFH has launched the Gold Account which enables customers to buy, sell, withdraw and deposit gold (when needed) through banking accounts while holding gold owned by the customer as a trust at KFH. Moreover, KFH's customers using KFH online service can benefit from the "Gold Account" service to open an account, buy and sell gold, and request statement of account through KFH online services or KFH mobile application.

Sixth: Shari’a Controls

Fatwa and Shari’a Supervisory Board

Fatwa and Shari’a Supervisory Board (“FSSB”) follows regulatory policies and procedures to ensure the compliance of all KFH’s sectors and departments to its decisions. To achieve this goal, FSSB may adopt the following:

1. Develop Shari’a training programs for KFH employees on the basic and advanced levels in coordination with the Training and Development - Human Resources and General Services Department - KFH.

2. Ensure the compliance of KFH’s sectors and departments with presenting all their activities to FSSB, to review and approve the contracts and agreements models, policies, procedures and financing structures; with a view of ensuring that they are free of Shari’a prohibitions.

3. Review the periodical and final Shari’a audit reports related to all KFH’s sectors and departments as raised by Shari’a Control and Consultancy Department; to ensure the compliance with Shari’a regulations.

4. Ensure that all revenues recognized from non-Shari’a compliant sources or by means prohibited by Shari’a have been disposed to be used for charity purposes.

5. Zakat is calculated following the CBK’s approval on KFH’s financial statements.

6. The General Assembly shall determine the remuneration of the FSSB’s members.

Auditors' Report & Consolidated Financial Statements

Kuwait Finance House K.S.C.P. and Subsidiaries
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

AUDITORS’ REPORT

INDEPENDENT AUDITORS’ REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Finance House K.S.C.P. (“the Bank”) and its subsidiaries (collectively “the Group”), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statement’s section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter identified below, matter below, our description of how our audit addressed the matter is provided in that context.

Impairment of financing receivables

Impairment of financing receivables is a subjective area due to the level of judgement applied by management in determining provisions, such as

- the identification of impairment events, which differs based upon the type of financing product and customer and accordingly requires judgement on whether a loss has been incurred; and
- the determination of appropriate parameters and assumptions used to calculate impairment such as the credit assessment of customers that may default, the valuation of collateral for secured financing and the future cash flows of financing receivables granted.

Due to the significance of financing receivables (representing 49.55% of the total assets) 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 10 to the consolidated financial statements.

Our audit procedures included the assessment of controls over the granting, booking, monitoring and collecting processes of financing receivables and the impairment provisioning process, to confirm the operating effectiveness of the key controls in place that identify the impaired financing receivables and the required provisions against them.

In addition to testing the key controls, we have also performed the following procedures:

- We selected samples of financing receivables outstanding as at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision.
- Our selected samples included non-performing financing receivables, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of payment. For the performing financing receivables, we assessed that the customers did not exhibit any possible default risk that may affect the payment abilities.

The disclosure relating to the financing receivables are given in note 10 of the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (Continued)

Key Audit Matters (continued)

Impairment of associates and joint ventures

The investment in associates and joint ventures are accounted for under the equity method of accounting and considered for impairment in case of indication of impairment. The investment in associates and joint ventures is significant to our audit due to the Group's share of results in the associates and joint ventures and the carrying value of those associates and joint ventures. In addition, the management to assess impairment of investment in associates and joint ventures uses judgement and estimates. Accordingly, we considered this as a key audit matter.

In our audit procedures, we evaluated management's considerations of the impairment indicators of investment in associates and joint ventures. In such consideration, we assessed whether any significant or prolonged decline in value exists, significant adverse changes in the technological, market, economic, or legal environment in which the investee operates, structural changes in the industry in which the investee operates, changes in the political or legal environment affecting the investee's business and changes in the investee's financial condition.

The disclosure relating to associates and joint ventures are given in notes 12 and 13 of the consolidated financial statements.

Impairment test of investment properties and trading properties

As at 31 December 2016, investment properties and trading properties amounting to KD 777,142 thousand represents 4.71% of total assets. The valuation of real estate properties was significant to our audit because this process is complex and requires judgement. Furthermore, there is an increased risk of impairment due to deteriorated market outlook in various geographical areas, in which the Group operates.

We selected samples and considered the methodology and the appropriateness of the valuation models and inputs used to value the real estate properties. Further, we used our internal valuation specialists to assess the valuation of a sample of real estate properties located outside the State of Kuwait. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as the rents, gross multiplier yield, market comparable, and discount rates. We also evaluated the Group's assessment whether objective evidence of impairment exists for international real estate.

The disclosure relating to the investment properties is given in note 14 to the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (Continued)

Key Audit Matters (continued)

Valuation of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments")

The Group has significant Islamic derivative financial instruments, the valuation of which is determined through the application of valuation techniques, which often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of Islamic derivative financial instruments and the related estimation and uncertainty, there is a risk that the related financial assets and liabilities are misstated.

Our audit procedures included assessment of controls over the identification, measurement and management of Islamic derivative financial instrument to confirm the operating effectiveness of the key controls in place.

Our audit procedures also comprised of an assessment of the methodology and the appropriateness of the valuation models used to value Islamic derivative financial instruments. Further, we used our internal valuation specialists to assess the valuation of a sample of each type of Islamic derivative financial instruments. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuations such as contractual cash flows, risk free rates, profit rate volatility, swap rates, interest spot rates, implied forward rates and quoted prices from market data providers, by benchmarking them with external data. Finally, we considered completeness and accuracy of the disclosures related to Islamic derivative financial instruments to assess compliance with the disclosure requirements.

The disclosure relating to Islamic derivative financial instruments is given in note 27 to the consolidated financial statements.

Other information included in the Annual Report of the Group for the year ended 31 December 2016

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2016, other than the consolidated 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 Group's Annual Report for the year ended 31 December 2016 after the date of our auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during 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 other information; we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (Continued)

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 expressing an opinion on the effectiveness of the Group's internal control.

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (Continued)

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

- 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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (Continued)

Report on Other Legal and Regulatory Requirements

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

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

WALEED A. AL OSAIMI	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62A
EY	DELOITTE & TOUCHE
AL AIBAN, AL OSAIMI & PARTNERS	AL-WAZZAN & CO.

10 January 2017
Kuwait

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2016

	Notes	2016 KD 000's	2015 KD 000's
CONTINUING OPERATIONS			
INCOME			
Financing income		**717,886**	695,080
Finance cost and distribution to depositors		**(282,931)**	(263,399)
Net finance income		**434,955**	431,681
Investment income	3	**78,885**	108,259
Fees and commissions income		**84,522**	81,886
Net gain from foreign currencies		**23,181**	25,424
Other income	4	**38,107**	55,693
TOTAL OPERATING INCOME		**659,650**	702,943
EXPENSES			
Staff costs		**(173,663)**	(171,966)
General and administrative expenses		**(84,457)**	(80,525)
Depreciation and amortization		**(36,834)**	(77,977)
TOTAL OPERATING EXPENSES		**(294,954)**	(330,468)
NET OPERATING INCOME		**364,696**	372,475
Provisions and impairment	5	**(140,628)**	(183,561)
PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		**224,068**	188,914
Taxation	6	**(23,193)**	(20,433)
Proposed directors' fees	25	**(772)**	(610)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**200,103**	167,871
DISCONTINUED OPERATIONS			
(Loss) /profit after tax for the year from discontinued operations	18	**(21,594)**	21,899
Impairment loss recognised on discontinued operation	18	**(16,570)**	-
(Losses)/profit after tax for the year from discontinued operations		**(38,164)**	21,899
PROFIT FOR THE YEAR		**161,939**	189,770
Attributable to:			
Shareholders of the Bank		**165,228**	145,841
Non-controlling interests		**(3,289)**	43,929
		161,939	189,770
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	7	**32.01 fils**	28.27 fils

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	***2016***	*2015*
		KD 000's	
Profit for the year		**161,939**	189,770
Other comprehensive (loss) income			
Other comprehensive (loss) income items that are or may be reclassified to consolidated statement of income in subsequent periods:			
Change in fair value of financial assets available for sale		**(22,023)**	991
Realised loss (gain) on financial assets available for sale		**6,336**	(2,484)
Impairment losses transferred to consolidated statement of income	5	**26,927**	16,320
Share of other comprehensive (loss) income of associates and joint ventures		**(2,888)**	647
Exchange differences on translation of foreign operations		**(68,880)**	(62,679)
Other comprehensive loss for the year		**(60,528)**	(47,205)
Total comprehensive income		**101,411**	142,565
Attributable to:			
Shareholders of the Bank		**128,811**	123,183
Non-controlling interests		**(27,400)**	19,382
		101,411	142,565

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016	2015
			KD 000's
ASSETS			
Cash and balances with banks and financial institutions	8	**1,494,657**	1,599,712
Short-term murabaha	9	**2,877,241**	3,193,930
Financing receivables	10	**8,175,789**	8,095,492
Trading properties		**186,341**	214,362
Investments	11	**1,456,124**	1,314,756
Investment in associates and joint ventures	12,13	**469,468**	534,856
Investment properties	14	**590,801**	580,499
Other assets	15	**548,652**	469,309
Intangible assets and goodwill	16	**39,175**	47,960
Property and equipment		**216,212**	264,181
Leasehold rights	17	**-**	179,627
Assets classified as held for sale	18	**444,893**	-
TOTAL ASSETS		**16,499,353**	16,494,684
LIABILITIES			
Due to banks and financial institutions	20	**2,871,651**	3,052,947
Depositors' accounts	21	**10,662,140**	10,709,386
Other liabilities	22	**699,245**	676,862
Liabilities directly associated with assets classified as held for sale	18	**227,492**	-
TOTAL LIABILITIES		**14,460,528**	14,439,195
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	24	**524,154**	476,504
Share premium		**720,333**	720,333
Proposed issue of bonus shares	25	**52,415**	47,650
Treasury shares	24	**(48,824)**	(50,173)
Reserves	23	**474,652**	505,067
		1,722,730	1,699,381
Proposed cash dividend	25	**87,755**	79,755
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**1,810,485**	1,779,136
Non-controlling interests		**228,340**	276,353
TOTAL EQUITY		**2,038,825**	2,055,489
TOTAL LIABILITIES AND EQUITY		**16,499,353**	16,494,684

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN SAAD AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

KD 000's

	Attributable to the shareholders of the Bank								Non-controlling interests	Total equity
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 23)*	*Subtotal*	*Proposed cash dividend*	*Subtotal*		
Balance at 1 January 2016	**476,504**	**720,333**	**47,650**	**(50,173)**	**505,067**	**1,699,381**	**79,755**	**1,779,136**	**276,353**	**2,055,489**
Profit for the year	-	-	-	-	165,228	165,228	-	165,228	(3,289)	161,939
Other comprehensive loss	-	-	-	-	(36,417)	(36,417)	-	(36,417)	(24,111)	(60,528)
Total comprehensive income (loss)	-	-	-	-	128,811	128,811	-	128,811	(27,400)	101,411
Issue of bonus shares	47,650	-	(47,650)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(7,914)	(7,914)	-	(7,914)	-	(7,914)
Cash dividends paid	-	-	-	-	-	-	(79,755)	(79,755)	-	(79,755)
Distribution of profit: (Note 25)										
Proposed issue of bonus shares	-	-	52,415	-	(52,415)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(87,755)	(87,755)	87,755	-	-	-
Net movement in treasury shares	-	-	-	1,349	(349)	1,000	-	1,000	-	1,000
Deconsolidation of a subsidiary	-	-	-	-	-	-	-	-	(13,132)	(13,132)
Acquisition of non-controlling interests					(10,793)	(10,793)		(10,793)	(9,207)	(20,000)
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	(1,596)	(1,596)
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	3,322	3,322
At 31 December 2016	**524,154**	**720,333**	**52,415**	**(48,824)**	**474,652**	**1,722,730**	**87,755**	**1,810,485**	**228,340**	**2,038,825**

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2016

KD 000's

	Attributable to the shareholders of the Bank								Non-controlling interests	Total equity
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 23)*	*Subtotal*	*Proposed cash dividend*	*Subtotal*		
Balance at 1 January 2015	433,185	720,333	43,319	(52,497)	537,315	1,681,655	63,935	1,745,590	351,451	2,097,041
Profit for the year	-	-	-	-	145,841	145,841	-	145,841	43,929	189,770
Other comprehensive loss	-	-	-	-	(22,658)	(22,658)	-	(22,658)	(24,547)	(47,205)
Total comprehensive income	-	-	-	-	123,183	123,183	-	123,183	19,382	142,565
Issue of bonus shares	43,319	-	(43,319)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(6,327)	(6,327)	-	(6,327)	-	(6,327)
Cash dividends paid	-	-	-	-	-	-	(63,935)	(63,935)	-	(63,935)
Distribution of profit: (Note 25)										
Proposed issue of bonus shares	-	-	47,650	-	(47,650)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(79,755)	(79,755)	79,755	-	-	-
Net movement in treasury shares	-	-	-	2,324	6	2,330	-	2,330	-	2,330
Deconsolidation of a subsidiary	-	-	-	-	(7,029)	(7,029)	-	(7,029)	(104,515)	(111,544)
Acquisition of non-controlling interests	-	-	-	-	(14,676)	(14,676)	-	(14,676)	14,676	-
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	(6,064)	(6,064)
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	1,423	1,423
At 31 December 2015	476,504	720,333	47,650	(50,173)	505,067	1,699,381	79,755	1,779,136	276,353	2,055,489

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016	2015
			KD 000's
OPERATING ACTIVITIES			
Profit (loss) for the year			
- Continuing operations		**200,103**	167,871
- Discontinued operations		**(38,164)**	21,899
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		**36,834**	77,977
Provision and impairment		**157,198**	183,561
Dividend income	3	**(5,681)**	(5,632)
Gain on sale of investments	3	**(6,656)**	(3,561)
Gain on real estate investments	3	**(12,209)**	(73,669)
Share of results of associates and joint ventures	3	**(10,934)**	975
Other investment income	3	**(30,067)**	(14,682)
		290,424	354,739
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets:			
Financing receivables and short term murabaha		**(263,769)**	100,740
Trading properties		**16,309**	(38,892)
Other assets		**(264,698)**	158,052
Statutory deposit with Central Banks		**44,410**	12,340
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**(69,927)**	(177,284)
Depositors' accounts		**(47,246)**	21,017
Other liabilities		**128,632**	(129,494)
Net cash flows (used in)/ from operating activities		**(165,865)**	301,218
INVESTING ACTIVITIES			
(Purchase of)/ proceeds from sale of investments, net		**(171,676)**	42,774
Purchase of investment properties		**(20,150)**	(47,846)
Proceeds from sale of investment properties		**19,465**	50,781
Purchase of property and equipment		**(58,195)**	(122,620)
Proceeds from sale of property and equipment		**25,167**	61,602
Intangible assets, net		**(5,068)**	(10,351)
Leasehold rights, net		**(13,307)**	-
Purchase of investments in associates and joint ventures		**(9,169)**	(19,569)
Proceeds from sale/ redemption of investments in associates and joint ventures		**15,884**	8,471
Deconsolidation of a subsidiary		**(1,450)**	(63,582)
Dividend received		**11,856**	12,680
Acquisition of non-controlling interest		**(20,000)**	-
Net cash flows used in investing activities		**(226,643)**	(87,660)
FINANCING ACTIVITIES			
Cash dividends paid		**(79,755)**	(63,935)
Zakat paid		**(7,914)**	(6,327)
Net movement in treasury shares		**1,000**	2,330
Dividend paid to non-controlling interests		**(1,596)**	(6,064)
Net cash flows used in financing activities		**(88,265)**	(73,996)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(480,773)**	139,562
Cash and cash equivalents at 1 January		**2,572,884**	2,433,322
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	**2,092,111**	2,572,884

The attached notes 1 to 37 form part of these consolidated financial statements.

1. CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 10 January 2016. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 19. The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and was registered as an Islamic Bank with the Central Bank of Kuwait on 24 May 2004 as Kuwaiti registered Islamic bank whose shares are listed on the Kuwait Stock Exchange. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practicing usury. Trading activities are conducted on the basis of purchasing various goods and selling them on murabaha at negotiated profit margins and can be settled in cash or on instalment credit basis. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

All activities are conducted in accordance with Islamic shareea'a, as approved by the Bank's Fatwa and Shareea'a Supervisory Board.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of financial assets available for sale, venture capital at fair value through statement of income, precious metals inventory, currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) and all values are rounded to the nearest thousand Dinars, except when otherwise indicated.

2.2 PRESENTATION OF FINANCIAL STATEMENTS

The Group presents its statement of financial position in order of liquidity.

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended IFRS recently issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2016.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant *IFRS 3 Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the year.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, 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 statement of income, statement of other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statement of income.

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

Annual Improvements 2012-2014 Cycle

These improvements do not have any impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 7 Financial Instruments: Disclosures

IAS 19 Employee Benefits

IAS 34 Interim Financial Reporting

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments (continued)
The Group plans to adopt the new standard on the required effective date. The group is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The group is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IAS 7 Disclosure Initiative – Amendments to IAS 7
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*,IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases (continued)
Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The group is in the process of assessing the impact of IFRS 16 on its consolidated financial statements.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

2.5 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year and its subsidiaries as at the same date or a date not earlier than three months from 31 December. The financial statements of subsidiaries, associates and joint ventures are prepared using consistent accounting policies and are adjusted, where necessary, to bring the accounting policies in line with those of the Group. All significant intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated on consolidation.

a. Subsidiaries
Subsidiaries are all entities over which the Group has control. The control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer note 19 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest
Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. For each business combination, non-controlling interest in the acquiree is measured either at fair value or at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. A change in ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

c. Associates and joint ventures
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 BASIS OF CONSOLIDATION (continued)

c. Associates and joint ventures (continued)
Investment in an associate and joint ventures are initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's share of its associates' and joint ventures post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in associate and joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and joint venture and its carrying value and recognises the amount in the consolidated statement of income. Upon loss of significant influence or joint control over the associate or joint venture, the Group measures and recognises any retained investment at its fair value. Gain or loss on such transaction is computed by comparing the carrying amount of the associate or joint venture at the time of loss of significant influence or joint control with the aggregate of fair value of the retained investment and proceeds from disposal. Such gain or loss is recognised in the consolidated statement of income.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill
Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash– generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

Where goodwill has been allocated to a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative fair values of the disposed operation and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus associated cumulative translation differences, cash flow hedge and available-for-sale reserves and goodwill is recognised in the consolidated statement of income.

Foreign currency translation
The consolidated financial statements are presented in Kuwaiti Dinars, which is the Group's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)
Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date.

All differences are included within net gain/loss from foreign currencies in the consolidated statement of income, with the exception of the effective portion of the differences on foreign currency financing that are accounted for as an effective hedge against a net investment in a foreign entity. These differences are recognised in other comprehensive income until the disposal of the net investment, at which time, they are recognised in the consolidated statement of income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Group companies
On consolidation the assets and liabilities of foreign subsidiaries are translated into Kuwait Dinar at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal, liquidation, payment of share capital or abandonment of all, or part of a foreign subsidiary, the component of other comprehensive income relating to that particular is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign subsidiary and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated at the spot rate of exchange at the reporting date.

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

i) Financing income is income from murabaha, istisna'a, leased assets, wakala investments and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.
ii) Fee and commission income is recognised at the time the related services are provided.
iii) Rental income from investment properties is recognised on an accruals basis.
iv) Dividend income is recognised when the right to receive payment is established.
v) Operating lease income is recognised on a straight line basis in accordance with the lease agreement.
vi) Gain from real estate investments includes gains from sale, transfer and distribution of investment properties, trading properties, and share of result of real estate joint ventures. Real estate gain is recognised when the significant risks and returns have been transferred to the buyer including satisfaction of all conditions of a contract.

Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with Central Banks, Tawarruq balances with the Central Bank of Kuwait, balances with banks and financial institutions, short-term murabaha contracts, cash in transit and exchange of deposits maturing within three months of contract date.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are charged in the consolidated statement of income. Capitalised leased assets are depreciated over the estimated useful lives of the asset. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the lease term.

Group as a lessor
Leased assets
This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be equal or lower than fair value of such assets at the time when such option is exercised.

Operating leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Leased assets are stated at amounts equal to the net investment outstanding in the leases.

Trading properties
Trading properties are measured initially at cost. Subsequent to initial recognition, trading properties are carried at the lower of cost or net realizable value determined on an individual basis.

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at depreciated cost less impairment.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the year of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to property and equipment, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If property and equipment becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

When the Group begins to redevelop an existing investment property with a view to selling the property, it is transferred to trading properties at carrying value.

Depreciation is provided on a straight-line basis over the estimated useful lives, that range from 20 – 25 years, of all rental properties other than freehold land which is deemed to have an indefinite life.

Properties under construction
Properties under construction or development for future use as investment properties are classified as investment properties and are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of the asset.

Precious metals inventory
Precious metals inventory primarily comprises Gold and is carried at the fair value less cost to sell.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement
The Group's financial assets are classified, at initial recognition, as financing receivables, trade receivables, Financial assets available for sale (AFS), Venture capital at fair value through statement of income, or as derivatives as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through the consolidated statement of income, transaction costs that are attributable to the acquisition of the financial asset.

The Group's financial liabilities include trade payables, accrued expense, financial guarantee contracts and derivative financial instruments. All financial liabilities are recognised initially at fair value

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financing receivables
Receivables are financial assets originated by the Group and principally comprise murabahas, istisna'a, wakala receivables and leased assets. These are stated at amortised cost.

Murabaha is the sale of commodities and real estate at cost plus an agreed profit mark-up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit. These are stated at amortised cost.

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

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

Trade receivable
Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of amounts estimated to be uncollectible. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. This is included in other assets (Note 15).

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

After initial measurement, financial assets available for sale are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in the consolidated statement of other comprehensive income in the available-for-sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. Profit earned whilst holding available-for-sale financial investments is reported as financing income using the EIR which takes into account any discount/premium and qualifying transaction costs that are an integral part of the instrument's yield. Dividends earned whilst holding available-for-sale financial investments are recognised in the consolidated statement of income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the consolidated statement of income in 'impairment losses on financial investments' and removed from the available-for sale reserve.

Venture capital at fair value through statement of income
Certain investments in joint ventures held directly or indirectly through venture capital segment are not accounted for using equity method, as the Bank has elected to measure these investments at fair value through statement of income in accordance with IAS 39, using the exemption of IAS 28: Investments in associates and joint ventures.

Venture capital at fair value through statement of income are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as unrealized gain (loss) in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Short-term murabahas
Short-term murabahas are financial assets originated by the Group and represent commodity murabaha transactions with high credit quality banks and financial institutions maturing within one year of the financial position date. These are stated at amortised cost.

Trade payable
Trade payable relates to non-financial subsidiaries of the Group. Liabilities are recognised for amounts to be paid in the future for goods whether or not billed to the Group.

Accrued expenses
Liabilities are recognised for amounts to be paid in the future for services received whether or not billed to the Group.

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

De-recognition of financial assets and financial liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 Group could be required to pay.

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 financer on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

Derivative financial instruments and hedge accounting

Derivatives not designated as hedges:
Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts instruments ("the instruments") are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealized gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. These instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of these instruments are taken directly to the consolidated statement of income.

Derivatives designated as hedges:
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation.

Cash flow hedges:
The effective portion of the gain or loss on the hedging instrument is recognised in the consolidated statement of other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of income.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects profit or loss.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in the consolidated statement of other comprehensive income at that time remains in the consolidated statement of other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the consolidated statement of other comprehensive income is immediately transferred to the consolidated statement of income.

Hedges of a net investment:
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity are transferred to consolidated statement of income

Embedded swaps and profit rate contracts:
Embedded swaps and profit rate instruments (the forwards) are separated from the host contract if the economic characteristics and risks of the forwards are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the forwards would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was highly effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is 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 has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the customer or a group of customers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in profit or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in consolidated statement of income. Financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to provision charged in the consolidated statement of income.

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

Financial assets available for sale
For available for sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired.

In the case of equity investments classified as financial assets available for sale, objective evidence would include:

- A 'significant' or 'prolonged' decline in the fair value of the investment below its cost and/or;
- Other information about the issuer that may negatively affect an equity issuer's performance 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of sukook investments classified as available for sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income. If, in a subsequent year, the fair value of a sukook increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)
Freehold land is not depreciated. Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

▪ Buildings	20 years
▪ Furniture, fixtures and equipment	3-5 years
▪ Motor vehicles	3 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

Properties under development
Properties under development are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset. Once completed the asset is transferred to buildings.

Leasehold rights
Leasehold rights acquired are measured on initial recognition at cost. Following initial recognition, leasehold rights are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Leasehold rights are amortised over their useful economic life and assessed for impairment whenever there is an indication that the leasehold rights may be impaired. The amortisation period and the amortisation method for leasehold rights is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on leasehold rights is recognised in the consolidated statement of income.

Gains or losses arising from derecognition of an leasehold right are measured as the difference between the net disposal proceeds and the carrying amount of the right and are recognised in the consolidated statement income when the asset is derecognised.

Intangible assets
An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

▪ License of Islamic brokerage company	assessed to have an indefinite useful life
▪ Exploration rights	10 years
▪ Software development cost	3-5 years
▪ Software license right	15 years
▪ Other rights	3-7 years

The useful lives of intangible assets are assessed to be either finite or indefinite.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)
Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. 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.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group 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 exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Taxation
Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

Non-current assets held for sale and disposal groups
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

Financial assets available for sale

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.

For financial assets where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Financial assets with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value, if any.

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts

The fair value of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are determined based on valuations obtained from counterparty/third parties.

Other financial assets and liabilities

For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Investment properties

For investment properties, fair value is determined by independent registered real estate valuers who have relevant experience in the property market.

Due from/to customers for contract work

Due from/to customers of contracting subsidiaries for uncompleted contracts represents costs, which comprises direct materials, direct labour and an appropriate allocation of overheads, plus attributable profit to the extent that it is reasonably certain less provision for contingencies and any losses incurred or foreseen in bringing contracts to completion, and less any amounts received or receivable as progress billings.

Finance cost

Finance cost is directly attributable to due to banks and financial institutions and depositors' accounts. All finance costs are expensed in the period they occur.

Other provisions and reserves

Other provisions and reserves are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any reserve provision is presented in the consolidated statement of income net of any reimbursement.

Reserves for maintenance

Provisions for maintenance –related costs are recognised when the service is provided. Initial recognition is based on historical experience. The initial estimate of maintenance –related costs is revised annually.

Employees' end of service benefits

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

Treasury shares

The Bank's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary assets
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

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

Operating lease commitments – Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Classification of real estate
Management decides on acquisition of a developed and under development real estate property whether it should be classified as trading, investment property or property and equipment.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business or when it is being redeveloped for sale.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

The Group classifies property as property and equipment when it is acquired for owner occupation.

Impairment of financial assets available for sale
The Group treats financial assets available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill and intangible assets with indefinite useful life
The Group determines whether goodwill and intangible assets with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment losses on finance facilities
The Group reviews its finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment.

3. INVESTMENT INCOME

		KD 000's
	2016	*2015*
Gain on real estate investments	**12,209**	73,669
Rental income from investment properties	**13,338**	11,690
Dividend income	**5,681**	5,632
Gain on sale of investments	**6,656**	3,561
Share of results of associates and joint ventures (Note 12 and Note 13)	**10,934**	(975)
Other investment income	**30,067**	14,682
	78,885	108,259

4. OTHER INCOME

		KD 000's
	2016	*2015*
Income from sale of property and equipment	**4,274**	9,147
Real estate development and construction income	**3,240**	5,133
Income from maintenance, services and consultancy	**13,606**	21,460
Rental income from operating lease	**7,958**	10,741
Other income	**9,029**	9,212
	38,107	55,693

5. PROVISIONS AND IMPAIRMENT

	KD 000's 2016	2015
Impairment on financing receivables (Note 10)	**111,337**	167,880
Recovery of written-off debts	**(73,180)**	(81,213)
Impairment of financial assets available for sale	**26,927**	16,320
Impairment of associates and joint ventures	**3,157**	13,889
Impairment of investment properties (Note 14)	**3,425**	12,677
Impairment of property and equipment	**14,268**	14,481
Impairment of intangible assets and goodwill (Note 16)	**5,202**	12,894
Impairment (reversal of impairment) of non-cash facilities (Note 10)	**12,435**	(10,593)
Impairment of trading properties	**5,955**	9,445
Impairment of other assets and other provisions	**31,102**	27,781
	140,628	183,561

6. TAXATION

	KD 000's 2016	2015
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**1,731**	1,519
National Labour Support Tax (NLST)	**3,624**	2,688
Zakat (based on Zakat Law No. 46/2006)	**1,762**	1,296
Taxation related to subsidiaries	**16,076**	14,930
	23,193	20,433

7. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year after adjusting for treasury shares held by the Group.

Basic and diluted earnings per share:	KD 000's 2016	2015
Profit for the year attributable to shareholders of the Bank (thousand KD)	**165,228**	145,841
Weighted average number of shares outstanding during the year (thousands share)	**5,161,147**	5,158,926
Basic and diluted earnings per share attributable to the shareholders of the Bank	**32.01 fils**	28.27 fils

Basic and diluted earnings per share from continuing operations:	KD 000's 2016	2015
Profit for the year from continuing operations attributable to shareholders of the Bank (thousand KD)	**184,515**	136,155
Weighted average number of shares outstanding during the year (thousands share)	**5,161,147**	5,158,926
Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank	**35.75 fils**	26.39 fils

The Bank has no dilutive potential shares.

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 25).

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

8. CASH AND CASH EQUIVALENTS

	KD 000's	
	2016	*2015*
Cash	**251,707**	246,715
Balances with Central Banks	**715,371**	773,592
Balances with banks and financial institutions – current accounts	**527,579**	579,405
Cash and balances with banks and financial institutions	**1,494,657**	1,599,712
Short-term murabaha – maturing within 3 months of contract date	**1,119,810**	1,487,068
Tawarruq balances with Central Bank of Kuwait - maturing within 3 months of contract date	**10,002**	95,024
Cash with banks attributable to discontinued operation (Note 18)	**32,152**	-
Less: Statutory deposits with Central Banks	**(564,510)**	(608,920)
Cash and cash equivalents	**2,092,111**	2,572,884

Statutory deposits with Central Banks represent balances that are not available for use in the Group's day-to-day operations.

The fair values of cash and balances with banks and financial institutions do not differ from their respective book values.

9. SHORT-TERM MURABAHA

	KD 000's	
	2016	*2015*
Short-term murabaha with banks	**1,282,623**	1,680,902
Short-term murabaha with Central Banks	**1,594,618**	1,513,028
	2,877,241	3,193,930

The fair value of short-term murabaha is not materially different from their respective carrying value.

10. FINANCING RECEIVABLES

Financing receivables principally comprise murabaha, wakala, leased assets, and istisna'a balances are stated net of impairment as follows:

	KD 000's	
	2016	*2015*
Financing receivables		
Murabaha and wakala	**8,048,825**	7,846,032
Leased assets	**1,675,957**	1,752,062
Istisna'a and other receivables	**104,186**	109,280
	9,828,968	9,707,374
Less: deferred and suspended profit	**(1,127,413)**	(1,139,659)
Net receivables	**8,701,555**	8,567,715
Less: impairment	**(525,766)**	(472,223)
	8,175,789	8,095,492

10. FINANCING RECEIVABLES (continued)

The distribution of financing receivables is as follows:

Industry sector	2016	2015
	KD 000's	
Trading and manufacturing	**4,755,704**	4,520,521
Banks and financial institutions	**360,118**	216,915
Constructions and real estates	**2,868,486**	2,932,547
Other	**1,844,660**	2,037,391
	9,828,968	9,707,374
Less: deferred and suspended profit	**(1,127,413)**	(1,139,659)
Net receivables	**8,701,555**	8,567,715
Less: impairment	**(525,766)**	(472,223)
	8,175,789	8,095,492

Geographic region	2016	2015
	KD 000's	
Middle East	**6,386,562**	5,810,556
Europe	**2,915,947**	3,109,307
Other	**526,459**	787,511
	9,828,968	9,707,374
Less: deferred and suspended profit	**(1,127,413)**	(1,139,659)
Net receivables	**8,701,555**	8,567,715
Less: impairment	**(525,766)**	(472,223)
	8,175,789	8,095,492

Impairment of receivables from customers for financing receivables is analysed as follows:

KD 000's

	Specific		*General*		*Total*	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*
Balance at beginning of year	**178,247**	209,072	**293,976**	277,587	**472,223**	486,659
Provided during the year (Note 5)	**102,243**	141,600	**9,094**	26,280	**111,337**	167,880
Amounts written off and foreign currency translation	**(52,400)**	(172,425)	**(5,394)**	(9,891)	**(57,794)**	(182,316)
Balance at end of year	**228,090**	178,247	**297,676**	293,976	**525,766**	472,223
Murabahas and wakalas	**218,127**	160,973	**267,399**	263,339	**485,526**	424,312
Leased assets	**7,991**	15,621	**28,279**	28,874	**36,270**	44,495
Istisna'a and other receivables	**1,972**	1,653	**1,998**	1,763	**3,970**	3,416
	228,090	178,247	**297,676**	293,976	**525,766**	472,223

10. FINANCING RECEIVABLES (continued)

Non-performing financing facilities

At 31 December 2016, non-performing cash finance facilities before impairment (net of deferred profit and suspended profit) amounted to KD 252,036 thousand (2015: KD 295,484 thousand).

Provision for the year on non-cash facilities is KD 12,435 thousand (2015: reversal of KD 10,593 thousand) (Note 5). The available provision on non-cash facilities of KD 31,588 thousand (2015: KD 19,995 thousand) is included under other liabilities (Note 22).

The fair values of financing receivables do not materially differ from their respective book values.

The future minimum lease payments receivable in the aggregate are as follows:

		KD 000's
	2016	*2015*
Within one year	**910,532**	1,047,420
One to five years	**324,154**	320,174
After five years	**441,271**	384,468
	1,675,957	1,752,062

The unguaranteed residual value of the leased assets at 31 December 2016 is estimated at KD 155,117 thousand (2015: KD 238,501 thousand).

The fair value of collateral held against leased assets at 31 December 2016 is KD 6,622,336 thousand (2015: KD 5,743,941 thousand).

11. INVESTMENTS

		KD 000's
	2016	*2015*
Sukook	**1,099,603**	806,544
Managed portfolios	**92,592**	103,901
Unquoted equity investments	**112,620**	126,855
Venture capital at fair value through statement of income	**58,230**	132,030
Mutual funds	**49,453**	71,911
Quoted equity investments	**43,626**	73,515
	1,456,124	1,314,756
Financial assets available for sale at fair value	**1,273,447**	1,040,754
Financial assets available for sale carried at cost	**124,447**	141,972
Venture capital at fair value through statement of income	**58,230**	132,030
	1,456,124	1,314,756

Included in managed portfolios is an amount of KD 54,172 thousand (2015: KD 49,248 thousand) which represents the Bank's investment in 100,319 thousand shares (2015: 91,199 thousand shares) of the Bank on behalf of depositors, equivalent to 1.91% of the total issued share capital at 31 December 2016 (2015: 1.91%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

12. INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2016	*2015*			
Sharjah Islamic Bank P.J.S.C.	**20**	20	United Arab Emirates	Islamic banking services	30 September 2016
Ibdar Bank B.S.C.	**40**	40	Bahrain	Islamic banking service	30 September 2016
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	**46**	53	Kuwait	Aircraft leasing and financing services	30 September 2016

The following table illustrates the summarised aggregate information of the Group associates, as all associates are individually immaterial:

Summarised consolidated statement of financial position:

	KD 000's	
	2016	*2015*
Assets	**4,255,179**	4,065,714
Liabilities	**(3,151,381)**	(2,869,457)
Equity	**1,103,798**	1,196,257
Carrying amount of the investment	**297,352**	355,670

Summarised consolidated statement of income:

Revenues	**288,844**	166,463
Expenses	**(261,558)**	(139,689)
Profit for the year	**27,286**	26,774
Group's share of profit/(loss) for the year	**3,610**	(2,251)

Investments in associates with a carrying amount of KD 200,007 thousand (2015: KD 193,431 thousand) have a market value of KD 189,924 thousand at 31 December 2016 (2015: KD 160,782 thousand) based on published quotes.

Dividends received from the associates during the current year amounted to KD 3,985 thousand (2015: KD 5,068 thousand).

13. INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2016	*2015*			
Diyar Homes Company W.L.L (Souq Al Muharraq)	**50**	50	Bahrain	Real estate development	30 November 2016
Al Durrat Al Tijaria Company W.L.L	**50**	50	Bahrain	Real estate development	30 November 2016
Diyar Al Muharraq Company W.L.L.	**52**	52	Bahrain	Real estate development	30 November 2016

The following table illustrates the summarised aggregate information of the Group joint ventures, as all joint ventures are individually immaterial:

Summarised consolidated statement of financial position:

	2016	*2015*
		KD 000's
Assets	**667,766**	615,232
Liabilities	**(444,729)**	(397,371)
Equity	**223,037**	217,861
Carrying amount of the investment	**172,116**	179,186

Summarised consolidated statement of income:

	2016	*2015*
		KD 000's
Revenues	**99,728**	8,039
Expenses	**(85,334)**	(5,356)
Profit for the year	**14,394**	2,683
Group's share of profit for the year	**7,324**	1,276

14. INVESTMENT PROPERTIES

	2016	*2015*
		KD 000's
At 1 January	**580,499**	529,285
Additions	**65,221**	141,006
Transfer to leasehold rights	**-**	(23,108)
Transfer to trading properties	**(1,962)**	(136)
Disposals	**(9,062)**	(46,101)
Discontinued operations	**(33,419)**	-
Depreciation charged for the year	**(7,051)**	(7,770)
Impairment loss charged for the year (Note 5)	**(3,425)**	(12,677)
At 31 December	**590,801**	580,499

14. INVESTMENT PROPERTIES (continued)

	KD 000's	
	2016	*2015*
Developed properties	**435,591**	434,031
Properties under construction	**155,210**	146,468
	590,801	580,499

15. OTHER ASSETS

	KD 000's	
	2016	*2015*
Precious metals inventory	**70,495**	49,882
Trade receivable	**179,939**	173,945
Clearing accounts	**100,902**	81,846
Receivables on sale/redemption of investment	**47,342**	6,210
Deferred tax	**23,214**	26,968
Advances for investment properties	**-**	2,446
Other miscellaneous assets	**126,760**	128,012
	548,652	469,309

16. INTANGIBLE ASSETS AND GOODWILL

	KD 000's	
	2016	*2015*
Intangible assets	**32,453**	41,222
Goodwill	**6,722**	6,738
	39,175	47,960

Movement of intangible assets is as follows:

	KD 000's	
	2016	*2015*
Cost		
At 1 January	**77,752**	83,707
Additions	**3,958**	11,689
Disposal	**(4,936)**	(4,768)
Impairment	**(5,186)**	(12,876)
At 31 December	**71,588**	77,752
Accumulated amortization		
At 1 January	**36,530**	28,519
Charge for the year	**4,231**	9,803
Disposals	**(1,626)**	(1,792)
At 31 December	**39,135**	36,530
Net book value		
At 31 December	**32,453**	41,222

16. INTANGIBLE ASSETS AND GOODWILL (continued)

Intangible asset include license of an islamic brokerage company amounting to KD 14,671 thousand (2015: KD 14,671 thousand) and is considered as an intangible asset with an indefinite useful life. The carrying value of the islamic brokerage license is tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit (CGU). The recoverable amount of the license has been determined using a discount rate of 14.35% and a terminal growth rate of 3%. As a result, the management believes there are no indications of any impairment in value. In addition, the balance includes exploration rights of Nil (2015: KD 6,162 thousand) with a finite useful life. Other intangible assets amounting to KD 17,782 thousand (KD 20,389 thousand) represent software development cost, software license right and other rights with finite useful lives. Intangible assets with finite lives are amortised over their useful economic life.

17. LEASEHOLD RIGHTS

On classification of assets of AIG as discontinued operations (Note 18), leasehold rights have been presented as Assets classified as held for sale in the consolidated statement of financial position.

18. DISCONTINUED OPERATIONS

On 30 June 2016, the Board of Directors of the Bank approved to sell the Group's interest in its subsidiary Aref Investment Group (AIG). As a result, the consolidated statement of financial position at 31 December 2016 presents the assets, liabilities of AIG as assets classified held for sale, and liabilities directly associated with the assets classified as held for sale, respectively, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The major classes of assets of AIG comprise of leasehold rights, investments in equities and real estate and liabilities comprise of due to banks, financial institutions, and other liabilities.

The Bank has presented AIG assets classified as held for sale amounting to KD 375,322 thousands and liabilities directly associated with the assets classified as held for sale amounting to KD 162,862 in the consolidated statement of financial position net of accumulated impairment provision attributable to the shareholders of the Bank of KD 41,487 thousand and inter-group eliminations.

During the current year, the Board of Directors of the Bank approved to sell the Group's interest in its subsidiary Public Service Company K.S.C. (Closed) (PSC). As a result, the consolidated statement of financial position at 31 December 2016 presents the assets and liabilities of PSC amounting to KD 7,920 thousand and KD 3,076 thousand respectively as assets classified held for sale, and liabilities directly associated with the assets classified as held for sale, respectively, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

During the current year, the Group established certain subsidiaries for Syndication purpose. Therefore, these subsidiaries were classified as a disposal group held for sale in the consolidated statement of financial position at 31 December 2016. Assets and liabilities of these subsidiaries amounting to KD 103,138 thousand and KD 61,554 thousand respectively are presented as assets classified held for sale, and liabilities directly associated with the assets classified as held for sale, respectively, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

19. SUBSIDIARIES

19.1 Details of principal operating material subsidiaries

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2016	*2015*		
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	31 December 2016
KFH Private Equity Ltd	Cayman Islands	100	100	Islamic investments	31 December 2016
KFH Financial Service Ltd.	Cayman Islands	100	100	Islamic real estate development and investments	31 December 2016
KFH Capital Investments Company K.S.C. (Closed)*	Kuwait	99.9	99.9	Islamic finance and investments	30 September 2016
KFH Real Estate Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Real estate development and leasing	31 October 2016
Development Enterprises Holding Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Infrastructure and industrial investment	31 December 2016
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	100	100	Real estate development and investment	30 September 2016

19. SUBSIDIARIES (continued)

19.1 Details of principal operating material subsidiaries (continued)

Name	*Country of registration*	*Interest in equity %* **2016**	*2015*	*Principal activity*	*Financial statements reporting date*
KFH Investment Company K.S.C.(Closed)(a)*	Kuwait	-	99.9	Islamic finance and investments	30 September 2016
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	100	100	Islamic investment	31 December 2016
Kuwait Finance House B.S.C.	Bahrain	100	100	Islamic banking services	31 December 2016
Gulf International Automobile Trading Company K.S.C. (Closed)*	Kuwait	99.6	99.6	Trading, import and export of used cars	30 September 2016
E'amar	Cayman Islands	100	100	Islamic investments	31 December 2016
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	97	Computer maintenance, consultancy and software services	30 September 2016
Muthana GCC Islamic Banks Fund	Kuwait	93	90	Islamic equity investments	30 September 2016
Public Service Company K.S.C. (Closed)	Kuwait	80	80	Management consultancy and services	30 September 2016
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	31 December 2016
Al Salam Hospital K.S.C. (Closed)(b)	Kuwait	76	55	Healthcare services	30 September 2016
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	56	56	Real estate, investment, trading and real estate management	31 October 2016
Muthana Islamic Index Fund	Kuwait	64	63	Islamic equity investments	30 September 2016
Aref Investment Group K.S.C.(Closed)	Kuwait	53	53	Islamic investments	30 September 2016
Turkapital Holding B.S.C.(C)	Bahrain	51	51	Real estate, auto leasing and Islamic insurance	30 September 2016

**Effective ownership percentage is 100% (2015: 100%).*

(a) During the current year, the Group sold its investment in KFH Investment Company K.S.C (Closed) to a third party.

(b) During the current year, the Group acquired an additional 21% equity stake in Al Salam Hospital K.S.C (Closed) from an associate.

19. SUBSIDIARIES (continued)

19.2 Material partly-owned subsidiary

Financial information of subsidiary that have material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

	Country of incorporation & operation	*Percentage*	
		2016	*2015*
Kuwait Turkish Participation Bank (KTPB)	Turkey	**38%**	38%

The summarised financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations and adjustments.

Summarised consolidated statement of income for the year ended:

	KD 000's	
	2016	*2015*
Revenues	**378,575**	333,336
Expenses	**(320,738)**	(274,900)
Profit for the year	**57,837**	58,436
Attributable to non-controlling interests	**21,839**	22,065

Summarised consolidated statement of financial position as at:

	KD 000's	
	2016	*2015*
Total assets	**4,588,468**	4,766,514
Total liabilities	**(4,009,251)**	(4,245,110)
Total equity	**579,217**	521,404
Attributable to non-controlling interests	**239,064**	217,249

Summarised consolidated statement of cash flows for year ended:

	KD 000's	
	2016	*2015*
Operating	**165,809**	286,510
Investing	**(139,326)**	(5,581)
Financing	**77,915**	(127,055)
Net increase in cash and cash equivalents	**104,398**	153,874

20. DUE TO BANKS AND FINANCIAL INSTITUTIONS

		KD 000's
	2016	*2015*
Current accounts	**5,664**	5,387
Murabaha payable	**2,392,926**	2,725,094
Sukook payable	**473,061**	322,466
	2,871,651	3,052,947

The fair values of balances due to banks and financial institutions do not materially differ from their respective carrying values.

21. DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the Bank comprise the following:

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

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

In all cases, the investment deposits receive a proportion of the profit as the board of directors of the Bank determines, or bear a share of loss based on the results of the financial year.

b) The fair values of depositors' accounts do not differ from their carrying book values.

22. OTHER LIABILITIES

		KD 000's
	2016	*2015*
Trade payables	**198,702**	210,799
Accrued expenses	**104,621**	97,574
Certified cheques	**56,763**	74,309
Due to customers for contract work	**25,012**	37,889
Maintenance and other reserve	**80,839**	42,790
Employees' end of service benefits	**68,922**	68,825
Letter of guarantee covered	**54,594**	46,423
Refundable deposits	**7,149**	979
Provision on non cash facilities (Note 10)	**31,588**	19,995
Other miscellaneous liabilities	**71,055**	77,279
	699,245	676,862

23. RESERVES

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	***Total***
Balance at 1 January 2016	**238,252**	**238,252**	**124,579**	**7,084**	**17,729**	**(97,233)**	**(23,596)**	**505,067**
Profit for the year	-	-	**165,228**	-	-	-	-	**165,228**
Other comprehensive income (loss)	-	-	-	-	**7,999**	**(44,416)**	-	**(36,417)**
Total comprehensive income (loss)	-	-	**165,228**	-	**7,999**	**(44,416)**	-	**128,811**
Zakat paid	-	-	**(7,914)**	-	-	-	-	**(7,914)**
Transfer to reserves	**17,312**	**17,312**	**(34,624)**	-	-	-	-	-
Proposed issue of bonus shares (Note 25)	-	-	**(52,415)**	-	-	-	-	**(52,415)**
Proposed cash dividends (Note 25)	-	-	**(87,755)**	-	-	-	-	**(87,755)**
Acquisition of non-controlling interests (Note 19.1)	-	-	-	-	-	-	**(10,793)**	**(10,793)**
Loss on sale of treasury shares	-	-	-	**(349)**	-	-	-	**(349)**
Balance at 31 December 2016	**255,564**	**255,564**	**107,099**	**6,735**	**25,728**	**(141,649)**	**(34,389)**	**474,652**

23. RESERVES (continued)

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Employees' share options reserve*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	*Total*
Balance at 1 January 2015	238,252	238,252	108,224	4,246	7,078	4,493	(54,310)	(8,920)	537,315
Profit for the year	-	-	145,841	-	-	-	-	-	145,841
Other comprehensive income (loss)	-	-	-	-	-	13,236	(35,894)	-	(22,658)
Total comprehensive income (loss)	-	-	145,841	-	-	13,236	(35,894)	-	123,183
Zakat paid	-	-	(6,327)	-	-	-	-	-	(6,327)
Transfer to retained earnings	-	-	4,246	(4,246)	-	-	-	-	-
Deconsolidation of a subsidiary	-	-	-	-	-	-	(7,029)	-	(7,029)
Proposed issue of bonus shares (Note 25)	-	-	(47,650)	-	-	-	-	-	(47,650)
Proposed cash dividends (Note 25)	-	-	(79,755)	-	-	-	-	-	(79,755)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	(14,676)	(14,676)
Profit on sale of treasury shares	-	-	-	-	6	-	-	-	6
Balance at 31 December 2015	238,252	238,252	124,579	-	7,084	17,729	(97,233)	(23,596)	505,067

23. RESERVES (continued)

In the ordinary and extraordinary general assembly meeting of the shareholders of the Bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers of profit for the year attributable to the shareholders of the Bank to statutory reserve in excess of 10%. In accordance with the articles of association of the Bank, the ordinary general assembly of the shareholders of the Bank can approve an increase in the transfer of 10% each of the profit for the year attributable to the shareholders of the Bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the Bank.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and usable at the discretion of the ordinary general assembly in ways that may be deemed beneficial to the Bank. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

The ordinary general assembly meeting of the shareholders of the Bank held on 16 March 2015 approved to restrict the balance of statutory reserve and voluntary reserve up to 50% of the paid-up share capital and transfer amounts in excess of 50% of the paid-up capital from statutory reserve and voluntary reserve to retained earnings.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount of KD 48,824 thousand (2015: KD 50,173 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 24).

The share premium balance is not available for distribution.

Fair value reserve, foreign currency translation reserve and other reserve are attributable to both shareholders and deposit account holders.

24. SHARE CAPITAL AND TREASURY SHARES

The ordinary general assembly of the shareholders of the Bank held on 21 March 2016 approved 10% bonus shares on outstanding shares amounting to KD 47,650 thousand for the year ended 31 December 2015 (Note 25).

Share capital

	KD 000's	
	2016	*2015*
Authorized, issued and fully paid in cash:		
5,241,539,597 (2015: 4,765,035,998) shares of 100 fils each	**524,154**	476,504

The movement in ordinary shares in issue during the year was as follows:

	2016	*2015*
Number of shares in issue 1 January	**4,765,035,998**	4,331,850,908
Bonus issue	**476,503,599**	433,185,090
Number of shares in issue 31 December	**5,241,539,597**	4,765,035,998

24. SHARE CAPITAL AND TREASURY SHARES (continued)

Treasury shares and treasury share reserve.
The Group held the following treasury shares at the year-end:

	2016	*2015*
Number of treasury shares	**79,473,239**	73,537,453
Treasury shares as a percentage of total shares in issue	**1.52%**	1.54%
Cost of treasury shares (KD)	**48,823,661**	50,173,113
Market value of treasury shares (KD)	**42,915,549**	39,710,225

The balance in the treasury share reserve account is not available for distribution.

An amount of KD 48,824 thousand (31 December 2015: KD 50,173 thousand) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

The weighted average market price of the Bank's shares for the year ended 31 December 2016 was 487 (2015: 651) fils per share.

25. PROPOSED CASH DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 17% for the year ended 31 December 2016 (2015: 17%) and issuance of bonus shares of 10 % (2015: 10%) of paid up share capital as follows:

				KD 000's
	2016		*2015*	
		Total		*Total*
Proposed cash dividends (per share)	17 fils	87,755	17 fils	79,755
Proposed issuance of bonus shares (per 100 shares)	10 shares	52,415	10 shares	47,650

This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

The Board of Directors of the Bank has proposed Directors' fees of KD 772 thousand (2015: KD 610 thousand), (Note 28) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the shareholders of the Bank.

26. CONTINGENCIES AND CAPITAL COMMITMENTS

At the reporting date, there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

		KD 000's
	2016	*2015*
Acceptances and letters of credit	**146,155**	143,603
Letter of Guarantees	**1,675,716**	1,513,029
Contingent liabilities	**1,821,871**	1,656,632

		KD 000's
	2016	*2015*
Capital commitments	**399,058**	349,775

27. CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS ("ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS")

In the ordinary course of business the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments") to mitigate foreign currency and profit rate risk. Currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shareea'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. Currency swap structure comprises profit rate swap and currency swap. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used to hedge the foreign currency risk of the firm commitments.

Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

			KD 000's
	Positive fair value	***Negative fair value***	***Notional amount***
31 December 2016			
Forward contracts	**2,017**	**1,540**	**155,878**
Profit rate swaps	**330**	**-**	**13,591**
Currency swaps	**7,665**	**21,037**	**719,847**
Embedded precious metals	**-**	**62**	**90,872**
	10,012	**22,639**	**980,188**

			KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*
31 December 2015			
Forward contracts	1,681	1,460	172,626
Profit rate swaps	625	11	17,337
Currency swaps	3,021	16,423	541,893
Embedded precious metals	2	2	79,711
	5,329	17,896	811,567

27. CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS ("ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS") (continued)

In respect of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the net cash flows:

KD 000's

	Notional amount	*Within 3 months*	*3 to 12 months*	*More than 12 months*
31 December 2016				
Cash inflows	**980,188**	**693,216**	**218,014**	**68,958**
Cash outflows	**(745,823)**	**(512,285)**	**(133,450)**	**(100,088)**
Net cash flows	**234,365**	**180,931**	**84,564**	**(31,130)**
31 December 2015				
Cash inflows	811,567	506,185	212,983	92,399
Cash outflows	(744,380)	(507,236)	(133,310)	(103,834)
Net cash flows	67,187	(1,051)	79,673	(11,435)

28. RELATED PARTY TRANSACTIONS

Certain related parties (directors and executive employees, officers of the Group, their families, associated companies and companies of which they are the principal owners) were depositors and financing facilities customers of the Bank, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. These transactions are approved by the ordinary general assembly of the shareholders of the Bank.

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

KD 000's

	Major shareholders	*Associates & joint ventures*	*Board Members and executive Officers*	*Other related party*	***Total*** ***2016***	*Total* *2015*
Financing income	-	3,381	257	579	**4,217**	5,382
Fee and commission income	-	78	6	178	**262**	320
Finance costs	20,742	1,005	-	4,199	**25,946**	20,237

Balances with related parties included in the consolidated statement of financial position are as follows:

KD 000's

	Major shareholders	*Associates & joint ventures*	*Board Members and executive Officers*	*Other related party*	***Total*** ***2016***	*Total* *2015*
Financing receivables	-	110,356	7,329	16,728	**134,413**	142,786
Due to banks and financial institutions	1,324,112	10,798	-	264	**1,335,174**	1,305,034
Depositors' accounts	-	75,652	6,146	16,637	**98,435**	129,467
Contingencies and capital commitments	436	8,891	2	5,472	**14,801**	47,563
Investment managed by related party	-	-	-	34,108	**34,108**	33,824

28. RELATED PARTY TRANSACTIONS (continued)

Details of the interests of Board Members and Executive Officers are as follows:

	The number of Board Members or Executive Officers		The number of related parties		KD 000's	
	2016	2015	**2016**	2015	**2016**	2015
Board Members						
Finance facilities	**40**	36	**20**	18	**16,033**	39,581
Credit cards	**15**	20	**8**	7	**40**	47
Deposits	**78**	87	**145**	100	**10,021**	13,349
Collateral against financing facilities	**9**	11	**3**	1	**15,190**	9,104
Executive officers						
Finance facilities	**45**	30	**11**	7	**3,360**	2,702
Credit cards	**39**	23	**7**	3	**166**	116
Deposits	**83**	58	**79**	41	**9,171**	1,690
Collateral against financing facilities	**14**	14	**5**	4	**7,549**	4,885

The transactions included in the consolidated statement of income are as follows:

	KD 000's Total	
	2016	2015
Board Members		
Finance income	**132**	284
Executive officers		
Finance income	**125**	97
	257	381

Salaries, allowances and bonuses of key management personnel and remuneration of chairman and board members are as follows:

	KD 000's Total	
	2016	2015
Salaries, allowances and bonuses of key management personnel	**16,273**	17,201
Termination benefits of key management personnel	**953**	987
Remuneration of chairman and board members*	**1,536**	1,821
	18,762	20,009

** Remuneration of chairman and board members includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.*

The remuneration of chairman and board members are subject to the approval of the Annual General Assembly.

29. SEGMENTAL ANALYSIS

Primary segment information

For management purposes, the Group is organized into three major business segments. The principal activities and services under these segments are as follows:

Treasury: Liquidity management, murabaha investments, exchange of deposits with banks and financial institutions and international banking relationships.

Investment: Managing direct equity and real estate investments, investments in subsidiaries and associates, and international leasing.

Banking: Providing a range of banking services and investment products to corporate and individual customers, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.

KD 000's

31 December 2016	***Treasury***	***Investment***	***Banking***	***Other***	***Total***
Total assets	**5,410,812**	**1,803,976**	**8,358,439**	**926,126**	**16,499,353**
Total liabilities	**3,051,720**	**99,294**	**10,662,268**	**647,246**	**14,460,528**
Operating income	**23,070**	**80,067**	**523,662**	**32,851**	**659,650**
Provisions and impairment	**(835)**	**(39,464)**	**(49,756)**	**(50,573)**	**(140,628)**
Profit (loss) for the year	**17,411**	**17,480**	**324,279**	**(197,231)**	**161,939**

KD 000's

31 December 2015	*Treasury*	*Investment*	*Banking*	*Other*	*Total*
Total assets	5,524,693	2,067,541	8,116,867	785,583	16,494,684
Total liabilities	3,031,637	179,566	10,833,997	393,995	14,439,195
Operating income	11,695	119,208	464,827	107,213	702,943
Provisions and impairment	(466)	(56,598)	(75,609)	(50,888)	(183,561)
Profit (loss) for the year	6,901	29,549	274,484	(121,164)	189,770

29. SEGMENTAL ANALYSIS (continued)

Secondary segment information

The Group operates in different geographical areas. A geographical analysis is as follows:

	Assets		Contingencies and capital commitments	
KD 000's	**2016**	2015	**2016**	2015
Geographical areas:				
Middle East	**11,101,762**	10,761,616	**1,079,416**	794,834
Europe	**4,220,156**	4,241,242	**1,103,123**	1,161,744
Other	**1,177,435**	1,491,826	**38,390**	49,829
	16,499,353	16,494,684	**2,220,929**	2,006,407

KD 000's	Local		International		Total	
	2016	2015	**2016**	2015	**2016**	2015
Operating income	**270,563**	274,837	**389,087**	428,106	**659,650**	702,943
Profit for the year	**63,497**	90,849	**98,442**	98,921	**161,939**	189,770

30. RISK MANAGEMENT

Risk management is an integral part of the decision-making processes in the group. It is implemented under the governance process that confirms the existence of an independent risk assessment and control, control and surveillance carried directly by the Board of Directors and senior management. The Group works continuously on upgrading the capabilities of risk management in the light of business sector developments, also in the light of banking system instructions developments, stock exchange regulations and the best practices applied in risk management including the "three lines of defense".

First line of defense is the business units, which manages the relationship with the client. Its responsibility lies in understanding the customer's requirements to reduce the risk of mitigating customer defaults or risk of early withdrawal of deposits. Business units are also responsible to maintain the processes through which the Group serves the customer in order to mitigate any operational risk and reputation risk.

The functions of risk management and financial control represent the second line of defense. It is responsible for the development of frameworks for risk management and financial control. It is responsible for conducting and directing an independent assessment of risk management and control activities.

The third line of defense contains the functions of affirmation and security, which is a policy to comply with laws and regulations and anti-money laundering as well as the internal audit process. This line is responsible for ensuring compliance with regulatory as well as internal policies and to identify weaknesses so that corrective actions can be taken by management.

The Group is exposed to liquidity risk, credit risk, concentration risk, profit return risk, equity price risk and currency risk.

30. RISK MANAGEMENT (continued)

a) Risk management structure

The Group has an independent process whereby risks are identified, measured and monitored. The risk management unit is responsible for this process. The head of risk management has independent access to the Bank's Board of Directors.

Board of Directors
The Board of Directors of the Bank is responsible for the overall risk management approach and for approving risk strategies and principles. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

Risk management committee
The Bank's risk management committee has the overall responsibility for development of a risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk exposures.

Risk management unit
The Bank's risk management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process and includes monitoring the risk of exposures against limits.

Credit Committee
The Bank's Credit Committee conducts a review and take action on the determination of the Bank's credit risk while ensuring compatibility with the approved risk tendency. The committee also included in general compliance with all credit risk policies adopted with obtaining the necessary approvals and exceptions.

Assets and Liabilities Committee
The Bank's Assets and Liabilities Committee is responsible of the effective supervision of liquidity risk management and finance, adoption of frameworks, and follow-up implementation in its regular meetings.

Treasury
Treasury is responsible for managing the Bank's assets and liabilities, and the overall financial position. It is also responsible for funding and liquidity management.

b) Risk management and reporting systems

The risk management committee is responsible for managing and monitoring risk exposures. The risk management unit measures risk through the use of risk models and provides reports to the risk management committee. The models use probabilities based on historical experiences adjusted to reflect the economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Bank's Board of Directors is willing to accept.

Risk mitigation
As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts to manage exposures resulting from changes in yields, foreign currencies, equity risks and credit risks. The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration
In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

In addition, each of the banking subsidiaries of the Bank has similar risk management structures, policies and procedures as overseen by the Bank's Board of Directors.

31. CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a decentralized credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to finance facilities and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross (net of impairment), before the effect of mitigation through the use of master netting and collateral agreements.

			KD 000' s
	Notes	***2016***	*2015*
Balances with banks and financial institutions		**1,242,950**	1,352,997
Short-term murabaha	9	**2,877,241**	3,193,930
Financing receivables	10	**8,175,789**	8,095,492
Financial assets available for sale – Sukook	11	**1,099,603**	806,544
Trade and other receivables		**354,041**	308,167
Total		**13,749,624**	13,757,130
Contingent liabilities	26	**1,821,871**	1,656,632
Commitments	26	**399,058**	349,775
Total		**2,220,929**	2,006,407
Total credit risk exposure		**15,970,553**	15,763,537

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

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2016 was KD 184,555 thousand (2015: KD 126,840 thousand) before taking account of any collaterals.

31. CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

The Group's financial assets, before taking into account any collateral held can be analysed by the following geographical regions:

	KD 000's	
	2016	*2015*
Middle East	**8,599,763**	8,787,095
Europe	**4,045,521**	3,869,900
Other	**1,104,340**	1,100,135
	13,749,624	13,757,130

An industry sector analysis of the Group's financial assets, before taking into account collateral held is as follows:

	KD 000's	
	2016	*2015*
Trading and manufacturing	**3,882,095**	3,666,703
Banks and financial institutions	**5,146,473**	5,215,333
Construction and real estate	**2,580,134**	2,573,518
Other	**2,140,922**	2,301,576
	13,749,624	13,757,130

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for consolidated statement of financial position lines:

	KD 000's			
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2016				
Balances with banks and financial institutions	**1,242,950**	**-**	**-**	**1,242,950**
Short-term murabaha (Note 9)	**2,877,241**	**-**	**-**	**2,877,241**
Financing receivables (Note 10)	**5,619,614**	**1,957,010**	**599,165**	**8,175,789**
Financial assets available for sale – sukook (Note11)	**1,025,359**	**73,588**	**656**	**1,099,603**
Trade and other receivables	**354,041**	**-**	**-**	**354,041**
	11,119,205	**2,030,598**	**599,821**	**13,749,624**

	KD 000's			
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2015				
Balances with banks and financial institutions	1,352,997	-	-	1,352,997
Short-term murabaha (Note 9)	3,193,930	-	-	3,193,930
Financing receivables (Note 10)	4,832,336	2,601,104	662,052	8,095,492
Financial assets available for sale – sukook (Note11)	733,002	72,862	680	806,544
Trade and other receivables	308,167	-	-	308,167
	10,420,432	2,673,966	662,732	13,757,130

31. CREDIT RISK (continued)

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

				KD 000's
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
31 December 2016				
Financing receivables	**288,555**	**113,089**	**64,444**	**466,088**
31 December 2015				
Financing receivables	248,082	78,680	125,212	451,974

Rescheduled facilities (before impairment, net of deferred and suspended profit) amounted to KD 213,280 thousand (2015: KD 241,944 thousand). These represent financing receivable which are not impaired, however as required by regulations, group has recorded specific provision against these facilities.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines established by the Bank's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Group holds relating to finance facilities individually determined to be impaired at 31 December 2016 amounts to KD 102,819 thousand (2015: KD 165,535 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2016 was KD 182,045 thousand (2015: KD 181,694 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

32. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual payment arrangement and planned exit dates.

The maturity profile of assets and undiscounted liabilities at 31 December 2016 is as follows:

KD 000's

	Within 3 months	*3 to 6 months*	*6 to 12 months*	*After one year*	***Total***
Assets					
Cash and balances with banks and financial institutions	**1,459,959**	**1,917**	**2,855**	**29,926**	**1,494,657**
Short-term murabaha	**1,930,069**	**606,485**	**340,687**	**-**	**2,877,241**
Financing receivables	**1,875,653**	**849,570**	**1,340,186**	**4,110,380**	**8,175,789**
Trading properties	**28,836**	**2,430**	**15,227**	**139,848**	**186,341**
Investments	**453,854**	**45,999**	**10,341**	**945,930**	**1,456,124**
Investments in associates and joint ventures	**-**	**-**	**-**	**469,468**	**469,468**
Investment properties	**-**	**-**	**-**	**590,801**	**590,801**
Other assets	**225,167**	**7,915**	**61,589**	**253,981**	**548,652**
Intangible assets and goodwill	**-**	**-**	**-**	**39,175**	**39,175**
Property and equipment	**-**	**-**	**-**	**216,212**	**216,212**
Assets classified as held for sale	**7,918**	**436,975**	**-**	**-**	**444,893**
	5,981,456	**1,951,291**	**1,770,885**	**6,795,721**	**16,499,353**
Liabilities					
Due to banks and financial institutions	**1,719,357**	**268,097**	**302,515**	**581,682**	**2,871,651**
Depositors' accounts	**7,016,506**	**180,421**	**301,588**	**3,163,625**	**10,662,140**
Other liabilities	**129,066**	**14,075**	**90,150**	**465,954**	**699,245**
Liabilities directly associated with assets classified as held for sale	**3,076**	**224,416**	**-**	**-**	**227,492**
	8,868,005	**687,009**	**694,253**	**4,211,261**	**14,460,528**

32. LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2015 is as follows:

	Within 3 months	*3 to 6 months*	*6 to 12 months*	*After one year*	*KD 000's* *Total*
Assets					
Cash and balances with banks and financial institutions	1,567,356	376	526	31,454	1,599,712
Short-term murabaha	2,612,037	406,894	174,999	-	3,193,930
Financing receivables	1,809,757	945,948	1,284,410	4,055,377	8,095,492
Trading properties	6,204	126,425	37,957	43,776	214,362
Investments	395,318	8,957	29,279	881,202	1,314,756
Investments in associates and joint ventures	-	31,928	-	502,928	534,856
Investment properties	-	27,581	-	552,918	580,499
Other assets	76,356	36,821	23,894	332,238	469,309
Intangible assets and goodwill	-	-	-	47,960	47,960
Property and equipment	-	-	-	264,181	264,181
Leasehold rights	-	-	-	179,627	179,627
	6,467,028	1,584,930	1,551,065	6,891,661	16,494,684
Liabilities					
Due to banks and financial institutions	1,754,229	438,010	469,531	391,177	3,052,947
Depositors' accounts	6,943,463	144,702	315,490	3,305,731	10,709,386
Other liabilities	88,603	45,068	93,211	449,980	676,862
	8,786,295	627,780	878,232	4,146,888	14,439,195

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

	On demand	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	***KD 000's*** *Total*
2016						
Contingent liabilities (Note 26)	**922,987**	**502,377**	**229,623**	**156,932**	**9,952**	**1,821,871**
Capital commitments (Note 26)	**380,522**	**1,553**	**5,903**	**11,080**	**-**	**399,058**
Total	**1,303,509**	**503,930**	**235,526**	**168,012**	**9,952**	**2,220,929**

32. LIQUIDITY RISK (continued)

KD 000's

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
2015						
Contingent liabilities (Note 26)	724,894	547,991	187,638	182,969	13,140	1,656,632
Capital commitments (Note 26)	329,218	3,733	10,130	6,694		349,775
Total	1,054,112	551,724	197,768	189,663	13,140	2,006,407

The Bank expects that not all of the contingent liabilities or capital commitments will be drawn before expiry of the commitments.

33. MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The Group is not exposed to any risk in terms of the repricing of its liabilities since the Group does not provide contractual rates of return to its depositors and other financing arrangements are at fixed profit rate in accordance with Islamic Shareea'a.

Non-trading market risk

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to interest rate risk as the Bank does not charge or pay interest. Changes in interest rates may, however, affect the fair value of financial assets available for sale.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Bank's Board of Directors and a continuous assessment of the Group open positions, and current and expected exchange rate movements. The Group, wherever necessary, matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency. The Group also uses currency swap and forward foreign exchange contracts to mitigate foreign currency risk.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of financial assets available for sale).

KD 000's

	2016			*2015*		
Currency	***Change in currency rate %***	***Effect on profit***	***Effect on fair value reserve***	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*
U.S. Dollars	+1	**(954)**	**6,981**	+1	(168)	5,098
Bahraini Dinar	+1	**2,654**	**592**	+1	3,555	317

33. MARKET RISK (continued)

Non-trading market risk (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on fair value reserve (as a result of a change in the fair value of financial assets available for sale at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

KD 000's

	2016		*2015*	
	Change in equity price %	***Effect on fair value reserve***	*Change in equity price %*	*Effect on fair value reserve*
Market indices				
Kuwait Stock Exchange	**+1**	**874**	+1	823
Other GCC indices	**+1**	**71**	+1	436

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank has a set of policies and procedures, which is approved by its Board of Directors and 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. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall Bank-wide risk management.

The operational risk function of the Bank is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and supervising operational risks in Banks.

Country risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Group or indirectly through an obligor's ability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non–market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

34. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

34. CAPITAL MANAGEMENT (continued)

The Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) are shown below:

		KD 000's
Capital adequacy	***2016***	*2015*
Risk Weighted Assets	**11,408,921**	11,765,998
Capital required	**1,711,338**	1,529,580
Capital available		
Tier 1 capital	**1,853,574**	1,809,616
Tier 2 capital	**186,792**	151,343
Total capital	**2,040,366**	1,960,959
Tier 1 capital adequacy ratio	**16.25%**	15.38%
Total capital adequacy ratio	**17.88%**	16.67%

The Group's financial leverage ratio for the year ended 31 December 2016 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

		KD 000's
	2016	*2015*
Tier 1 capital	**1,853,574**	1,809,616
Total exposure	**18,554,168**	18,280,293
Financial leverage ratio	**9.99%**	9.90%

35. MANAGEMENT OF PURCHASED DEBTS

In accordance with Decree 32/92 and Law 41/93 in respect of the financial and banking sector, the Bank is required to manage the purchased debts without remuneration in conformity with the terms of the debt purchase agreement.

36. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2016 amounted to KD 1,103,087 thousand (2015: KD 1,184,836 thousand).

Fees and commission income include fees of KD 2,504 thousand (2015: KD 2,815 thousand) arising from trust and fiduciary activities.

37. FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

Level 1: quoted (unadjusted) prices in active markets.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2016.

				KD 000's
Financial assets measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Venture capital at fair value through statement of income (Note 11)	**-**	**58,230**	**-**	**58,230**
Financial assets available for sale (Note 11)	**867,724**	**48,216**	**357,507**	**1,273,447**
Derivative financial assets:				
Forward contracts	**-**	**2,017**	**-**	**2,017**
Profit rate swaps	**-**	**330**	**-**	**330**
Currency swaps	**-**	**7,665**	**-**	**7,665**
Embedded precious metals	**-**	**-**	**-**	**-**
Non-financial assets:				
Investment properties	**-**	**723,028**	**-**	**723,028**
	867,724	**839,486**	**357,507**	**2,064,717**

				KD 000's
Financial liabilities measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Derivative financial liabilities:				
Forward contracts	**-**	**1,540**	**-**	**1,540**
Profit rate swaps	**-**	**-**	**-**	**-**
Currency swaps	**-**	**21,037**	**-**	**21,037**
Embedded precious metals	**-**	**62**	**-**	**62**
	-	**22,639**	**-**	**22,639**

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2015.

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at fair value through statement of income (Note 11)	-	132,030	-	132,030
Financial assets available for sale (Note 11)	698,113	76,256	266,385	1,040,754
Derivative financial assets:				
Forward contracts	-	1,681	-	1,681
Profit rate swaps	-	625	-	625
Currency swaps	-	3,021	-	3,021
Embedded precious metals	-	2	-	2
Non-financial assets:				
Investment properties	-	756,033	-	756,033
	698,113	969,648	266,385	1,934,146

37. FAIR VALUES (continued)

				KD 000's
Financial liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Derivative financial liabilities:				
Forward contracts	-	1,460	-	1,460
Profit rate swaps	-	11	-	11
Currency swaps	-	16,423	-	16,423
Embedded precious metals	-	2	-	2
	-	17,896	-	17,896

Investments classified under level 1 are valued based on the quoted bid price. Investments classified under level 2 are valued based on the reported NAVs.

Level 3 investments included unquoted sukook of KD 331,067 thousand (2015: KD 236,787 thousand) and unquoted equity investments of KD 26,440 thousand (2015: KD 29,598 thousand). Sukook included in this category represent sukook issued by sovereign entities, financial institutions and corporates. The fair values of unquoted sukook are estimated using discounted cash flow method using discount rate (ranging from 1.8% to 5.4%). Unquoted equity investments are fair valued using valuation technique that is appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments were altered by 5%.

Instruments disclosed in Note 26 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognised market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

Investment properties have been valued based on valuations by valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date with gap of no more than two months.

All investment properties are valued using observable market inputs. Market comparable approach is used for all investment properties, where market price per square meter and annual income are significant inputs to the valuation.

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table below shows a reconciliation of the opening and the closing amount of level 3 financial assets available for sale:

		KD 000's
	2016	*2015*
As at 1 January	**266,385**	219,879
Re-measurement recognised in other comprehensive income	**1,613**	204
Purchases, net	**89,509**	46,302
As at 31 December	**357,507**	266,385

KFH Corporate
Governance Manual

Corporate Governance Manual

Introduction

The Board, Senior Management and all employees of Kuwait Finance House (KFH) are committed to effective Corporate Governance and to observing the highest standard of behaviour and conduct.

KFH is committed to promoting integrity and maintaining the highest standard of ethical conduct in all its activities.

Principles of Good Corporate Governance

Corporate Governance is a system of rules, practices and processes by which an organization is directed and controlled. Corporate Governance balances the interest of all stakeholders in the organization, including customers, management, employees, financiers, government and community. It establishes the responsibilities and duties of the board of Directors and Senior Management in the organization taking into account protection of the rights of shareholders and stakeholders.

This Framework includes:

- The contract between KFH , shareholders and stakeholders
- Distribution of responsibilities
- Applicable procedure to reconcile conflicts among stakeholders.
- Procedures for proper supervision, control, and information

Key elements of good corporate governance are:

- Transparency: Making information widely-known and/or available
- Accountability: Justification of procedures and/or decisions
- Justice: carry out work fairly and neutrally.
- Integrity : The quality of being honest and ethical

Fatwa and Sharia Supervisory Board

Islamic banks are characterized for their compliance with Islamic rules and regulations in all their activities and practices. This aspect is the main factor that distinguishes Islamic banks from traditional banks. To ensure full compliance with Islamic rules and regulations banking laws and systems at the State of Kuwait demand the formation of Fatwa and Sharia Supervisory Boards at Islamic banks. Sharia boards ensure that all bank works and activities are in compliance with Sharia rules and regulations, provide Sharia opinion on the activities, products and services provided by Islamic banks and provide solutions and alternatives for products and activities contained in the Sharia board remarks.

Fatwa and Sharia Supervisory Board occupies a highly significant position at KFH organizational structure. Sharia board members are appointed by KFH general assembly. The committee comprises five members minimum, bearing in mind that the members' structure is subjected to governance as provided in the instructions issued by the Central Bank of Kuwait.

KFH Fatwa and Sharia Supervisory Board activities comprise the following:

- Present an annual report at the general assembly meeting to ensure conformity of KFH activities with Shari rules and regulations.
- Supervise Shari'a Control and Advisory Department which shall, in its turn, supervise the execution of the resolutions and recommendations of FSSB at Kuwait Finance House.
- Supervise training programs and spread Sharia awareness among KFH employees to enable them to carry out their duties in compliance with Sharia rules and regulations. Sharia board may propose to the Board of Directors to hold seminars, conferences and forums to process Islamic economy issues.
- Sharia board shall convene minimum 12 meetings annually at the conference room at KFH. The Sharia board decisions shall be binding an obligatory. Sharia board candidate shall be holding the required educational qualifications or having extensive experience in the field of contemporary Islamic financial transactions.

Executive Manager – Sharia Supervision and Advisory

Executive Manager – Sharia Supervision and Advisory reports directly to the Fatwa and Sharia Supervisory Board. He provides a preliminary opinion on cases and matters presented by various KFH departments and sectors and raise the same to the Sharia board to obtain their final legislative approval.

Sharia Audit

Sharia audit plays a major role in ensuring the compliance of all KFH sectors and departments with the Islamic rules and regulations by auditing all contracts, products, services and activities carried out by KFH and ensuring their conformity with the legislative opinions and resolutions issued by Sharia board. Accordingly, this function is responsible for any shortcomings and failures in the level of compliance with the resolutions issued by KFH Fatwa and Sharia Supervision Board.

Sharia Research and Consultancies

Sharia research and consultancy function prepares Sharia studies on KFH products, services and activities and present the same to Sharia Board to obtain final sign off. Also, the function studies products, services and activities having Sharia comments on them and provides appropriate solutions and alternatives thereon and present the same to Sharia board for approval. The Sharia research and consultancy function supervises sharia training programs and courses and sharia awareness programs among KFH employees.

Sharia Board Secretariat

Sharia board secretariat prepares meetings of KFH Sharia Board, follows up execution of sharia board resolutions at all concerned KFH departments and sectors, receives inquiries from various departments on Sharia issues and determines the issues to be presented to the Sharia board to obtain Sharia opinion.

KFH is working on fulfilling all remaining CBK requirements concerning Sharia supervision governance at Kuwaiti Islamic banks issued as at 20/12/2016.

Corporate Governance at KFH

In June 2012, the Central Bank of Kuwait (CBK) has issued a set of instructions on corporate governance for local banks in Kuwait. The instructions include updates and development of previous CBK corporate governance rules taking into account the lessons learnt from the global financial crisis, new corporate governance guidelines issued in this respect and in particular the Basel Committee's paper titled "Principles for enhancing corporate governance" issued in October 2010, the principles issued by the Financial Stability Board (FSB) on remuneration schemes and the recommendations of the World Bank report issued in late 2010 concerning assessment of corporate governance principles at Kuwaiti banks, as well as the principles applied in some countries in the region.

In its new instructions, the CBK takes into account the structure of the Kuwaiti banking sector, the basic characteristics of the Kuwaiti economy and its integration with global economy as well as other factors that underline the critical importance of corporate governance at Kuwaiti banks.

Corporate Governance at KFH includes the following pillars (in line with the CBK instructions):

Pillar 1: Board of Directors

Pillar 2: Corporate Values, Conflict of Interest and Group Structure

Pillar 3: Senior Management

Pillar 4: Risk Management & Internal Controls

Pillar 5: Remuneration Policies and Procedures

Pillar 6: Disclosure and Transparency

Pillar 7: Complex Corporate Structure

Pillar 8: Protection of Shareholders' Rights

Pillar 9: Protection of Stakeholders' Rights

The following pages include a brief on each Pillar and the steps taken by KFH to implement the requirements under each Pillar in order to comply with the CBK instructions and promote sound governance within KFH.

Pillar 1: Board of Directors

The Board's Overall Responsibility

The Board has overall responsibility for KFH, including approving and overseeing the implementation of KFH strategic objectives, risk strategy, corporate governance and corporate values. The Board is also responsible for providing oversight of KFH senior management including the CEO.

The Board assumes ultimate responsibility for KFH business and its financial soundness, fulfilment of Central bank of Kuwait requirements, protecting the legitimate interests of shareholders, depositors, creditors, staff and stakeholders and ensuring that KFH is managed in a prudent manner and within the applicable laws and regulations and the internal policies and procedures of KFH.

Supervising Executive Management

The Board appoints a Chief Executive Officer (CEO) with integrity, technical competency and banking experience for KFH. Approval of the Board is also obtained prior to appointment of all executive management positions reporting to CEO or Chairman. The Board supervises KFH executive management in order to ensure they carry out their assigned roles in line with KFH objectives and targets and the policies approved by the Board.

Segregation of the Chairman and CEO Positions

The Board should clearly segregate the position of the Chairman from the Chief Executive Officer position and also ensure that they should not be first grade relatives to, or have any relationship with, the other in a way that may affect independence of decisions taken by each position.

Succession Plans

The Board shall ensure that HR has succession plans in place for the executive positions in KFH and that such plans are effectively implemented within KFH.

Board Structure

The Board shall have an adequate and sufficient number of members to enable it to form the necessary number of Board standing Committees in conformity with the sound governance standards of the CBK.

Chairman's Role

The Chairman plays an important role to ensure the proper functioning of the Board and to maintain a relationship of trust with the Board members. He/she ensures that Board decisions are taken on a sound and well-informed basis through proper discussion and dialogue. He should enhance discussions and seek to exchange points of view within the Board so that the adequate information reaches all the Board members and shareholders on a timely basis.

The Chairman plays a major role in maintaining a constructive relationship between the Board and the senior management of KFH and ensures that KFH has sound corporate governance standards in place.

Organization and Functioning of the Board

The Board shall meet as often as it deems fit but at least 6 times a year with at least 1 meeting in each quarter. The minutes of meetings shall be mandatory and constitute part of KFH records.

The Chairman, in consultation with the CEO, proposes the important and comprehensive topics to be included in the agenda of each Board meeting and ensures that the Board members are provided with sufficient information enough time before each Board meeting so as to be able to make informed decisions.

The Board Secretary takes record of all Board discussions, suggestions by the Board members and results of voting conducted in the Board sessions.

The responsibilities of the Board Chairman and members should be defined in writing so that they do not conflict with the relevant legislations and regulations.

Board Secretary

The overall role of the Board Secretary is to assist the Board and its Chairperson in running Board affairs including but not limited to the following:

- Ensure timely development of Board agendas in conjunction with the Chairman and CEO.
- Coordinate, organize and attend Board and shareholder meetings.

- Draft and maintain minutes and drafts of Board meetings.
- Carry out any instructions of the Board.
- Ensure compliance with all statutory requirements in relation to Board affairs.

Rights of Board Members

- To receive all available information to be discussed at a meeting, prior to that meeting. Board members shall be given adequate time to consider and debate issues.
- Have access to relevant and reliable information and be entitled to obtain such resources and information from KFH, including direct access to employees, as they may require.
- The board or any board Committee may, with the prior approval of the Chairman, seek their own independent legal or other professional advice at KFH expense to assist them in the proper performance of their duties to KFH and the shareholders.

Delegation of Authority

The Board has delegated the task of running day to day operations of KFH to KFH senior management headed by CEO through written/approved delegated financial and operational authorities. KFH has clearly set out all banking transactions which cannot be delegated to KFH management or CEO and require the Board’s approval.

Qualifications of Board Members

KFH board and committees should have qualified and experienced members in order to serve the interests of KFH, shareholders and stakeholders. The Board Nomination & Remuneration Committee (NRC) assists the Board in the selection / appointment of Board Directors and Committees by setting the basic criteria for such memberships. These are aimed at creating a Board capable of challenging, stretching and motivating management to achieve sustained and outstanding performance in all respects.

Board members shall always remain qualified, through training, to fill their posts. They should have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of KFH.

Ongoing Training & Development

The Board members, through regular trainings and participation in conferences and seminars, should develop their skills and experience in finance and banking business in line with the most recent future visions of the risks KFH encounters in a dynamically developing environment.

Effectiveness

The Board is to review and assess, at least annually, its performance and the performance of its individual directors and Committees.

Pillar 2: Corporate Values, Conflict of Interest and Group Structure

Corporate Ethics & Values

The Board shall define, through the Code of Conduct and Ethics, appropriate governance practices for its own work and have in place the means to ensure that such practices are followed and periodically reviewed for ongoing improvement. The Board takes the lead in establishing and setting professional standards and corporate values that promotes integrity for itself, senior management and other employees in a way that prevents the use of internal information of KFH for private interests and the establishment of proper mechanism for handling the customers’ claims.

The Code of Conduct and Ethics shall be circulated to all KFH staff and Board members, whose signatures are obtained as an acknowledgment to abide by contents therein. KFH should publish the Code on its website.

Conflict of Interests

The Board shall have a formal written Conflict of Interest Policy covering all conflict of interest-related matters and possibilities thereof including, but not limited to:

- Board member shall avoid, to the extent possible, any activities that could create conflicts of interest;
- Set up procedures to safeguard against the exercise of undue influence on KFH Board member or employee;
- Obtain board approval on any activity a Board member is engaged in to ensure that such activity will not create a conflict of interest;
- Board member shall disclose any matter that may result, or has already resulted, in a conflict of interest;

- Board member shall abstain from voting on any matter where the member may have a conflict of interest or where which may affect voting objectivity.
- All transactions with related parties shall be treated equally. The same applies to the board's dealing with issues in case of non-compliance with the policy.

Related Parties

KFH shall have in place written policies concerning related parties which shall include the rules and procedures regulating operations with related parties. KFH shall keep records of all related party transactions and keep them under appropriate audit.

KFH related parties must be determined based on the definition provided in International Accounting Standards (IAS). KFH shall keep updated records of these parties in order to control any transaction with them. All related party transactions are disclosed in accordance with IAS and applicable IFRS in this regard and as required by the local regulatory authorities including CBK.

Banking Confidentiality

Banking confidentiality is considered as one of the main pillars of banking business and a cornerstone in dealing with customers including depositors, customers, investors or other interested parties.

KFH has in place certain policies and procedures to observe banking confidentiality as follows: KFH various policies on keeping the confidentiality of banking business, stipulate the following as a minimum:

- KFH Board members and staff shall observe the confidentiality of information and data of KFH and its clients, and the information and data of the clients of other banks, which may be known to the employees due to their work nature.
- Non-disclosure of any information or data of KFH or its clients unless by the authorized persons, and to the extent allowed by KFH internal rules, regulations and policies.
- Maintaining the security of the information of KFH and its clients and setting the regulatory controls to prevent access to the same by anyone save the authorized persons. KFH Disclosure Policy sets the control systems to restrict access to information and data only to the authorized persons, and prevents leakage of any banking information in breach of banking confidentiality.
- KFH Board and senior management shall recognize their responsibility for developing security awareness in KFH in a way that enhances and keeps banking confidentiality.
- Information about KFH condition which may be available with a Board member or any of KFH staff shall not be used for serving personal interests or the interests of other related parties.
- KFH Internal Audit function monitors the proper implementation of all such policies.

Group Structures & Parent Bank Board

KFH Board has the overall responsibility for adequate corporate governance across the group and ensures that there are governance policies and mechanisms appropriate to the structure, business and risks of the group and its entities. It also evaluates such policies on regular basis to keep in line with the growth, complexity and geographic expansion and finds the appropriate ways to ensure that every affiliate complies with all applicable governance requirements.

KFH Board has approved on July 2015 all subsidiaries governance policy prepared in accordance with CBK instructions concerning governance rules and regulations at Kuwaiti banks and in accordance with the provisions of book 15 of the Capital Markets Authority regulations (corporate governance).

Board Committees

The board shall establish board committees in order to enhance the board supervision on KFH significant operations. However, this act shall not relief the board from their direct responsibility to process all board related matters. Board committees include the following:

- Nomination and Remuneration Committee
- Risk Committee
- Audit and Compliance Committee
- Executive Committee

- Governance Committee
- Investment Committee

The chairman shall not be a member in the audit and compliance committee, risk committee or the nomination and remuneration committee.

Nomination & Remuneration Committee:

The NRC assists the Board in nominating members of each Committee based on its criteria for membership in each committee and to ensure that there is sufficient number of non-executive directors present on each committee to ensure independency of their decisions.

The Committee should be formed from the Board members and shall include three non-executive members at least including the Committee Chairman. Each Committee has a Charter setting out its responsibilities, including:

- Membership and qualifications for membership
- Frequency of meetings
- Committee authorities
- Submission of reports to the Board

Responsibilities of the Nomination & Remuneration Committee include:

- Give recommendations to the Board regarding the nomination for Board membership in accordance with approved policies and standards as well as CBK instructions in this regard.
- Conducting an annual review on the required appropriate skills for Board membership, preparing a description of the capabilities and qualifications required for membership, conducting an annual review on the Board structure and giving recommendations about the proposed changes serving KFH interests.
- Conduct an annual assessment of the Board overall performance and performance of each Board member. This assessment covers the expertise and knowledge of Board members, assessment of their powers and authorities and their leadership qualifications.
- Provide information and summaries about certain critical issues to KFH and submit reports and information to Board members, in addition to ensuring that Board members are continuously updated with the latest banking business related affairs. For this purpose, the Board should attend the specialized scientific seminars and conferences in the field of banking and financial business.
- Supervise the policy and procedure of the Remuneration committee that is detailed in Section 5.

Risk Committee

A board committee comprising 3 non-executive board members including chairman. The committee is responsible for the following:

- Provide advice to the board on KFH strategy and current and future risk appetite and supervise the executive management implementation of this strategy.
- Ensure proper preparation of risk management framework at KFH including risk strategies, risk appetite, policies, procedures, tools and methodologies.

Risk committee shall review risk department policies and strategies at KFH to have the same approved by the board. Executive management shall be responsible for the execution of these strategies in addition to the development of policies and procedures to manage various types of risks.

KFH executive committee shall propose risk department structure, mission, responsibilities and methods of development provided that the department structure and mission shall be reviewed by the risk committee pending approval by the board.

Audit & Compliance Committee

Audit and Compliance committee shall be formed and shall comprise 3 non-executive board members including the head of committee. Two members of the audit and compliance committee shall have educational qualifications or practical experience in financial fields. The committee shall convene its meetings every 3 months at least or whenever required or upon the request of the committee head or the other two members.

Audit and Compliance Committee responsibilities are summarized as follows:

- Review scope, results and extent of adequacy of KFH internal and external audit requirements.
- Review accounting issues having material impact on financial statements.
- Review KFH internal control and ensure sufficiency of human resources allocated for control positions.
- Review KFH financial statements before presenting the same to the board and ensure adequacy of allocated provisions.
- Ensure KFH compliance with the related laws, policies, rules and regulations.

Audit and Compliance committee shall be authorized to obtain any information from the executive management in addition to its right to invite, through official channels, any executive manager or board member to attend its meetings.

Audit and Compliance committee shall, on annual basis, rate the performance of the internal audit head, regularity compliance and reporting department head, AML head and recommend thier remunerations. The committee shall convene meetings with external auditor and internal auditors once a year without the presence of executive management.

Audit and compliance committee responsibility shall not waive the board and executive management responsibility in regard to control and adequacy of internal audit systems at KFH.

Executive Committee

Executive Committee shall mainly assist the board in fulfilling its obligations concerning banking and investment activities at KFH according to the authorities given by the board to the committee. The Board may entrust the committee with other tasks and duties which may assist the board to perform its duties and responsibilities. The board shall appoint the committee members who shall not be less than 5 members. The head of the committee shall be one of the committee members assigned by the board. Committee membership duration shall be 3 years or the remaining period of board membership.

The main functions of the executive committee shall include but not limited to the following:

- Supervise the execution mechanism of KFH business plan and strategy, supervise performance efficiency, review performance report and present recommendations to the board in this respect.
- Review and approve finance transactions and investment offers presented by the executive management as per the authorizations list determined by the board.
- Approve or reject any proposals related to finance, liquidity and / or market risks within the limits of the approved financial authorities in regard to the maximum credit concentration limit per customer.
- Review management strategy concerning proposed provisions and management plan to recover bad debts (if any)
- Periodical review of the diversity and credibility of finance.
- Coordinate with risk committee to prepare periodical reports to update risk limits and implications.

Governance Committee

The main function of the governance committee is to assist the board in performing its obligations and responsibilities in supervising sound governance and work on developing the set of governance instructions and policies and monitor compliance with the governance guide by the board of directors, board committees and executive management.

Board governance committee comprises 3 board members including committee head and his deputy. Committee membership shall commensurate with the board membership.

Governance committee functions comprise the following:

- Develop comprehensive governance guide and framework and provide suggestions to update and change the same.
- Review adequacy of bank policies and practices concerning governance standards.
- Review and evaluate adequacy of code of professional conduct, work ethics and other approved policies and instructions at KFH.
- Review issues related to shareholders relations and bank contributions to charity works.
- Review the governance section in the Annual report.
- Annual evaluation of the committee and its duties including annual review of the committee’s responsibilities and authorities.

Investment Committee

The board passed its resolution to establish this committee in 2016 to assist the board in setting up the general principles of investment and supervision on the investment activities of KFH and its subsidiaries according to the authorities bestowed by the board to the committee and ensure KFH compliance with investment objectives.

Investment committee main functions include but not limited to the following:

- The committee shall assist the board in conducting its supervisory role and control on KFH investment assets including investment funds and portfolios. The committee shall raise its recommendations to the board and follow up investments in accordance with approved policies.
- Review reports related to KFH current investments, Capital Markets conditions locally and internationally as well as all information required to enable the committee to perform its responsibilities in an effective professional manner.
- Advise the board on any material changes on KFH investments.
- Follow up the implementation of the strategic policies and goals set by the board in regard to all investment activities.
- View all proposed new investments and verify their compliance with the board instructions and present recommendations to the board accordingly.
- Seek assistance of any external party to assist the committee in performing its functions.
- Raise recommendations to the board on any issue it deems suitable.
- Obtain any required information concerning the investment portfolio status through CEO.
- The committee shall review executive management's recommendations on the merge of current investments and present the same to the board.
- The committee shall conduct any other responsibilities and duties assigned thereto by the board.
- The committee shall raise its recommendations to the board in case need arises to increase/ decrease capital of the companies in which KFH is a shareholder.

Pillar 3: Senior Executive Management

Senior management consists of a core group of experienced and qualified individuals including the CEO, other C-level staff, GMs and Executive Managers who are responsible and accountable for supervising KFH management.

Under the direction of the Board, the senior executive management ensures that KFH activities are consistent with the business strategy, risk appetite and policies approved by the Board. The Board depends on senior management's competency in implementing the Board's resolutions/decisions without any direct interference by the Board.

Senior executive management shall contribute substantially to KFH sound corporate governance through personal conduct and by providing adequate oversight of those they manage. They are responsible for delegating duties to the staff and its monitoring thereof and establishing a management structure that promotes accountability and transparency.

Senior executive management is responsible for supervision and control over KFH business, particularly with respect to ensuring compliance, risk control, independence of functions and segregation of duties. They should provide the Board with periodic transparent and objective financial and administrative reports at least twice per months.

Chief Executive Officer

Chief Executive Officer (CEO) is responsible to the Board for the overall management and performance of KFH.

CEO manages the Bank in accordance with the strategy, plans and policies as approved by the Board. CEO is responsible for:

- Apply KFH strategic and practical plans with the board approval.
- Refer transactions exceeding his line of authority to the Board
- Ensuring that all actions comply with KFH policies and with the law
- All actions delegated to him/her by the Board

The performance of the CEO shall be reviewed by the Board on an annual basis. CEO remuneration shall be reviewed by the Nominations and Remuneration Committee and a recommendation shall be made to the Board following the annual review of performance.

Pillar 4: Risk Management & Internal Controls

Internal Control Systems

KFH has established efficient and effective internal control systems and risk management processes. The Board shall approve KFH organization structure consistent with KFH strategy and activities, job descriptions with detailed roles and responsibilities, and formal policies and procedures for all banking functions and processes.

Internal Audit monitors controls the implementation of such procedures and operations. Such policies and procedures determine the duties and responsibilities of each function, the authorities and reporting lines on different management levels in a way that realizes dual control and segregation of duties in order to avoid any conflict of functions.

KFH conducts an annual Internal Controls Review (ICR) through certified independent auditors other than KFH external auditors to ensure the adequacy of internal control systems.

KFH Whistle-blower Policy has set procedures enabling employees to report any potential violations that may occur. KFH ensures that whistle-blowers are protected and that they are not exposed to any threats or penalties in case their legitimate concerns are proved incorrect.

Risk Management

The Board and the Board Risk Committee (BRC) have established comprehensive policies on risk control and management. Such policies describe roles and responsibilities of the Board, the BRC, the Chief Risk Officer (CRO), the management and the Internal Audit function.

The CRO is responsible for KFH risk management function and has direct access to the Board Chairman and the Chairman of the BRC. The CRO has the authority to influence KFH decisions pertaining to exposure to risks. CRO responsibility does not nullify the board responsibility for final outcome. The CRO is independent and shall not bear any financial responsibilities. CRO may not be dismissed or terminated for any reason whatsoever without the prior consent of the board, bearing in mind that KFH shall discuss the reasons with CBK before termination. CRO shall report directly to the chief of risk committee.

Risk Management function is responsible for identifying, measuring, monitoring, controlling, mitigating risks and reporting on KFH risk exposures. Risk Management function is independent from other business units. However, it has access to all internal and external business lines, so as to understand them or request certain related information to assess exposures in an appropriate way.

Internal Audit

Internal audit function conducts its activities independently under the supervision of the Internal Audit Head at KFH. Internal audit function provides the board, higher management and stakeholders with reasonable assurances that the key organization procedures and controls are effective, appropriate, and complied with. Internal Audit has access to any information or any staff at KFH as well as the full authority to perform the tasks assigned to Internal Audit. However, the internal audit employee may not perform any executive responsibilities.

The board prior consent must be obtained upon appointment of the Chief Internal Auditor, who shall report to the audit and compliance committee. The Head of Internal Audit is appointed by the Board and reports to the Audit & Compliance Committee. The Head of Internal Audit reports to the Audit & Compliance Committee.

The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors:

- Nature and complexity of business and business culture
- Volume, size and complexity of transactions
- Degree of risk
- Degree of centralization and delegation of authority
- Extent and effectiveness of information technology; and the extent of regulatory compliance.

The key responsibilities of the Internal Audit function include the following:

1. Verifying the sufficiency and effectiveness of internal control systems and ensure that the internal control systems pertinent to financial and administrative issues are comprehensive and are being reviewed on timely manner.
2. Verifying that KFH internal policies are in full conformity with the relevant laws, policies, regulations and instructions.
3. Examining particular business activities relating to KFH financial position, internal control systems, risk management and others.

KFH shall not outsource any of the basic audit roles. In the event where KFH needs to outsource certain audit tasks to external parties for a specific period of time, CBK's approval will be sought.

External Audit

An external auditor shall enable an environment of good corporate governance as reflected in KFH financial records and reports. An external auditor shall be selected and appointed by the shareholders upon recommendation of the Audit & Compliance Committee and the Board.

The Audit & Compliance Committee has set appropriate standards to ensure that the external audit process is carried out by applying Dual Audit methodology.

External auditor shall provide the Audit & Compliance Committee with a copy of the audit reports and will meet with the Audit & Compliance Committee to discuss these reports and any other significant observations on KFH issues. The Audit & Compliance Committee shall meet with the external auditor in the absence of the executive management at least once a year.

The external audit office shall abide by the instructions issued by the regulatory authorities (Central Bank of Kuwait – Capital Market Authority – Ministry of Commerce and Industry). The external auditor of KFH shall not at the same time provide all services of an internal auditor to KFH. KFH shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor. The audit firm's partner in charge of KFH audit shall be rotated every four (4) years or earlier.

Pillar 5: Remuneration Policies and Systems

The Board actively oversees KFH remuneration system's design and operation, and monitors and reviews the remuneration system to ensure that it is operating as intended. Nominations and Remuneration Committee provides guidance to the Board in respect of all remuneration related matters.

KFH Payroll management Policy is part of HR Policies and serves as the remuneration policy and incorporates all CBK requirements as mentioned the corporate governance instructions. The policy includes all aspects and components of financial remuneration taking into consideration effective risk management in KFH. The policy is designed to attract and retain highly qualified, skilled, and knowledgeable professionals.

KFH remuneration system comprises the following major compensation components:

- Fixed Remuneration
- Variable Remuneration, which comprises:
    - Short Term Incentives
    - Long Term Incentives.

The guiding principles in managing remuneration for senior management are that:

- All elements should be set at an appropriate level taking into consideration market practices and wage indicators for similar skills.
- Remuneration should be used to encourage and reward performance continuously.
- Remuneration should be linked to key business goals as defined by the Board and should be linked with KFH performance risk duration.
- Any reward should be used to align the interests of senior management with shareholders.

KFH has a formal performance management process for evaluating and measuring staff performance at all levels objectively. KFH remuneration philosophy is implemented to reward continuous active performance. KFH discloses, in its Annual Report, the most significant aspects of its remuneration policies and systems.

Pillar 6: Disclosure and Transparency

Disclosure Policy

KFH understands that the disclosure system is an effective tool for influencing KFH behaviour and protecting investors, as well as enhancing their confidence in KFH. KFH shall provide shareholders and investors with accurate, comprehensive, detailed, sufficient, and timely essential information to be able to evaluate KFH performance and make effective decisions.

KFH is committed to:

- Ensure that stakeholders have the opportunity to access externally available information issued by KFH

- Provide full and timely information to the market about KFH activities
- Comply with the obligations under the CBK rules and regulations as well as the instructions of the Capital Market Authority

Information and data included in KFH's annual or quarter reports, or presented in lectures given by senior management shall be posted on KFH website, in both Arabic and English languages.

KFH is committed to timely and accurate disclosure of all material issues affecting it, including but not limited to:

- Financial and operational equities.
- KFH Objectives
- Controlling ownership shares.
- Details of Directors, key executives and their remuneration
- Material foreseeable risks
- Material issues regarding employees, stakeholders, etc.

The Board has approved the Disclosure Policy including the policies and procedures to be followed by KFH for announcing sensitive information to public, shareholders and stakeholders and to ensure there are proper controls in place for timely and accurate disclosure of essential information related to KFH in line with local regulations, IFRS, Basel requirements as well as CBK instructions on corporate governance – Book 10 – (disclosures) of Capital Markets Authority Regulations.

KFH maintains a disclosure record for Board members and executive management including the data required by the regulatory authorities. Such record is regularly updated.

The Board is ultimately responsible for ensuring integrity, accuracy and impartiality of the disclosed information and having necessary controls and mechanisms in place for the proper implementation of the disclosure policies and procedures. The Board monitors compliance with the Disclosure Policy and takes remedial action where necessary.

KFH shall not disclose any information which is confidential and proprietary in nature. Also, it shall not disclose any information pertaining to customers, products or systems which could have a material impact on KFH investment in those products or systems impact KFH competitive position. KFH shall not disclose any information or data, which might have an adverse impact on its condition or financial position, to certain categories like financial analysts, financial institutions or etc., before disclosing the same to the public.

Pillar 7: Complex Corporate Structure

Know Your Structure

KFH Board and senior management shall be fully aware of the structure of KFH operations and relevant risks at all times. They are fully aware of the structure of the KFH group, in terms of the objectives of each unit or entity, as well as formal and informal relationships between units and parent company.

Proper and effective measures and bylaws are in place for obtaining and exchanging information among group's entities, so as to manage the risks of the group as a whole and control the same effectively. KFH Board of Directors and senior management ensure that the products and their relevant risks are assessed by each entity in the group, and on the level of the entire group's entities as a whole.

Incorporation of New Structures

KFH has approved certain policies to establish new structures, thus confirming the following:

- Avoidance of unnecessary complex structures.
- Availability of central procedures to approve and monitor the incorporation of new legal entities under specific criteria including ability to supervise and fulfil the requirement necessary for the continuity of each unit.
- Ability to obtain information on KFH structure, including type, charter, ownership structure, and activity of each legal entity.
- Monitor risks associated with complex structures, including lack of transparency of operational risks arising from correlated and complex financing structures.

Pillar 8: Protection of Shareholders' Rights

The Board ensures to protect shareholders rights, minority's rights and stakeholders' rights as per the provisions of Law No. 32 of 1968, CBK instructions on corporate governance and KFH Articles and Memorandum of Association and internal policies including rules and regulations for shareholders and stakeholders rights and other related laws.

KFH shall prepare a statement of financial and non-financial penalties imposed during the year and the report shall be announced during the general assembly meeting.

Shareholders Rights

- Review and participate in the decisions related to the amendment of KFH Article and Memorandum of Association, as well as the decisions related to extraordinary transactions which might affect KFH future or activity, like mergers, sale of a substantial portion of its assets, or winding up of subsidiaries.
- Participate in general assembly meetings.
- Participate in the decision-making process concerning any significant changes being made at KFH.
- Express an opinion on the appointment of board members.
- Obtain accurate, comprehensive, detailed, sufficient, and timely essential information in order to evaluate investments and make informed decisions
- Receive dividends, participate and vote at the General Assembly meetings
- Treat minority's rights / foreign shareholders rights equally and give them the opportunity to rectify any violations or errors related to their rights. This will be in addition to other rights permitted in accordance with related rules and regulations.

Shareholders Responsibilities

- Ensure that the board conducts effective supervision.
- Ensure availability of sufficient data on KFH and monitor composition and performance of the board and board committees. Shareholders shall not have any direct interference in KFH affairs.
- Shareholders shall not seek access to sensitive KFH information which are not available publicly.

Pillar 9: Protection of Stakeholders' Rights

Stakeholders (other than shareholders) are considered as related parties participating in the success of the entity. The Board understands that KFH's ultimate success is an outcome of the joint efforts of a multitude of parties including depositors, customers, staff members, investors and other parties having business relationships with KFH.

KFH's various procedures, policies and practices accentuate the importance of respecting stakeholder rights as per relevant laws, bylaws and regulations.

Pursuant to KFH governance system the Board shall observe the following:

- Respect of stakeholders legal rights.
- Availability of performance enhancing mechanisms for stakeholders to take part in Corporate Governance process to ensure an effective and responsible approach to manage KFH business.

Stakeholders' Rights

- Right to be treated on a just and equitable basis
- Rights to receive direct and clear disclosures on related information.

Compliance Assessment

Board Governance Committee is responsible for maintaining this manual and monitoring compliance by all relevant parties at KFH. The manual has been posted on KFH's website and is subject to annual review.

KFH Corporate Governance Unit has established a system to determine and measure compliance with this Manual. Violations are reported to the Board Governance Committee which in its turn raises the same to the board.

Commercial operations and practices executed within any section or business unit at KFH and not complying with this manual shall be revoked unless they corrected to comply with this manual.

KFH has not violated any of this manual requirements since its implementation in July 2013.

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