Your banking partner

AUDITED FINANCIAL STATEMENTS

31 December 2014

Al Ahli Bank of Kuwait K.S.C.P.

Auditors' Report to the Shareholders

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL AHLI BANK OF KUWAIT K.S.C.P.

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Al Ahli Bank of Kuwait K.S.C.P. (the Bank) and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/B.S. 342/2014 dated 21 October 2014 respectively, the Companies Law No 25 of 2012, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/B.S. 342/2014 dated 21 October 2014 respectively, the Companies Law No 25 of 2012, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2014 that might have had a material effect on the business of the Bank or on its financial position.

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

BADER A. AL-WAZZAN
LICENCE NO. 62 A
DELOITTE & TOUCHE
(AL WAZZAN & CO.)

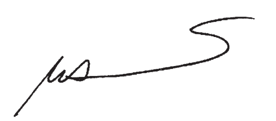
8 January 2015
Kuwait

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 (KD'000s)	2013 (KD'000s)
ASSETS			
Cash and balances with banks	3	144,825	197,921
Kuwait Government treasury bonds	4	279,831	227,673
Central Bank of Kuwait bonds	4	221,228	247,416
Loans and advances	5,20	2,422,297	2,189,412
Investment securities	22	345,011	252,168
Investment in an associate	6	14,865	13,609
Other assets	7	37,156	34,316
Premises and equipment		33,826	30,626
TOTAL ASSETS		3,499,039	3,193,141
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions		923,752	639,170
Customers' deposits		1,938,297	1,947,316
Other liabilities	8	78,642	65,823
TOTAL LIABILITIES		2,940,691	2,652,309
SHAREHOLDERS' EQUITY			
Share capital	9	161,917	161,917
Share premium	9	108,897	108,897
Treasury shares	9	(2,303)	(2,188)
Reserves	9	268,851	251,217
Proposed dividend	9	20,986	20,989
TOTAL SHAREHOLDERS' EQUITY		558,348	540,832
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,499,039	3,193,141

Talal Mohamed Reza Behbehani
Chairman



Michel Accad
Chief Executive Officer

The attached notes 1 to 22 form part of these consolidated financial statements.

Consolidated Income Statement
Year ended 31 December 2014

	Notes	2014 (KD'000s)	2013 (KD'000s)
Interest income	10	111,829	105,603
Interest expense	11	(27,469)	(21,803)
NET INTEREST INCOME		84,360	83,800
Net fees and commission income	12	22,030	21,984
Net foreign exchange gain		2,973	2,767
Net gain on investment securities		1,860	2,221
Dividend income		2,671	1,559
Share of results from an associate		1,976	1,796
Other income		1,740	1,495
OPERATING INCOME		117,610	115,622
Staff expenses		(22,181)	(19,994)
Other operating expenses and depreciation		(12,890)	(14,089)
OPERATING EXPENSES		(35,071)	(34,083)
OPERATING PROFIT FOR THE YEAR BEFORE PROVISIONS / IMPAIRMENT LOSSES		82,539	81,539
Provision / impairment losses	13	(42,381)	(43,992)
PROFIT FOR THE YEAR AFTER PROVISIONS / IMPAIRMENT LOSSES		40,158	37,547
Directors' fees		(360)	(360)
Taxation	14	(2,212)	(1,762)
NET PROFIT FOR THE YEAR		37,586	35,425
BASIC AND DILUTED EARNINGS PER SHARE	15	23 fils	22 fils

The attached notes 1 to 22 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2014

	2014 (KD'000s)	2013 (KD'000s)
NET PROFIT FOR THE YEAR	37,586	35,425
Other comprehensive (expense) income		
Items that may be reclassified subsequently to income statement:		
Effect of changes in fair values of investments available for sale	(989)	(370)
Net gain on sale / impairment losses on investments available for sale	(270)	(262)
Exchange difference on translation of foreign operations	58	(31)
	(1,201)	(663)
Items that will not to be reclassified to income statement:		
Revaluation of freehold land	2,232	483
	2,232	483
Other comprehensive income (expense) for the year	1,031	(180)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	38,617	35,245

The attached notes 1 to 22 form part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity
Year ended 31 December 2014

					Reserves									
	Share capital (KD'000s)	Proposed bonus shares (KD'000s)	Share premium (KD'000s)	Treasury shares (KD'000s)	Statutory reserve (KD'000s)	General reserve (KD'000s)	Treasury shares reserve (KD'000s)	Cumulative changes in fair value (KD'000s)	Property revaluation surplus (KD'000s)	Foreign currency translation reserve (KD'000s)	Retained earnings (KD'000s)	Total reserves (KD'000s)	Proposed dividend (KD'000s)	Total (KD'000s)
Balance as at 1 January 2013	151,324	10,593	108,897	(118)	56,876	56,429	8,065	25,205	5,535	22	84,829	236,961	9,078	516,735
Net profit for the year	–	–	–	–	–	–	–	–	–	–	35,425	35,425	–	35,425
Other comprehensive income for the year	–	–	–	–	–	–	–	(632)	483	(31)	–	(180)	–	(180)
Total comprehensive income for the year	–	–	–	–	–	–	–	(632)	483	(31)	35,425	35,245	–	35,245
Issue of bonus shares (Note 9)	10,593	(10,593)	–	–	–	–	–	–	–	–	–	–	–	–
Dividend paid (Note 9)	–	–	–	–	–	–	–	–	–	–	–	–	(9,078)	(9,078)
Treasury shares purchased	–	–	–	(2,070)	–	–	–	–	–	–	–	–	–	(2,070)
Transfers to reserves	–	–	–	–	3,743	3,743	–	–	–	–	(7,486)	–	–	–
Proposed dividend (Note 9)	–	–	–	–	–	–	–	–	–	–	(20,989)	(20,989)	20,989	–
Balance as at 31 December 2013	161,917	–	108,897	(2,188)	60,619	60,172	8,065	24,573	6,018	(9)	91,779	251,217	20,989	540,832
Net profit for the year	–	–	–	–	–	–	–	–	–	–	37,586	37,586	–	37,586
Other comprehensive (expense) income for the year	–	–	–	–	–	–	–	(1,259)	2,232	58	–	1,031	–	1,031
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	(1,259)	2,232	58	37,586	38,617	–	38,617
Dividend paid (Note 9)	–	–	–	–	–	–	–	–	–	–	–	–	(20,986)	(20,986)
Dividend on treasury shares	–	–	–	–	–	–	–	–	–	–	3	3	(3)	–
Treasury shares purchased	–	–	–	(115)	–	–	–	–	–	–	–	–	–	(115)
Transfers to reserves	–	–	–	–	3,969	3,969	–	–	–	–	(7,938)	–	–	–
Proposed dividend (Note 9)	–	–	–	–	–	–	–	–	–	–	(20,986)	(20,986)	20,986	–
Balance as at 31 December 2014	161,917	–	108,897	(2,303)	64,588	64,141	8,065	23,314	8,250	49	100,444	268,851	20,986	558,348

The attached notes 1 to 22 form part of these consolidated financial statements.

Consolidated Statement of Cashflows
Year ended 31 December 2014

	Note	**2014 (KD'000s)**	2013 (KD'000s)
OPERATING ACTIVITIES			
Net profit for the year		37,586	35,425
Adjustments for:			
Net gains on sale of investments available for sale		(1,851)	(2,334)
Dividend income		(2,671)	(1,559)
Share of results from an associate		(1,976)	(1,796)
Depreciation		1,366	1,621
Provisions / impairment losses	13	42,381	43,992
Operating profit before changes in operating assets and liabilities		74,835	75,349
Changes in operating assets and liabilities:			
Deposits with banks		(5,586)	40,584
Kuwait Government treasury bonds		(52,158)	(15,898)
Central Bank of Kuwait bonds		26,188	12,238
Loans and advances		(273,688)	(241,080)
Investments at fair value through profit or loss		(12,828)	(197)
Other assets		(838)	(1,440)
Due to banks and other financial institutions		284,582	81,430
Customers' deposits		(9,019)	108,643
Other liabilities		12,822	2,569
Net cash flows from operating activities		44,310	62,198
INVESTING ACTIVITIES			
Purchase of investments available for sale		(133,342)	(82,820)
Proceeds from sale of investments available for sale		50,336	20,882
Net movement in investment in an associate		720	(1,041)
Net purchase of premises and equipments		(2,334)	(2,571)
Dividend income received		2,671	1,559
Net cash flows used in investing activities		(81,949)	(63,991)
FINANCING ACTIVITIES			
Dividend paid		(20,986)	(9,078)
Purchase of treasury shares		(115)	(2,070)
Net cash flows used in financing activities		(21,101)	(11,148)
Foreign currency translation difference		58	(31)
Net decrease in cash and cash equivalents		(58,682)	(12,972)
Cash and cash equivalents at 1 January		154,086	167,058
Cash and cash equivalents at 31 December		95,404	154,086
Cash and cash equivalent comprise:			
Cash in hand and in current account with other banks		41,658	45,849
Balances with the Central Bank of Kuwait		37,470	62,237
Deposits with banks with original maturity of thirty days		16,276	46,000
		95,404	154,086

Interest received amounted to KD 110,071 thousand (31 December 2013: KD 103,493 thousand) and interest paid amounted to KD 22,668 thousand (31 December 2013: KD 24,626 thousand).

The attached notes 1 to 22 form part of these consolidated financial statements.

1 INCORPORATION AND REGISTRATION

Al Ahli Bank of Kuwait K.S.C.P. ("the Bank") is a public shareholding company incorporated in Kuwait on 23 May 1967 and is registered as a Bank with the Central Bank of Kuwait (CBK). Its registered office is at Al Safat Square, Ahmed Al Jaber Street, Kuwait City. It is engaged in banking, primarily in Kuwait, and in the United Arab Emirates.

The Bank has a wholly owned subsidiary, Ahli Capital Investment Company K.S.C. (Closed) ("the Subsidiary") and is engaged in investment management and advisory activities, regulated by the Capital Markets Authority, Kuwait (CMA).

These consolidated financial statements of the Bank and its Subsidiary (collectively "the Group") were approved for issue by the Bank's Board of Directors on 8 January 2015. The annual general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB), as adopted for use by the State of Kuwait for financial services institutions regulated by CBK. These regulations require adoption of all IFRS except for the IAS 39 requirement for collective provision, which has been replaced by CBK'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 basis except for "investment securities", "freehold land" and "derivative financial instruments" that have been measured at fair value.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary. The financial statement of the Subsidiary is prepared for the same reporting year as the Bank using consistent accounting policies. Subsidiaries are entities that are controlled by the Group. 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.

Subsidiaries are consolidated from the date on which the Group obtains control and continues to be consolidated until the date that such control ceases.

All material intra-group balances and transactions, including material unrealised gains and losses arising on intra-group transactions are eliminated on consolidation.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new/amendments to IFRS.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Bank, since it does not qualify to be an investment entity under IFRS 10.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group's consolidated financial statement.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no material impact on the Group's consolidated financial statements.

Standards/amendments issued but not yet effective

The following IASB Standards have been issued but are not yet effective and have not been early adopted by the Group.

IFRS 9 'Financial Instruments'

The standard was issued in Nov 2009 with subsequent amendments in October 2010, November 2013 and July 2014. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The management of the Group anticipates that the application of IFRS9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review. The standard is effective for annual period beginning on or after 1 January 2018. The standard will result in amendments and/or additional disclosures relating to classification, measurement and associated risks of financial instruments.

IFRS 15 Revenue from contracts with customers

The standard was issued in May 2014 and specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual periods beginning on or after 1 January 2017 and will replace mainly IAS 11 "Construction Contract", and IAS 18 "Revenue Recognition". The standard is not expected to have any impact on the financial position or performance of the Group.

The following amendments are effective for annual periods beginning on or after 1 July 2014 and are not expected to have a material impact on the Group.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards/amendments issued but not yet effective (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Financial Instruments

Classification of financial instruments

The Group classifies financial instruments as "loans and receivables" "investment securities", and "financial liabilities other than at fair value through profit or loss". Investment securities comprise of "investments at fair value through profit or loss" and "investments available-for-sale". Management determines the appropriate classification of each instrument at the time of acquisition.

Recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting i.e. the date the Group receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the consolidated income statement or in other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

De-recognition

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

- the contractual rights to receive the cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either

- has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

De-recognition (continued)
Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank would be required to repay.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

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

Subsequent measurement

Loans and receivables
These are non-derivative financial assets having fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest method adjusted for effective fair value hedges less any provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement under "Provisions / impairment losses".

Cash and balances with banks, Kuwait Government treasury bonds, Central Bank of Kuwait bonds, loans and advances and certain other assets are classified as "loans and receivables".

Investments at fair value through profit or loss
This category has two sub-categories: investments held for trading and those designated at fair value through profit or loss at inception. An investment is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the near term. Investments are designated at fair value through profit or loss in accordance with a documented investment strategy and reported to key management personnel on that basis. These are subsequently measured at fair value and any resultant gains or losses are recognised in the consolidated income statement. The Group has not designated any investments as 'those designated at fair value through profit or loss at inception' upon initial recognition.

Investments available for sale
These are non-derivative financial assets either designated as "available for sale" or are not classified as investments at fair value through profit or loss or loans and receivables. These are subsequently measured at fair value and any resultant gains or losses are recognised through other comprehensive income. When the asset is disposed of, or impaired, the related accumulated fair value adjustments are transferred to the consolidated income statement.

Financial liabilities other than at fair value through profit or loss
These are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate. Due to banks and other financial institutions, customers' deposits and other liabilities are classified as "financial liabilities other than at fair value through profit or loss".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Subsequent measurement (continued)

Derivative financial instruments and hedging

Derivatives include interest rate swaps and forward foreign exchange contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for "held for trading" derivatives, any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated income statement.

The Group makes use of derivative financial instruments to manage exposures to interest rate and foreign currency risks. Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated income statement.

In order to manage particular risks, the Group applies hedge accounting for transactions, which meet the specified criteria. At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure that the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at each reporting date. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the year for which the hedge is designated are expected to offset in a range of 80 per cent to 125 per cent.

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

Fair value hedge

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

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised directly in the other comprehensive income. The amount recognised in the other comprehensive income is removed and included in the consolidated income statement in the same year as the hedged cash flows affect profit or loss under the same income statement line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the consolidated income statement.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued and the amount recognised in the other comprehensive income remains in the other comprehensive income until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in the other comprehensive income is recognised immediately in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Subsequent measurement (continued)

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 recognized in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is amortised in the consolidated income statement in 'net fees and commission income' on a straight-line basis over the life of the guarantee. The guarantee liability is subsequently measured as a higher of the amount initially recognised less amortisation or the value of any financial obligation that may arise therefrom. Any increase in the liability relating to financial guarantees is recognised in consolidated financial statements.

Offsetting

Financial assets and liabilities are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Assets acquired in settlement of debt

Assets acquired in settlement of debts are stated at the lower of cost or fair value. Gains or losses are recognised in the consolidated income statement.

Impairment of assets

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

For loans and receivables, if there is objective evidence of impairment loss, the financial asset is written down to its recoverable amount. For loans and receivables with fixed interest rates, the recoverable amount is the present value of expected future cash flows discounted at the original effective interest rate and for loans and receivables with variable interest rates, the recoverable amount is discounted at the current effective interest rate as determined under the contract. Future cash flow includes amounts recoverable from guarantees and collateral. Financial guarantees are assessed and impairment loss is recorded in a similar manner as for loans and receivables. The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognised in the consolidated income statement. 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 reversed by adjusting the provision account. The amount of the increase or reversal is recognised in the consolidated income statement. Loans and receivables together with the associated provision account are written off when there is no realistic prospect of future recovery and all collateral have been realised or have been transferred to the Group. If a write off is later recovered, the recovery is recognised in the consolidated income statement.

Central Bank of Kuwait directives require the Group to maintain a minimum general provision of 1% on regular cash facilities and 0.5% on regular non cash credit facilities, net of certain categories of collateral.

For available for sale equity investments, the Group assess on each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired. When there is evidence of impairment, the cumulative 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 income statement, is transferred from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement. Any increase in their fair value after impairment is taken directly to other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of assets (continued)

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

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

Renegotiated loans

In the event of a default, the Group seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of its associate's post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition movements in other comprehensive income of associate is recognised in consolidated statement of changes in equity. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

Where applicable, adjustments are made to bring the accounting policies of the associate in line with those of the Group. The difference in reporting date of the associate and the Group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Group's consolidated financial statements.

At each reporting date, the Group determines if there is any objective evidence that the investment in the associate is impaired, in which case the Group calculates the amount of impairment loss as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, balances and deposits with banks with original maturity not exceeding thirty days.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and equipment

Premises and equipments other than freehold land are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all premises and equipments, other than freehold land, at rates calculated to write off the cost of each asset on a straight line basis over its estimated useful life.

Freehold land is initially recognised at cost. After initial recognition freehold land is carried at its revalued amount which is the fair value at the date of revaluation based on valuations by external independent valuers. The resultant revaluation surplus or deficit is recognised, as a separate component under other comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised surplus is recognised in the consolidated income statement. To the extent that a revaluation surplus reverses a revaluation loss previously recognised in the consolidated income statement, the increase is recognised in the consolidated income statement. Upon disposal the revaluation surplus relating to the freehold land sold is transferred directly to retained earnings.

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20 years
Furniture and equipment	3 to 5 years

The carrying amounts of premises and equipments are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the consolidated income statement.

End of service benefits

Provision is made for amounts payable to employees under the Kuwait Labour Law, employee contracts and respective applicable laws in the countries where the branches operate.

Treasury shares

Treasury shares consist of the Bank's own issued shares that have been reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to the "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance in that account. Any excess losses are charged to retained earnings then to the reserves. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Fair value measurement

For those assets and liabilities carried at fair value, the Group measures fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of financial instruments is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair value measurement
Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants. For investments in equity instruments where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

Fair values of non financial instruments are measured based on valuation provided by independent valuators.

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

All assets and liabilities for which fair value is measured are categorised and disclosed in the financial statements as follows

- Level 1 - Traded in the active market based on closing bid price.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. Valuation is derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exists which includes price to book value multiples, price earnings multiples, Net Asset Value issued by the Fund Manager.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Valuation techniques include discounted cash flow method, book value method or other relevant valuation techniques commonly used by market participants. The significant inputs for these valuation techniques include market interest rates, discount rates, terminal growth rate, illiquidity discount and cash flow estimates.

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

Revenue recognition
Interest income and expenses are recognised on an effective interest basis. Once a financial instrument categorised as loans and receivables is impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income and expenses for all interest bearing financial instruments including those classified as investments at fair value through profit or loss and investments available for sale, are recognised within interest income in the consolidated income statement.

Fees and commission that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Other fees and commission are recognized over the period of service. Dividend income is recognised when the right to receive the payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation
Taxation is provided for in accordance with the fiscal regulations in Kuwait and the United Arab Emirates where the foreign branches operate.

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

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

Assets and liabilities, both monetary and non-monetary, of foreign operations are translated at the exchange rates prevailing at the statement of financial position date. Operating results of such operations are translated at average exchange rates for the year. The resulting exchange differences are accumulated in other comprehensive income until the disposal of the foreign operation.

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

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

Use of estimates and judgements
The Group bases its estimates and judgements on parameters available when the consolidated financial statements were prepared. Existing circumstances and judgements about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group.

The basis used by management in determining the carrying values of certain class of assets and the underlying risks therein are discussed below:

Impairment losses on loans and receivables
The Group reviews its loans and receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Fair value measurement
Where the fair values recorded in the statement of financial position is measured using valuation techniques or pricing models, the inputs to these models are taken from either observable or unobservable data. The unobservable inputs include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgements (continued)
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of financial assets
On acquisition of financial assets, management decides whether it should be classified as investments at fair value through profit or loss or investments available for sale or loans and receivables. Further, determining whether or not the market for a quoted financial instrument is active requires judgement based on assessment of the volume/market conditions and availability of ready and regular quotes.

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

3 CASH AND BALANCES WITH BANKS

	2014 (KD'000s)	2013 (KD'000s)
Cash in hand and in current account with other banks	**41,658**	45,849
Balances with the Central Bank of Kuwait	**37,470**	62,237
Deposits with banks	**65,697**	89,835
	144,825	197,921

4 KUWAIT GOVERNMENT TREASURY BONDS AND CENTRAL BANK OF KUWAIT BONDS

These financial instruments are issued by the Central Bank of Kuwait on behalf of the Ministry of Finance or on its own behalf and are acquired from the primary market by the Group. These financial instruments carry a fixed rate of interest until maturity.

5 LOANS AND ADVANCES

A reconciliation of the provision for credit losses for loans and advances is as follows:

	2014 (KD'000s)	2013 (KD'000s)
At 1 January	**142,924**	148,043
Exchange difference	**143**	53
Amounts written off during the year	**(33,025)**	(44,876)
Recoveries	**2,400**	1,167
Charge for the year (Note 13)	**40,659**	38,537
At 31 December	**153,101**	142,924
General Provision	**130,715**	119,707
Specific Provision	**22,386**	23,217

5 LOANS AND ADVANCES (continued)

As at 31 December 2014, loans and advances to customers individually determined to be impaired amounted to KD 63,140 thousand (31 December 2013: KD 60,358 thousand) with a specific provision of KD 22,386 thousand (31 December 2013: KD 23,217 thousand). The fair value of collateral that the Group held for impaired loans and advances to customers, as at 31 December 2014 was KD 48,126 thousand (31 December 2013: KD 39,317 thousand).

The available provision on non-cash facilities is KD 16,622 thousand (31 December 2013: KD 15,462 thousand) and is included in other liabilities (Note 8).

During the previous year, CBK has issued Circular No. 2/RB,RBA,RS/306/2013 to all local banks and investment companies regarding formation of the Family Support Fund (the "Fund") under Law No. 104/2013. The Fund has been established to purchase outstanding balance of instalment and consumer loans from the Bank as on 12 June 2013 for loans granted before 30 March 2008. As at 31 December 2014, the Bank derecognised loans amounting to KD 19,782 thousand and continues to manage these loans on behalf of the Fund.

For disclosures relating to credit risk management, credit concentration, credit quality by class and credit risk mitigants for loans and advances, refer to note 20A.

6 INVESTMENT IN AN ASSOCIATE

The Bank holds 40% equity interest in Credit One Kuwait Holding Company K.S.C. ("Credit One"), an unquoted holding company incorporated in Kuwait engaged in providing credit facilities to customers on instalment sale of goods and services through its subsidiary.

Summarised financial information considered for the period ended 30 November is as follows:

	2014 (KD'000s)	2013 (KD'000s)
Current assets	**43,677**	38,108
Non-current assets	**38,530**	36,412
Current liabilities	**43,725**	39,273
Non-current liabilities	**561**	466
Equity	**37,921**	34,781
Revenue	**9,962**	8,976
Net profit	**4,934**	4,534

7 OTHER ASSETS

	2014 (KD'000s)	2013 (KD'000s)
Interest receivable	**22,631**	20,839
Others	**14,525**	13,477
	37,156	34,316

Others include KD 9,560 thousand (31 December 2013: KD 8,779 thousand) which represents assets acquired in settlement of a debt.

8 OTHER LIABILITIES

	2014 (KD'000s)	2013 (KD'000s)
Interest payable	11,582	6,800
Staff related accruals	10,745	10,154
Accrued expenses and payables	11,141	8,711
Provisions on non cash facilities (Note 5)	16,622	15,462
Others	28,552	24,696
	78,642	65,823

9 SHARE CAPITAL AND RESERVES

a) The authorised, issued and fully paid share capital comprises 1,619,166,234 shares (31 December 2013: 1,619,166,234 shares) of 100 fils each.

The shareholders at the Annual General Meeting held on 22 March 2014 approved the distribution of cash dividend of 13 fils per share amounting to KD 20,989 thousand for the year ended 31 December 2013 (31 December 2012: cash dividend of 6 fils per share amounting to KD 9,078 thousand and bonus shares of 7 per cent). Treasury shares are not entitled to any cash dividends. The bonus shares were registered in the Commercial Registry on 31 March 2013.

b) The balance in the share premium account is not available for distribution.

c) As required by the Companies Law, 10 per cent of the profit for the year before directors' fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support tax and Zakat has been transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50 per cent of paid up share capital.

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

d) The articles of association of the Bank require that an amount of not less than 10 per cent of the profit for the year be transferred annually to a general reserve. The transfer is before directors' fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support tax and Zakat. This reserve, over and above the cost of treasury shares is available for distribution.

e) As at 31 December 2014, the Bank held 4,862,229 (31 December 2013: 4,590,449) of its own shares equivalent to 0.30 per cent (2013: 0.28 per cent) of the total issued share capital at the reporting date. The market value of these shares at 31 December 2014 amounted to KD 1,994 thousand (31 December 2013: KD 2,020 thousand).

f) The directors have proposed a cash dividend of 13 fils per share for the year ended 31 December 2014, (31 December 2013: 13 fils per share) subject to the approval of the shareholders at the annual general meeting.

10 INTEREST INCOME

	2014 (KD'000s)	2013 (KD'000s)
Balances with banks	583	605
Debt securities	13,699	10,967
Loans and advances	97,547	94,031
	111,829	105,603

11 INTEREST EXPENSE

	2014 (KD'000s)	2013 (KD'000s)
Due to banks and other financial institutions	9,904	4,379
Customers' deposits:		
- Sight deposits	1,837	1,413
- Time deposits	15,728	16,011
	27,469	21,803

12 NET FEES AND COMMISSION INCOME

	2014 (KD'000s)	2013 (KD'000s)
Fees and commission income	24,336	23,785
Fees and commission expense	(2,306)	(1,801)
	22,030	21,984

Fees and commission income includes KD 1,109 thousand (31 December 2013: KD 1,190 thousand) from fiduciary activities.

13 PROVISIONS / IMPAIRMENT LOSSES

	2014 (KD'000s)	2013 (KD'000s)
Cash facilities – general	21,168	16,870
Cash facilities – specific	19,491	21,667
Non-cash facilities	1,141	2,383
Investments available for sale	1,581	2,072
Others (release)/charge	(1,000)	1,000
	42,381	43,992

14 TAXATION

	2014 (KD'000s)	2013 (KD'000s)
Kuwait Foundation for the Advancement of Sciences	357	337
National Labour Support Tax	992	936
Zakat	397	374
Tax on overseas branches	466	115
	2,212	1,762

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are computed by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

	2014	2013
Net profit for the year (KD'000s)	**37,586**	35,425
Weighted average number of the Bank's issued and paid-up shares	**1,619,166,234**	1,619,166,234
Less: Weighted average number of treasury shares	**(4,804,961)**	(1,651,873)
Weighted average number of shares outstanding during the year	**1,614,361,273**	1,617,514,361
Basic and diluted earnings per share (fils)	**23**	22

16 RELATED PARTY TRANSACTIONS

These represent transactions with certain related parties (directors and senior management of the Group, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence and associate of the Group) who were customers of the Group during the period. The terms of these transactions are approved by the Group's management.

In the normal course of business, these related parties have deposits with the Bank and credit facilities granted to them by the Bank. The balances included in the consolidated financial statements are as follows:

	Number		Number of related parties		Amount	
	2014	2013	**2014**	2013	**2014 (KD'000s)**	2013 (KD'000s)
Directors						
Loans and advances	**4**	4	**2**	2	**9,465**	12,991
Deposits	**7**	8	**16**	16	**7,529**	17,338
Managed Funds	**1**	1	**–**	–	**23**	21
Commitments and contingent liabilities	**–**	–	**1**	4	**2,037**	2,963
Loans and advances are fully collateralised.						
Key management						
Loans and advances	**9**	9	**–**	–	**186**	159
Deposits	**9**	8	**2**	2	**426**	669
Managed Funds	**–**	–	**1**	1	**62**	64
Commitments and contingent liabilities	**1**	1	**–**	–	**1**	1
Associate						
Deposits	**1**	1	**1**	1	**501**	905

Interest income and interest expense includes KD 650 thousand (31 December 2013: KD 612 thousand) and KD 103 thousand (31 December 2013: KD 279 thousand) respectively, on transactions with related parties.

16 RELATED PARTY TRANSACTIONS (continued)

Key management compensation

Compensation for key management is as follows:

	2014 (KD'000s)	2013 (KD'000s)
Salaries and other benefits	1,706	2,413
Post employment benefits	149	227
	1,855	2,640

17 COMMITMENTS AND CONTINGENT LIABILITIES

	2014 (KD'000s)	2013 (KD'000s)
Acceptances	21,459	28,661
Letters of credit	231,567	214,243
Guarantees	628,149	646,916
	881,175	889,820

The above balances represent the irrevocable contractual amounts of the Group's off balance sheet financial instruments that commit the Bank to make payments on behalf of the customers in the event of a specific act. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. The total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments may expire or terminate without being funded. Total commitments to extend credit at the statement of financial position date amounted to KD 352,453 thousand (31 December 2013: KD 194,736 thousand).

18 DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of its business the Group utilises derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. Derivative transactions result, to varying degrees, in credit as well as market risks.

The Group's measure of derivative related credit risk is the cost of replacing contracts at current market rates should the counter party default on or prior to the settlement date and is limited to the positive fair value of instruments that are favourable to the Group.

Market risk arises as interest and foreign exchange rates fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Group has established appropriate procedures and limits approved by the Board of Directors.

18 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their contractual amounts. The contractual amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts represent the volume of transactions outstanding at the year end and are not indicative of the credit or market risk.

	2014			2013		
	Assets (KD'000s)	**Liabilities (KD'000s)**	**Contractual amounts (KD'000s)**	Assets (KD'000s)	Liabilities (KD'000s)	Contractual amounts (KD'000s)
Held for hedging:						
Fair value hedges						
Interest rate swaps	257	492	83,293	212	528	54,879
Held for trading:						
Forward foreign exchange contracts	334	2,142	175,910	667	137	139,500
Interest rate swaps	–	3,264	88,883	209	249	88,883
	591	5,898	348,086	1,088	914	283,262

All derivative contracts are fair valued based on observable market inputs and are classified as level 2.

Forward foreign exchange contracts are contractual agreements to buy, sell or exchange a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted on the over the counter market and are settled on a gross basis.

Interest rate swaps are contractual agreements between two parties and may involve exchange of interest or exchange of both principal and interest for a fixed period of time based on contractual terms.

19 SEGMENTAL INFORMATION

The Group is organised into segments that engage in business activities which earns revenue and incurs expenses. These segments are regularly reviewed by the chief operating decision maker for resource allocation and performance assessment. For the purposes of segment reporting the management has grouped the products and services into the following operating segments:

Commercial Banking - Comprising a full range of credit, deposit and related banking services provided to its commercial customers.

Treasury and Investment - Comprising money market, foreign exchange, treasury bonds, asset and surplus fund management, investment securities and investment in an associate.

Operating income includes operating revenue directly attributable to a segment. Segment results include revenue and expenses directly attributable to a segment. Segment assets comprise those operating assets that are directly attributable to the segment.

19 SEGMENTAL INFORMATION (continued)

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

	Commercial banking		Treasury and Investment		Total	
	2014 (KD'000s)	2013 (KD'000s)	**2014 (KD'000s)**	2013 (KD'000s)	**2014 (KD'000s)**	2013 (KD'000s)
Operating income	**97,898**	97,139	**19,712**	18,483	**117,610**	115,622
Segment result	**42,601**	38,443	**13,692**	14,625	**56,293**	53,068
Unallocated expense					**(16,135)**	(15,521)
Profit before tax and directors' fees					**40,158**	37,547
Segment assets	**2,514,196**	2,271,578	**913,861**	856,621	**3,428,057**	3,128,199
Unallocated assets					**70,982**	64,942
Total assets					**3,499,039**	3,193,141
Segment liabilities	**1,988,330**	1,799,473	**873,719**	787,013	**2,862,049**	2,586,486
Unallocated liabilities					**78,642**	65,823
Total Liabilities					**2,940,691**	2,652,309

The commercial banking segment includes operating income of KD 9,342 thousand (31 December 2013: KD 8,277 thousand) and segment assets of KD 337,123 thousand (31 December 2013: KD 195,251 thousand) relating to overseas branches.

20 RISK MANAGEMENT

A. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks is explained in the Risk Management section of the annual report.

The maximum exposure to credit risk as at the statement of financial position date is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Maximum concentration of credit risk to a single or group of related counterparties is limited to 15 per cent of the Group's comprehensive capital as determined by the regulatory guidelines.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee which is composed of competent professional staff and which has as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This Committee is required to identify any abnormal situations and difficulties associated with a customer's position, which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

20 RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers, financial guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the financial guarantees. They expose the Group to similar risks to loans and advances and these are mitigated by the same control processes and policies.

Credit concentration risks

Geographical and industry sector concentrations of financial assets and contingent liabilities with credit risk are as follows:

	2014		2013	
	Assets (KD'000s)	Credit related contingent liabilities (KD'000s)	Assets (KD'000s)	Credit related contingent liabilities (KD'000s)
Geographic region:				
Domestic (Kuwait)	2,575,515	371,302	2,526,922	359,906
Other Middle East	502,283	154,387	344,468	135,307
Europe	95,163	90,078	136,643	94,202
United States of America	5,127	4,463	5,908	475
Rest of the world	138,689	260,945	37,706	299,930
	3,316,777	881,175	3,051,647	889,820
Industry sector:				
Trading and manufacturing	336,472	186,283	315,114	169,923
Banks and other financial institutions	448,270	378,798	497,627	414,680
Construction and real estate	788,095	226,286	703,860	198,385
Government and related entities	737,582	–	635,877	25,210
Personal	801,726	4,473	732,507	5,115
Others	204,632	85,335	166,662	76,507
	3,316,777	881,175	3,051,647	889,820

20 RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

Gross maximum exposures and credit quality of financial instruments

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

The table also shows the credit risk exposure by credit quality of financial assets by class, grade and status:

	Neither past due nor impaired				
	High Grade (KD'000s)	Standard grade (KD'000s)	Acceptable Grade (KD'000s)	Past due including individually impaired (KD'000s)	Gross Maximum exposures (KD'000s)
31 December 2014					
Balances with banks	128,713	19	–	–	128,732
Kuwait Government treasury bonds	279,831	–	–	–	279,831
Central Bank of Kuwait bonds	221,228	–	–	–	221,228
Loans and advances					
- Loans to customers	1,966,315	101,839	164,237	60,508	2,292,899
- Loans to banks	129,398	–	–	–	129,398
Debt securities available for sale (Note 22)	235,456	3,500	–	–	238,956
Other assets	23,464	724	1,129	416	25,733
Total	2,984,405	106,082	165,366	60,924	3,316,777
31 December 2013					
Balances with banks	182,882	6	–	–	182,888
Kuwait Government treasury bonds	227,673	–	–	–	227,673
Central Bank of Kuwait bonds	247,416	–	–	–	247,416
Loans and advances					
- Loans to customers	1,594,958	166,304	176,098	101,785	2,039,145
- Loans to banks	150,267	–	–	–	150,267
Debt securities available for sale (Note 22)	176,595	3,500	–	–	180,095
Other assets	21,302	1,183	1,227	451	24,163
Total	2,601,093	170,993	177,325	102,236	3,051,647

The gross maximum credit risk exposure relating to contingencies amounts to KD 881,175 thousand (31 December 2013: KD 889,820 thousand).

20 RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

Gross maximum exposures and credit quality of financial instruments (continued)

The high, standard and acceptable grades of classification of loans to customers above is based on inherent credit quality of the counterparties, the assessed risk profile, acceptability and availability of collateral in accordance with Group's internal rating model. Grading of balances with banks, loans to banks and debt investments available for sale are based on the external rating of the counterparties.

Past due including individually impaired loans and advances above include KD 21,965 thousand (31 December 2013: KD 64,828 thousand) which are past due for less than 90 days and are not considered as impaired.

The fair value of collateral that the Group held for past due including individually impaired loans and advances to customers, as at 31 December 2014 was KD 53,502 thousand (31 December 2013: KD 65,035 thousand). The Group has taken adequate legal measures to secure recovery of collateral when needed. Impairment losses on loans and advances are disclosed in Note 5 & Note 13.

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.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are cash, securities, and charges over real estate properties and counter-guarantees.

Management monitors the market value of collateral on an ongoing basis and requests additional collateral, if required, in accordance with the underlying agreement. At 31 December 2014, the Group held collateral with a fair value of KD 2,138,107 thousand (31 December 2013: KD 1,925,076 thousand).

It is the Group's policy to repossess collaterals mortgaged and reduce or repay the outstanding claims. The repossessed assets are disposed depending upon the market conditions and regulatory directives. In general, the Group does not use repossessed assets for business.

At 31 December 2014 48.49 per cent (31 December 2013: 50.67 per cent) of the total outstanding loans to customers were secured with a collateral coverage of 1.57 times (31 December 2013: 1.51 times) the underlying loans.

B. LIQUIDITY RISK

Liquidity is the ongoing ability to accommodate maturing liabilities and deposit withdrawals; fund asset growth and business operations; and meet contractual obligations through unconstrained access to funding at reasonable market rates.

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may also result from an inability to sell a financial asset quickly at close to its fair value. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately.

20 RISK MANAGEMENT (continued)

B. LIQUIDITY RISK (continued)

Financial liabilities	Less than one month (KD'000s)	One month to one year (KD'000s)	One year to five years (KD'000s)	Total (KD'000s)
31 December 2014				
Due to banks and other financial institutions	198,644	715,214	20,598	934,456
Customers' deposits	1,091,641	749,630	112,826	1,954,097
Other liabilities	–	67,060	–	67,060
	1,290,285	1,531,904	133,424	2,955,613
31 December 2013				
Due to banks and other financial institutions	155,513	487,318	–	642,831
Customers' deposits	1,184,851	641,385	136,906	1,963,142
Other liabilities	–	59,023	–	59,023
	1,340,364	1,187,726	136,906	2,664,996

Contractual amounts for gross settled derivative positions total to KD 264,793 thousand (31 December 2013: KD 228,383 thousand), of which KD 78,635 thousand (31 December 2013: KD 96,597 thousand) expires within three months.

Substantially all acceptances and letters of credit commitments expire within a year, while 57 per cent (2013: 60 per cent) of the guarantees expire within one year, while the remaining portion expires within a period not exceeding five years.

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except for equity investments classified at fair value through profit or loss, equity investments available for sale, investment in an associate and premises and equipment which has been determined based on management's estimate of liquidation of those investments.

The actual maturities may differ from the maturities shown below since the borrower may have the right to prepay obligations with or without prepayment penalties, and customers' deposits might have to be repaid on demand.

20 RISK MANAGEMENT (continued)

B. LIQUIDITY RISK (continued)

The maturity profile as at 31 December 2014 was as follows:

	Less than one month (KD'000s)	One month to one year (KD'000s)	One year to five years (KD'000s)	Over five years (KD'000s)	Total (KD'000s)
ASSETS					
Cash and balances with banks	121,782	23,043	–	–	144,825
Kuwait Government treasury bonds	8,130	207,559	56,142	8,000	279,831
Central Bank of Kuwait bonds	70,485	150,743	–	–	221,228
Loans and advances	401,234	1,198,864	558,166	264,033	2,422,297
Investment securities	4,394	135,655	154,846	50,116	345,011
Investment in an associate	–	–	14,865	–	14,865
Other assets	–	37,156	–	–	37,156
Premises and equipment	–	–	–	33,826	33,826
Total assets	606,025	1,753,020	784,019	355,975	3,499,039
LIABILITIES					
Due to banks and other financial institutions	197,820	705,658	20,274	–	923,752
Customers' deposits	1,090,169	741,299	106,829	–	1,938,297
Other liabilities	–	78,642	–	–	78,642
Total liabilities	1,287,989	1,525,599	127,103	–	2,940,691

The maturity profile as at 31 December 2013 was as follows:

	Less than one month (KD'000s)	One month to one year (KD'000s)	One year to five years (KD'000s)	Over five years (KD'000s)	Total (KD'000s)
ASSETS					
Cash and balances with banks	183,818	14,103	–	–	197,921
Kuwait Government treasury bonds	6,337	126,652	84,684	10,000	227,673
Central Bank of Kuwait bonds	61,485	185,931	–	–	247,416
Loans and advances	541,423	1,029,605	411,594	206,790	2,189,412
Investment securities	–	82,999	151,100	18,069	252,168
Investment in an associate	–	–	13,609	–	13,609
Other assets	–	25,537	8,779	–	34,316
Premises and equipment	–	–	–	30,626	30,626
Total assets	793,063	1,464,827	669,766	265,485	3,193,141
LIABILITIES					
Due to banks and other financial institutions	155,015	484,155	–	–	639,170
Customers' deposits	1,183,409	636,702	127,205	–	1,947,316
Other liabilities	–	65,823	–	–	65,823
Total liabilities	1,338,424	1,186,680	127,205	–	2,652,309

20 RISK MANAGEMENT (continued)

C. MARKET RISK

C.1 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 Board has established limits on the interest rate gaps for stipulated years. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The sensitivity of interest rate variability on the Group's consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2014 including the effect of hedging instruments. The sensitivity of interest rate variability on equity is calculated by revaluing fixed rate investments available for sale, including the effect of any associated hedges as at 31 December 2014 for the effects of the assumed changes in interest rates and is analysed by maturity of the asset or swap.

The following table reflects the effect of 25 basis points change in interest rates, with all other variables held constant.

	Effect			
	2014		2013	
	Net profit (KD'000s)	**Equity (KD'000s)**	Net profit (KD'000s)	Equity (KD'000s)
Kuwaiti Dinar	2,408	152	1,347	24
US Dollars	15	513	131	584

C.2 CURRENCY RISK

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. The financial instruments exposed to these risks. The objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The effect on net profit for the year, as a result of 5 per cent change in currency rate due to the changes in fair value of monetary assets and liabilities, with all other variables held constant is shown below:

	Effect	
	2014 (KD'000s)	2013 (KD'000s)
Currency		
US Dollars	72	38
Euro	2	2
Others	58	48

20 RISK MANAGEMENT (continued)

C. MARKET RISK (continued)

C.3 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 equity price risk exposure arises from the Bank's investment portfolio. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The effect on consolidated income statement (as a result of equity price risk on investments at fair value through profit and loss and further impairment on impaired available for sale equity investments) and on Equity (as a result of a change in the fair value of available for sale equity investments), as at 31 December, due to a 5 per cent change in equity indices, with all other variables held constant is as follows:

	Effect			
	2014		2013	
	Net profit (KD'000s)	**Equity (KD'000s)**	Net profit (KD'000s)	Equity (KD'000s)
GCC Stock Exchanges	527	810	188	697
Other Stock Exchanges	909	899	–	178

C.4 PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans and advances when interest rates fall. Majority of the Group's interests bearing financial assets are at floating rates. Also, majority of the interest bearing financial liabilities have a maturity of less than 1 year and accordingly, the Group is not exposed to significant prepayment risk. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

D 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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The Risk Management Division manages operational risks in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 December 2003, regarding the sound practices for managing and supervising operational risks in banks.

21 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

21 CAPITAL MANAGEMENT (continued)

The Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2014 calculated in accordance with Basel III regulations issued by Central Bank of Kuwait via circular 2/RB, RBA/336/2014 dated 24 June 2014 are shown below:

	2014 (KD'000s)
Risk weighted exposure	2,345,011
Capital required	304,852
Capital available:	
Tier 1 capital	531,826
Common equity Tier 1	531,826
Additional Tier 1	–
Tier 2 capital	23,433
Total Capital	555,259
Common equity Tier 1 capital adequacy ratio	22.68%
Tier 1 capital adequacy ratio	22.68%
Total capital adequacy ratio	23.68%

The Group's Tier 1 and total capital adequacy ratios for the year ended 31 December 2013 were 25.34% and 26.93% respectively and were calculated in accordance with Basel II regulations issued by Central Bank of Kuwait via circular 2/BS/184/2005 dated 21 December 2005.

The Group's financial leverage ratio for the year ended 31 December 2014, calculated in accordance with circular 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2014 (KD'000s)
Tier 1 capital	531,826
Total exposure	4,057,997
Financial leverage ratio	13.11%

The additional disclosures relating to the capital adequacy as per the above circulars are included under the 'Risk Management' section of the annual report.

22 FAIR VALUE MEASUREMENT

Financial Instruments

Financial Instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and balances with banks, Kuwait Government treasury bonds, Central Bank of Kuwait Bonds, loans and advances, investment securities and certain other assets. Financial liabilities consist of due to banks and other financial institutions, customer deposits and certain other liabilities.

The fair value of financial instruments are categorised as under:

Investment securities

		Investments at fair value through profit or loss		Investments available for sale	
	Valuation techniques and key inputs	**2014 (KD'000s)**	2013 (KD'000s)	**2014 (KD'000s)**	2013 (KD'000s)
Level 1:					
Equity	Quoted bid price	1,690	985	8,577	11,383
Debt securities	Quoted bid price	–	–	192,017	164,843
Level 2:					
Equity	Market multiples	–	–	22,887	25,841
Debt securities	Broker's quote	–	–	46,939	11,752
Managed funds	Net asset value basis	12,123	–	37,396	14,533
Level 3:					
Equity	Discounted cash flows, Dividend discount model	–	–	23,382	19,331
Debt securities	Discounted cash flows	–	–	–	3,500
		13,813	985	331,198	251,183

Equity and debt investment securities classified under level 3 have cash flows, discount rates and estimated maintainable dividend as their significant inputs where a higher cash flow or maintainable dividend and a lower discount rate will result in a higher fair value.

The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5 per cent.

There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

22 FAIR VALUE MEASUREMENT (continued)

Movement in level 3 of investment securities is summarised as below:

	2014 (KD'000s)	2013 (KD'000s)
Opening Balance	22,831	26,985
Purchases	3,364	7,391
Disposal	(1,118)	(5,148)
Transfer between levels	646	(4,091)
Change in fair value	(1,644)	(2,306)
Impairment	(697)	–
	23,382	22,831

Financial instruments carried at amortised cost

The fair value of financial instruments carried at amortised cost is not materially different from their carrying value and is only used for disclosure purpose. Fair value of such financial instruments is classified under level 3 determined based on discounted cash flows, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

Non Financial Instruments

Instruments carried at fair value, other than financial instruments, include assets acquired in settlement of debt and freehold land (classified as premises and equipments) were fair valued using significant valuation inputs based on unobservable market data and is classified under level 3. The fair value of assets acquired in settlement of debt is disclosed in Note 7.

If the freehold land was measured using the cost model, the net carrying amount as at 31 December 2014 would be KD 16,623 thousand (31 December 2013: KD 16,600 thousand).

Al Ahli Bank of Kuwait K.S.C.P.

Established in the State of Kuwait
By Amiri Decree on 23 May 1967
Paid Up Capital as at 31 Dec 2014: KD 161,916,623.400
Commercial Register: 3705
Telex: 22067, 23256, 23257
Reuters: AHLK
SWIFT: ABKK-KW-KW
Cable: AHLIBANK-KUWAIT

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