CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

الأهلي
ABK

Building a better working world

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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 subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait, and for such intemal 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.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/B.S. 342/2014 dated 21 October 2014 respectively, the Companies Law No 25 of 2012, as amended 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/B.S. 342/2014 dated 21 October 2014 respectively, the Companies Law No 25 of 2012, as amended 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 2015 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2015 that might have had a material effect on the business of the Bank or on its financial position.

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

TALAL Y. AL-MUZAINI
LICENCE NO. 209A
DELOITTE & TOUCHE
(AL-WAZZAN & CO.)

9 February 2016
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Notes	2015 KD 000	2014 KD 000
ASSETS			
Cash and balances with banks	9	**432,173**	144,825
Kuwait Government treasury bonds	10	**204,246**	279,831
Central Bank of Kuwait bonds	10	**179,713**	221,228
Loans and advances	5,11	**3,047,143**	2,422,297
Investment securities	12	**343,809**	345,011
Investment in an associate	13	**16,572**	14,865
Premises and equipment		**53,125**	33,826
Intangible assets	14	**41,217**	-
Other assets	15	**41,066**	37,156
TOTAL ASSETS		**4,359,064**	3,499,039
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		**1,199,192**	923,752
Customers' deposits		**2,496,278**	1,938,297
Other liabilities	16	**107,135**	78,642
TOTAL LIABILITIES		**3,802,605**	2,940,691
EQUITY			
Share capital	17	**161,917**	161,917
Share premium	17	**108,897**	108,897
Treasury shares	17	**(4,528)**	(2,303)
Reserves	17	**289,314**	289,837
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		**555,600**	558,348
Non-controlling interests		**859**	-
TOTAL EQUITY		**556,459**	558,348
TOTAL LIABILITIES AND EQUITY		**4,359,064**	3,499,039

Talal Mohamed Reda Yousef Behbehani
Chairman

Michel Accad
Chief Executive Officer

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2015

	Notes	2015 KD 000	2014 KD 000
Interest income	18	**127,003**	111,829
Interest expense	19	**(32,610)**	(27,469)
NET INTEREST INCOME		**94,393**	84,360
Net fees and commission income	20	**25,228**	22,030
Net foreign exchange gain		**3,134**	2,973
Net (loss) gain on investment securities		**(1,008)**	1,860
Dividend income		**3,478**	2,671
Share of results from an associate		**2,506**	1,976
Other operating income		**801**	1,740
OPERATING INCOME		**128,532**	117,610
Staff expenses		**(25,608)**	(22,181)
Other operating expenses		**(13,849)**	(11,524)
Depreciation and amortisation		**(1,729)**	(1,366)
OPERATING EXPENSES		**(41,186)**	(35,071)
OPERATING PROFIT FOR THE YEAR		**87,346**	82,539
Net gain from business combination	3	**8,005**	-
Provision on credit facilities	11	**(58,679)**	(41,800)
Net impairment on investment securities and others		**(2,750)**	(581)
PROFIT FOR THE YEAR		**33,922**	40,158
Taxation	21	**(3,074)**	(2,212)
Directors' fees		**(480)**	(360)
NET PROFIT FOR THE YEAR		**30,368**	37,586
Attributable to:			
Shareholders of the Bank		**30,360**	37,586
Non-controlling interests		**8**	-
		30,368	37,586
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	22	**19 fils**	23 fils

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2015

	2015 KD 000	2014 KD 000
Net profit for the year	**30,368**	37,586
Other comprehensive (loss) income		
Items that may be reclassified subsequently to consolidated income statement:		
Net gain (loss) on sale / impairment losses on investments available for sale	**3,198**	(270)
Effect of changes in fair values of investments available for sale	**(13,576)**	(989)
Exchange difference on translation of foreign operations	**(130)**	58
	(10,508)	(1,201)
Items that will not be reclassified to consolidated income statement:		
Re-measurement of defined benefit obligation	**(105)**	-
Revaluation of freehold land	**714**	2,232
	609	2,232
Total other comprehensive (loss) income for the year	**(9,899)**	1,031
Total comprehensive income for the year	**20,469**	38,617
Attributable to:		
Shareholders of the Bank	**20,460**	38,617
Non-controlling interest	**9**	-
	20,469	38,617

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Attributable to shareholders of the Bank												
				Reserves									
	Share capital KD 000	Share premium KD 000	Treasury shares KD 000	Statutory reserve KD 000	General reserve KD 000	Treasury shares reserve KD 000	Other reserves (Note 17) KD 000	Cumulative changes in fair value KD 000	Retained earnings KD 000	Total reserves KD 000	Total KD 000	Non-controlling interests KD 000	Total equity KD 000
At 1 January 2015	**161,917**	**108,897**	**(2,303)**	**64,588**	**64,141**	**8,065**	**8,299**	**23,314**	**121,430**	**289,837**	**558,348**	**-**	**558,348**
Net profit for the year	-	-	-	-	-	-	-	-	30,360	30,360	30,360	8	30,368
Other comprehensive income (loss) for the year	-	-	-	-	-	-	476	(10,376)	-	(9,900)	(9,900)	1	(9,899)
Total comprehensive income for the year	-	-	-	-	-	-	476	(10,376)	30,360	20,460	20,460	9	20,469
On acquisition of a subsidiary (Note 3)	-	-	-	-	-	-	-	-	-	-	-	850	850
Dividend paid	-	-	-	-	-	-	-	-	(20,983)	(20,983)	(20,983)	-	(20,983)
Treasury shares purchased	-	-	(2,225)	-	-	-	-	-	-	-	(2,225)	-	(2,225)
Transfers to reserves	-	-	-	3,227	3,227	-	-	-	(6,454)	-	-	-	-
As at 31 December 2015	**161,917**	**108,897**	**(4,528)**	**67,815**	**67,368**	**8,065**	**8,775**	**12,938**	**124,353**	**289,314**	**555,600**	**859**	**556,459**

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Attributable to shareholders of the Bank												
				Reserves									
	Share capital KD 000	Share premium KD 000	Treasury shares KD 000	Statutory reserve KD 000	General reserve KD 000	Treasury shares reserve KD 000	Other reserves (Note 17) KD 000	Cumulative changes in fair value KD 000	Retained earnings KD 000	Total reserves KD 000	Total KD 000	Non-controlling interests KD 000	Total equity KD 000
At 1 January 2014	161,917	108,897	(2,188)	60,619	60,172	8,065	6,009	24,573	112,768	272,206	540,832	-	540,832
Net profit for the year	-	-	-	-	-	-	-	-	37,586	37,586	37,586	-	37,586
Other comprehensive income (loss) for the year	-	-	-	-	-	-	2,290	(1,259)	-	1,031	1,031	-	1,031
Total comprehensive income (loss) for the year	-	-	-	-	-	-	2,290	(1,259)	37,586	38,617	38,617	-	38,617
Dividend paid	-	-	-	-	-	-	-	-	(20,986)	(20,986)	(20,986)	-	(20,986)
Treasury shares purchased	-	-	(115)	-	-	-	-	-	-	-	(115)	-	(115)
Transfers to reserves	-	-	-	3,969	3,969	-	-	-	(7,938)	-	-	-	-
As at 31 December 2014	161,917	108,897	(2,303)	64,588	64,141	8,065	8,299	23,314	121,430	289,837	558,348	-	558,348

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS
Year ended 31 December 2015

	Note	2015 KD 000	2014 KD 000
OPERATING ACTIVITIES			
Net profit for the year before directors' fees and taxation		**33,922**	40,158
Adjustments for:			
Net (loss) gain on sale of investments available for sale		**448**	(1,851)
Dividend income		**(3,478)**	(2,671)
Share of results from an associate		**(2,506)**	(1,976)
Net gain from business combination	3	**(8,005)**	-
Depreciation and amortisation		**1,729**	1,366
Provisions on credit facilities		**58,679**	41,800
Net impairment on investment securities and others		**2,750**	581
Operating profit before changes in operating assets and liabilities		**83,539**	77,407
Changes in operating assets and liabilities:			
Deposits with banks		**(26,932)**	(5,586)
Kuwait Government treasury bonds		**75,585**	(52,158)
Central Bank of Kuwait bonds		**41,515**	26,188
Loans and advances		**(525,983)**	(273,688)
Investments at fair value through profit or loss		**6,693**	(12,828)
Other assets		**7,972**	(838)
Due to banks and other financial institutions		**270,527**	284,582
Customers' deposits		**229,484**	(9,019)
Other liabilities		**(4,421)**	12,311
Directors fees paid		**(360)**	(360)
Taxes paid		**(2,270)**	(1,701)
Net cash flows from operating activities		**155,349**	44,310
Purchase of investments available for sale		**(9,671)**	(133,342)
Proceeds from sale of investments available for sale		**57,945**	50,336
Dividend received from investment in an associate		**799**	720
Purchase of premises and equipment		**(3,183)**	(2,334)
Dividend income received		**3,478**	2,671
Net cash flow on business combination	3	**68,000**	-
Net cash flows from (used in) investing activities		**117,368**	(81,949)
FINANCING ACTIVITIES			
Dividend paid		**(20,983)**	(20,986)
Purchase of treasury shares		**(2,225)**	(115)
Net cash flows used in financing activities		**(23,208)**	(21,101)
Foreign currency translation difference		**(942)**	58
Net increase (decrease) in cash and cash equivalents		**248,567**	(58,682)
Cash and cash equivalents at 1 January		**95,404**	154,086
Cash and cash equivalents at 31 December		**343,971**	95,404
Cash and cash equivalent comprise:			
Cash in hand and in current account with other banks		**51,880**	29,293
Balances and deposits with Central Banks (original maturity not exceeding thirty days)		**149,222**	49,835
Deposits with banks (original maturity not exceeding thirty days)		**142,869**	16,276
		343,971	95,404

Interest received amounted to KD 125,546 thousand (2014: KD 110,071 thousand) and interest paid amounted to KD 29,749 thousand (2014: KD 22,668 thousand).

The attached notes 1 to 24 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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, United Arab Emirates and Egypt.

These consolidated financial statements of the Bank and its subsidiaries (collectively "the Group") were approved for issue by the Bank's Board of Directors on 9 February 2016. The annual general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

2- SUMMARY OF 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.

Changes in accounting policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the accounting policy for business combinations and the amendments to the existing standards relevant to the Group, effective on or after 1 January 2015:

IFRS 3 Business Combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, and the identifiable assets acquired and liabilities assumed in a business combination which are measured at acquisition date fair value, and the amount of any non-controlling interests in the acquire. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement,* is measured at fair value with the changes in fair value recognised in the consolidated income statement.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date and included in cost of acquisition in determination of goodwill. Any resulting gain or loss on re-measurement of previously held equity interest is recognised in consolidated income statement. If the initial accounting for the business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete and retrospectively adjusts these amounts during the measurement period of one year from the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)
IFRS 3 Business Combinations (continued)
Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred in the business combination, the amount recognized for non-controlling interest, and the fair value of any previously held equity interest in the acquiree, over the fair value of the acquiree's net identifiable assets acquired and liabilities assumed. If the aggregate consideration transferred, is lower than the fair value of net assets acquired, the difference is recognised as gain on business combination in the consolidated income statement on the acquisition date.

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 by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

The above amendments have had no impact on the disclosures or amounts recognised.

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 IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

IFRS 15 – Revenue from Contracts with customers
IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 on the Group and do not expect any significant impact on adoption of this standard.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank as at the reporting date and its subsidiaries (investees which are controlled by the Bank) as at the same date or a date not earlier than one month from the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to 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. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Group's consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of the other comprehensive income are attributed to the shareholders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loose control over a subsidiary, it derecognises the related assets (including goodwill and intangible assets), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The subsidiaries of the Group are as follows:

Name of company	Country of incorporation	Principal business	**Effective interest as at 31 December 2015**	Effective interest as at 31 December 2014
Ahli Capital Investment Company K.S.C. (Closed)	Kuwait	Investment	**100%**	100%
Piraeus Bank Egypt S.A.E. ("PBE") (Note 3)	Egypt	Banking	**98.49%**	-
Held through PBE				
Piraeus Bank Egypt for Finance Lease	Egypt	Leasing	**98.42%**	-
Piraeus Bank Egypt for Investment	Egypt	Investment	**98.49%**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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 "Provision on credit facilities".

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 at inception 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".

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.

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2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)
Subsequent measurement (continued)
Derivative financial instruments and hedging (continued)
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.

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.

Impairment of financial 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 per cent on regular cash facilities and 0.5 per cent 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.

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.

Impairment of non-financial assets
Non financial 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.

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2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 one month. 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.

Premises and equipment
Premises and equipment other than freehold land are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all premises and equipment, 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	6 years to 40 years
Furniture and equipment	3 years to 5 years
Vehicles	5 years to 6 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. Any gain or loss on the disposal of premises and equipment other than the revaluation surplus on freehold land is recognised in the consolidated income statement.

Intangible Assets acquired in a business combination
Intangible assets represent separately identifiable non-monetary assets without physical substance arising from business combinations. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition and is recognised separately from goodwill.

Intangibles with finite useful life are carried at cost, less any accumulated amortization and any accumulated impairment losses. Amortization is recognised on a straight line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful economic life is reviewed at least at each financial position date. Changes in the expected useful economic 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 intangible assets with finite lives is recognised in the consolidated income statement under "depreciation and amortisation" consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized but tested for impairment annually or whenever there is an indication that the intangible asset may be impaired, either individually or at the cash-generating unit level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in the 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 income statement when the asset is derecognised. Impairment losses on intangible assets recognized in the consolidated income statement in previous periods are reversed when there is an increase in the recoverable amount.

End of service benefits
The Group is liable to make defined contributions to local regulatory plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation. Gains and losses arising from experience adjustments and changes in assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Defined contribution plan
It is a pension regulation in which the overseas subsidiary pays fixed subscriptions and commits to pay contributions to Social Insurance Authority and the overseas subsidiary has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense in the income statement when they are due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares
Treasury shares consist of the Bank's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to 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

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 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 and external quotes.
- 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.

Taxation
Taxation is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries in which the Group operates. 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 is recognised on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

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 yearend are translated into Kuwaiti Dinars at rates of exchange ruling at the statement of financial position date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)
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.

Contingencies
Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

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:

Fair value measurement
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts.

Considerable judgement by management is required in the estimation of the fair value of the assets acquired and liabilities assumed as a result of business combination including intangibles and contingent liabilities.

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
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.

The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units to which the intangibles with indefinite useful lives are allocated. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

3. BUSINESS COMBINATION

In November 2015, the Group concluded the acquisition of a controlling stake of 98.49 per cent in PBE, including its subsidiaries for a cash consideration of USD 149.7 million (KD 45.5 million). In compliance with IFRS 3, "Business Combination", the Group has carried out one time 'Purchase Price Allocation (PPA)' exercise.

The fair value of assets acquired and liabilities assumed are given below:

	KD 000
Assets	
Cash and balances with banks	123,507
Loans and advances	154,814
Investment securities	67,956
Premises and equipment	16,814
Intangible assets (Note 14)	40,686
Other assets	10,113
	413,890
Liabilities	
Due to banks and other financial institutions	4,841
Customer deposits	323,717
Other liabilities	29,202
	357,760
Net Assets	56,130
Non-controlling interests	(850)
Value of net assets acquired	55,280
Cash consideration paid and related transaction expenses	47,275
Net gain from business combination	8,005
Cash flows on business combination	
Cash consideration paid	(45,481)
Cash and cash equivalents in subsidiary acquired (original maturity not exceeding thirty days)	113,481
Net cash flow on business combination	68,000

PPA exercise resulted in a gain from business combination, since fair value of assets acquired and liabilities assumed exceeded the cash consideration paid and related transaction expenses. Non controlling interest has been recognised at the proportionate share of PBE's identifiable net assets.

The gross loans and advances are KD 161,183 thousand. The fair value of loans and advances amounting to KD 154,814 thousand is arrived after a total provision of KD 6,369 thousand, of which KD 2,566 thousand has been provided for as specific provision.

The consolidated income statement of the Group for the year includes operating income of KD 1,456 thousand and operating profit of KD 341 thousand of PBE. Had PBE been consolidated from 1 January 2015, the consolidated income statement would have included operating income of KD 15,105 thousand and operating profit of KD 2,391 thousand.

4. 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 regrouped the operations during the year 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 Investments — Comprising money market, foreign exchange, treasury bonds, asset and surplus fund management, investment securities and investment in an associate and residual impact of transfer pricing and inter segment allocation.

International — Operations related to overseas subsidiary and branches are classified as International.

	Commercial Banking		Treasury & Investments		International		Total	
	2015 KD 000	2014 KD 000	2015 KD 000	2014 KD 000	2015 KD 000	2014 KD 000	2015 KD 000	2014 KD 000
Operating income	101,243	91,075	12,505	17,194	14,784	9,341	128,532	117,610
Provisions for credit facilities, investments and others	55,566	37,638	2,330	1,581	3,533	3,162	61,429	42,381
Segment results	28,685	39,069	8,636	14,088	6,106	3,083	43,427	56,240
Unallocated expense							(17,510)	(16,082)
Net gain from business combination							8,005	-
Profit for the year							33,922	40,158
Segment assets	2,589,268	2,177,073	870,805	916,860	835,022	337,123	4,295,095	3,431,056
Unallocated assets							63,969	67,983
Total assets							4,359,064	3,499,039
Segment liabilities	1,609,849	1,651,206	1,349,891	937,132	788,095	296,772	3,747,835	2,885,110
Unallocated liabilities							54,770	55,581
Total liabilities							3,802,605	2,940,691

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

5. RISK MANAGEMENT

INTRODUCTION
Risk is inherent in the Group's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group has established comprehensive risk frameworks for managing all material risks. The frameworks are to address the identification, measurement and monitoring processes of all material risks across the Group. Risk is embedded in the decision making process on all risk types to enable the Group to manage the risks assumed within acceptable levels.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The operations of the overseas subsidiary are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency to meet unforeseen liabilities as these arise.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. Descriptions of the risk appetite statement along with the risks identified and the methodology used to manage those risks are stated below:

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.

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:

	2015		2014	
	Assets KD 000	**Credit related contingent liabilities KD 000**	Assets KD 000	Credit related contingent liabilities KD 000
Geographic region:				
MENA	**3,805,380**	**589,220**	3,077,798	525,689
Europe	**105,769**	**106,060**	95,163	90,078
Asia Pacific	**152,450**	**206,185**	111,672	245,324
Rest of the world	**67,543**	**29,162**	32,144	20,084
	4,131,142	**930,627**	3,316,777	881,175
Industry sector:				
Trading and manufacturing	**440,616**	**195,324**	336,472	186,283
Banks and other financial institutions	**685,071**	**320,030**	448,270	378,798
Construction and real estate	**839,844**	**310,462**	788,095	226,286
Government and related entities	**765,699**	**-**	737,582	-
Personal	**1,001,474**	**2,975**	801,726	4,473
Others	**398,438**	**101,836**	204,632	85,335
	4,131,142	**930,627**	3,316,777	881,175

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

5. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

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

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

	Neither past due nor impaired			Past Due Individually impaired KD 000	Maximum exposures KD 000
	High Grade KD 000	Standard grade KD 000	Acceptable Grade KD 000		
2015					
Balances with banks	**417,351**	**24**	-	-	**417,375**
Kuwait Government treasury bonds	**204,246**	-	-	-	**204,246**
Central Bank of Kuwait bonds	**179,713**	-	-	-	**179,713**
Loans and advances					
- Corporate and banks	**2,192,740**	**106,070**	**144,070**	**94,915**	**2,537,795**
- Retail	**487,687**	**22**	**31**	**21,608**	**509,348**
Debt securities available for sale (Note 12)	**247,398**	-	-	-	**247,398**
Other assets	**33,302**	**632**	**856**	**477**	**35,267**
Total	**3,762,437**	**106,748**	**144,957**	**117,000**	**4,131,142**
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					
- Corporate and banks	1,742,420	101,354	163,773	51,871	2,059,418
- Retail	354,002	-	47	8,830	362,879
Debt securities available for sale (Note 12)	238,956	-	-	-	238,956
Other assets	23,734	705	1,140	154	25,733
Total	2,988,884	102,078	164,960	60,855	3,316,777

The gross maximum credit risk exposure relating to contingencies amounts to KD 930,627 thousand (2014: KD 881,175 thousand).

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. The borrower risk rating model takes into consideration key factors, such as business trends, management, financials, collaterals, etc., which are duly weighted to arrive at the rating. These ratings changes/migration are monitored annually. The Bank has introduced retail risk rating with the launch of a retail risk scorecard, which also provides an end-to-end automated system for processing loans and credit cards. Grading of balances with banks, loans to banks and debt investments available for sale are based on the external rating of the counterparties.

The fair value of collateral held by the Group for past due (including individually impaired) loans and advances to customers and impairment losses are disclosed in Note 11. The Group has taken adequate legal measures to secure recovery of collateral when needed.

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.

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.

Of the total outstanding loans and advances, KD 1,310,710 thousand (2014: KD 1,249,784 thousand) were secured with a collateral value of KD 2,228,986 thousand (2014: KD 1,968,060 thousand).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. RISK MANAGEMENT (continued)

B. LIQUIDITY RISK (continued)

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.

Financial liabilities	Less than one month KD 000	One month to one year KD 000	Over one year KD 000	Total KD 000
2015				
Due to banks and other financial institutions	**391,340**	**793,392**	**25,538**	**1,210,270**
Customers' deposits	**1,313,927**	**1,091,713**	**121,554**	**2,527,194**
Other liabilities	**-**	**54,720**	**-**	**54,720**
	1,705,267	**1,939,825**	**147,092**	**3,792,184**
Commitment and contingent liabilities	**124,420**	**480,069**	**326,138**	**930,627**
Gross settled derivatives	**64,128**	**168,555**	**13,883**	**246,566**
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	-	48,294	-	48,294
	1,290,285	1,513,138	133,424	2,936,847
Commitment and contingent liabilities	107,536	492,715	280,924	881,175
Gross settled derivatives	23,694	152,216	88,883	264,793

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, premises and equipment, intangible assets, other assets, customer sight deposits and other liabilities which has been determined based on management's estimate of liquidation.

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 be repaid before their maturity.

The maturity profile as at 31 December 2015 was as follows:

	Less than one month KD 000	**One month to one year KD 000**	**One year to five years KD 000**	**Over five years KD 000**	**Total KD 000**
ASSETS					
Cash and balances with banks	**392,310**	**37,835**	**2,028**	**-**	**432,173**
Kuwait Government treasury bonds	**8,224**	**165,404**	**27,618**	**3,000**	**204,246**
Central Bank of Kuwait bonds	**23,713**	**156,000**	**-**	**-**	**179,713**
Loans and advances	**465,678**	**1,354,462**	**815,933**	**411,070**	**3,047,143**
Investment securities	**5,001**	**204,210**	**89,623**	**44,975**	**343,809**
Investment in an associate	**-**	**-**	**16,572**	**-**	**16,572**
Premises and equipment	**-**	**-**	**-**	**53,125**	**53,125**
Intangible assets	**-**	**-**	**-**	**41,217**	**41,217**
Other assets	**-**	**36,557**	**4,509**	**-**	**41,066**
Total assets	**894,926**	**1,954,468**	**956,283**	**553,387**	**4,359,064**
LIABILITIES					
Due to banks and other financial institutions	**389,899**	**784,701**	**22,926**	**1,666**	**1,199,192**
Customers' deposits	**685,608**	**1,075,910**	**734,760**	**-**	**2,496,278**
Other liabilities	**-**	**91,476**	**15,659**	**-**	**107,135**
Total liabilities	**1,075,507**	**1,952,087**	**773,345**	**1,666**	**3,802,605**

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31 December 2015

5. RISK MANAGEMENT (continued)

B. LIQUIDITY RISK (continued)
The maturity profile as at 31 December 2014 was as follows:

	Less than one month KD 000	One month to one year KD 000	One year to five years KD 000	Over five years KD 000	Total KD 000
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
Premises and equipment	-	-	-	33,826	33,826
Other assets	-	37,156	-	-	37,156
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	452,034	741,299	744,964	-	1,938,297
Other liabilities	-	78,642	-	-	78,642
Total liabilities	649,854	1,525,599	765,238	-	2,940,691

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 2015 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 2015 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.

Currency	Effect (KD 000)			
	2015		2014	
	Net profit	**Equity**	Net profit	Equity
Kuwaiti Dinar	**1,836**	**107**	2,408	152
US Dollars	**221**	**124**	15	513

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:

Currency	Effect (KD 000)	
	2015	2014
US Dollars	**20**	72
Egyptian Pound	**15**	-
Euro	**2**	2
Others	**34**	58

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 percent change in equity indices, with all other variables held constant is as follows:

	Effect (KD 000)			
	2015		2014	
	Net profit	**Equity**	Net profit	Equity
GCC Stock Exchanges	**651**	**516**	527	810
Other Stock Exchanges	**443**	**894**	909	899

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

5. RISK MANAGEMENT (continued)

C. MARKET RISK (continued)
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.

6- CAPITAL MANAGEMENT

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

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

The Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2015 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:

	2015 **KD 000**	2014 KD 000
Risk weighted exposure	**3,169,487**	2,345,011
Capital required	**412,034**	304,852
Capital available:		
Tier 1 capital	**507,991**	531,826
Common equity Tier 1	**507,991**	531,826
Additional Tier 1	**-**	-
Tier 2 capital	**38,230**	23,433
Total Capital	**546,221**	555,259
Common equity Tier 1 capital adequacy ratio	**16.03%**	22.68%
Tier 1 capital adequacy ratio	**16.03%**	22.68%
Total capital adequacy ratio	**17.23%**	23.68%

The Group's financial leverage ratio for the year ended 31 December 2015, calculated in accordance with circular 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2015 **KD 000**	2014 KD 000
Tier 1 capital	**507,991**	531,826
Total exposure	**5,031,543**	4,057,997
Financial leverage ratio	**10.10%**	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7- 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:

Financial instruments carried at fair value

The financial instruments carried at fair value comprise of investment securities. The fair value along with the valuation techniques are disclosed in Note 12.

Financial instruments carried at amortised cost

The fair value of financial instruments carried at amortised cost is not materially different from their carrying value as most of these assets and liabilities are of short term maturities or are re-priced immediately based on market movement in interest rates 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 freehold land (classified as premises and equipment) which were fair valued using significant valuation inputs based on unobservable market data and are classified under level 3.

If the freehold land was measured using the cost model, the net carrying amount as at 31 December 2015 would be KD 18,091 thousand (31 December 2014: KD 16,623 thousand).

8- 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 year. 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 Group and credit facilities granted to them by the Group. The balances included in the consolidated financial statements are as follows:

	Number		Number of related parties		Amount	
	2015	2014	**2015**	2014	**2015 KD 000**	2014 KD 000
Directors						
Loans and advances	**6**	4	**6**	5	**70,872**	71,737
Customers' deposits	**12**	7	**25**	26	**21,591**	19,408
Investment securities	**-**	-	**1**	1	**2,709**	2,540
Portfolio managed by Group	**-**	1	**1**	-	**20**	23
Commitments and contingent liabilities	**-**	-	**6**	4	**20,655**	22,440

Loans and advances are fully collateralised.

Key management						
Loans and advances	**16**	9	**-**	-	**393**	186
Customers' deposits	**17**	9	**5**	2	**1,026**	426
Portfolio managed by Group	**-**	-	**1**	1	**57**	62
Commitment and contingent liabilities	**1**	1	**-**	-	**1**	1
Associate						
Customers' deposits	**1**	1	**1**	1	**306**	501

Interest income and interest expense includes KD 2,526 thousand (2014: KD 2,995 thousand) and KD 358 thousand (2014: KD 399 thousand) respectively, on transactions with related parties.

Key management compensation
Compensation for key management is as follows:

	2015 KD 000	2014 KD 000
Salaries and other benefits	**2,396**	1,849
Post employment benefits	**176**	161
	2,572	2,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9- CASH AND BALANCES WITH BANKS

	2015 KD 000	2014 KD 000
Cash in hand and in current account with other banks	**51,880**	29,293
Balances and deposits with Central Banks	**156,294**	49,835
Deposits with banks	**223,999**	65,697
	432,173	144,825

Balances and deposits with Central Banks include balances and deposits with Central Banks of Kuwait, UAE and Egypt.

10- KUWAIT GOVERNMENT TREASURY BONDS AND CENTRAL BANK OF KUWAIT BONDS

These are financial instruments carried at amortised cost and 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.

11- LOANS AND ADVANCES

	MENA KD 000	Europe KD 000	Asia Pacific KD 000	Rest of the world KD 000	Total KD 000
2015					
Corporate and banks	**2,293,571**	**65,032**	**115,604**	**63,588**	**2,537,795**
Retail	**509,348**	-	-	-	**509,348**
					3,047,143
2014					
Corporate and banks	1,905,330	60,702	66,906	26,480	2,059,418
Retail	362,879	-	-	-	362,879
					2,422,297

Past due but not impaired loans as at 31 December 2015 amounting to KD 54,289 thousand (31 December 2014: 20,841 thousand) are past due for a period less than 45 days and KD 26,093 thousand (31 December 2014: 1,317 thousand) are past due for a period between 45 to 90 days. The fair value of collaterals held by the Group for past due loans as at 31 December 2015 was KD 25,482 thousand (31 December 2014: 5,376 thousand)

Loans and advances individually determined to be impaired with related specific provision and fair value of collateral held are as follows:

	2015 KD 000	2014 KD 000
Gross loans and advances	**74,391**	63,140
Specific provision for credit losses	**35,718**	22,386
Fair value of collateral held	**40,758**	48,126

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

	2015 KD 000	2014 KD 000
At 1 January	**153,101**	142,924
On acquisition of a subsidiary (Note 3)	**6,369**	-
Exchange difference	**375**	143
Net amounts written off during the year	**(5,850)**	(30,625)
Charge for the year	**58,237**	40,659
At 31 December	**212,232**	153,101
General Provision	**176,514**	130,715
Specific Provision	**35,718**	22,386

Charge for the year above includes general provision charge of KD 43,993 thousand (2014: KD 21,168 thousand).

The charge for the year on non-cash facilities is KD 442 thousand (2014: KD 1,141 thousand) and total available provision of KD 18,384 thousand (2014: KD 16,622 thousand) is included in other liabilities (Note 16).

For disclosures relating to credit risk management, credit concentration, credit quality by class and credit risk mitigants, refer to note 5A.

12- INVESTMENT SECURITIES

	Valuation techniques and key inputs	Investments at fair value through profit or loss		Investments available for sale	
		2015 KD 000	2014 KD 000	**2015 KD 000**	2014 KD 000
Level 1:					
Equity	Quoted bid price	**1,213**	1,690	**13,409**	8,577
Debt securities					
- Government	Quoted bid price	-	-	**63,947**	64,224
- Non Government	Quoted bid price	-	-	**101,304**	127,793
Level 2:					
Equity	Market multiples	-	-	**10,041**	12,328
Debt securities					
- Government	External quote	-	-	**39,662**	-
- Non Government	External quote	-	-	**42,485**	46,939
Managed funds	Net asset value basis	**5,907**	12,123	**33,405**	37,396
Level 3:					
Equity	Discounted cash flows/ Dividend discount model	-	-	**32,436**	33,941
		7,120	13,813	**336,689**	331,198

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12- INVESTMENT SECURITIES (continued)
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 securities classified under level 2 and level 3 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.

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

	2015 KD 000	2014 KD 000
Opening Balance	**33,941**	32,498
On acquisition of a subsidiary	**895**	-
Purchases	**942**	4,155
Disposal	**(195)**	(1,118)
Transfer between levels	-	646
Change in fair value	**(2,527)**	(1,543)
Impairment	**(620)**	(697)
	32,436	33,941

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.

13- INVESTMENT IN AN ASSOCIATE

The Bank holds 40 per cent 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 is as follows:

	2015 KD 000	2014 KD 000
Current assets	**38,389**	43,677
Non-current assets	**56,818**	38,530
Current liabilities	**52,306**	43,725
Non-current liabilities	**714**	561
Equity	**42,187**	37,921
Revenue	**11,677**	10,870
Net profit	**6,265**	4,940

14- INTANGIBLE ASSETS

	Banking license KD 000	Core deposits KD 000	Total KD 000
On acquisition of a subsidiary (Note 3)	30,859	9,827	40,686
Amortisation charge for the year	-	(69)	(69)
Exchange adjustment	456	144	600
Net carrying amount as at 31 December 2015	**31,315**	**9,902**	**41,217**
Net carrying amount as at 31 December 2014	-	-	-

Intangible assets of the group are allocated to PBE. Banking license represents intangible asset with indefinite useful life and is annually tested for impairment by estimating the recoverable amount of PBE using value-in-use calculations. The pre-tax cash flow projections have been discounted at 18.32 per cent with a terminal growth rate of 3 per cent. The impact on the recoverable amount of PBE would be immaterial even if the relevant risk variables were altered by 5 per cent.

Core deposits represents intangible asset with finite life and is amortized on a straight line basis over its useful life of 12 years.

15- OTHER ASSETS

	2015 KD 000	2014 KD 000
Interest receivable	**24,130**	22,631
Others	**16,936**	14,525
	41,066	37,156

16- OTHER LIABILITIES

	2015 KD 000	2014 KD 000
Interest payable	**14,462**	11,582
Staff related accruals	**17,338**	13,495
Accrued expenses and payables	**19,319**	8,391
Provisions on non cash facilities (Note 11)	**18,384**	16,622
Others	**37,632**	28,552
	107,135	78,642

17- EQUITY

a) The authorised, issued and fully paid share capital comprises 1,619,166,234 shares (2014: 1,619,166,234 shares) of 100 fils each.

The shareholders at the Annual General Meeting held on 21 March 2015 approved the distribution of cash dividend of 13 per cent amounting to KD 20,986 thousand for the year ended 31 December 2014 which was paid subsequently (31 December 2013: cash dividend of 13 per cent amounting to KD 20,989). Treasury shares are not entitled to any cash dividends.

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17- EQUITY (continued)

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) Treasury shares and Treasury share reserve:

	2015	2014
Number of shares held	**11,325,473**	4,862,229
Percentage of shares held	**0.70%**	0.30%
Market value (KD 000)	**4,247**	1,994
Weighted average market value per share (fils)	**365**	415

The balance in the treasury share reserve account is not available for distribution. Further, an amount equal to the cost of treasury shares is not available for distribution from general reserve throughout the holding period of these treasury shares.

f) The directors have proposed a cash dividend of 10 fils per share for the year ended 31 December 2015, (31 December 2014: 13 fils per share) subject to the approval of the shareholders at the annual general meeting.

g) Movement in other reserves is as below:

	Property revaluation reserve KD 000	Foreign currency translation reserve KD 000	Employee benefit plan reserve KD 000	Total other reserves KD 000
At 1 January 2014	6,018	(9)	-	6,009
Other comprehensive income for the year	2,232	58	-	2,290
As at 31 December 2014	**8,250**	**49**	**-**	**8,299**
Other comprehensive income for the year	706	(127)	(103)	476
As at 31 December 2015	**8,956**	**(78)**	**(103)**	**8,775**

18- INTEREST INCOME

	2015 KD 000	2014 KD 000
Balances with banks	**1,905**	583
Debt securities	**12,441**	13,699
Loans and advances	**112,657**	97,547
	127,003	111,829

19- INTEREST EXPENSE

	2015 KD 000	2014 KD 000
Due to banks and other financial institutions	**12,340**	9,904
Customers' deposits:		
- Sight deposits	**2,146**	1,837
- Time deposits	**18,124**	15,728
	32,610	27,469

20- NET FEES AND COMMISSION INCOME

	2015 KD 000	2014 KD 000
Fees and commission income	**27,986**	24,336
Fees and commission expense	**(2,758)**	(2,306)
	25,228	22,030

Fees and commission income includes KD 1,190 thousand (2014: KD 1,190 thousand) from fiduciary activities in which the Group holds or invests assets on behalf of its customers.

21- TAXATION

	2015 KD 000	2014 KD 000
Kuwait Foundation for the Advancement of Sciences	**290**	357
National Labour Support Tax	**807**	992
Zakat	**323**	397
Tax on overseas locations	**1,654**	466
	3,074	2,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

22- BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK

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

	2015	2014
Net profit for the year attributable to shareholders of the Bank (KD '000)	**30,360**	37,586
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	**(8,047,787)**	(4,804,961)
Weighted average number of shares outstanding during the year	**1,611,118,447**	1,614,361,273
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	**19**	23

23- COMMITMENTS AND CONTINGENT LIABILITIES

	2015 KD 000	2014 KD 000
Acceptances	**22,489**	21,459
Letters of credit	**153,087**	231,567
Guarantees	**755,051**	628,149
	930,627	881,175

The above balances represent the irrevocable contractual amounts of the Group's off balance sheet financial instruments that commit the Group 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 491,291 thousand (2014: KD 352,453 thousand).

24- 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.

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.

	2015 KD 000			2014 KD 000		
	Assets	**Liabilities**	**Contractual amounts**	Assets	Liabilities	Contractual amounts
Held for hedging:						
Fair value hedges						
Interest rate swaps	**85**	**289**	**87,007**	257	492	83,293
Held for trading:						
Forward foreign exchange contracts	**70**	**341**	**157,683**	334	2,142	175,910
Interest rate swaps	**-**	**7,019**	**88,883**	-	3,264	88,883
	155	**7,649**	**333,573**	591	5,898	348,086

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.

Al Ahli Bank of Kuwait K.S.C.P.
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By Amiri Decree on 23 May 1967
Paid Up Capital as at 31 Dec. 2015: KD 161,916,623
Commercial Register: 3705
Reuters: AHLK
SWIFT: ABKK-KW-KW
Cable: AHLIBANK-KUWAIT

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