BASE PROSPECTUS

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

(incorporated with limited liability in the State of Kuwait)

U.S.$1,500,000,000
Euro Medium Term Note Programme

Under this U.S.$1,500,000,000 Euro Medium Term Note Programme described in this base prospectus (the "**Programme**"), Al Ahli Bank of Kuwait K.S.C.P. (the "**Issuer**" or the "**Bank**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$1,500,000,000 (or the equivalent in other currencies).

This base prospectus (the "**Base Prospectus**") has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for Notes issued under the Programme (as defined below) during the period of 12 months from the date of this Base Prospectus to be admitted to the official list (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC (each such regulated market being a "**MiFID Regulated Market**") and/or which are to be offered to the public in any member state of the European Economic Area (the "**EEA**").

References in this Base Prospectus to the Notes being listed (and all related references) shall mean that, unless otherwise specified in the Final Terms (as defined in "*Overview of the Programme—Method of Issue*"), the Notes have been admitted to the Official List and trading on the Main Securities Market. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Each Series (as defined in "*Overview of the Programme – Method of Issue*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**"). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Global Notes and Certificates may be deposited on the issue date with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") (the "**Common Depositary**"). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The credit ratings included or referred to in this Base Prospectus will be treated for the purposes of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the "**CRA Regulation**") as having been issued by Fitch Ratings Limited ("**Fitch**") and Moody's Investors Service Cyprus Ltd. ("**Moody's**"). Each of Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. As such, each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

The Issuer has been assigned ratings of A+ by Fitch and A2 by Moody's, each with a stable outlook.

Whether or not a rating has been given in relation to any Tranche of Notes will be disclosed in the relevant Final Terms. Tranches of Notes (as defined in "*Overview of the Programme—Method of Issue*") to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Notes already issued.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Whether or not a rating in relation to any Series of Notes will be treated as having been issued by a credit rating agency established in the EU and registered under the CRA Regulation will be disclosed in the applicable Final Terms.

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Base Prospectus.

Arrangers for the Programme

Citigroup	**HSBC**	**National Bank of Abu Dhabi PJSC**

Permanent Dealers for the Programme

Ahli Capital Investment Company	**Citigroup**	**HSBC**	**National Bank of Abu Dhabi PJSC**

The date of this Base Prospectus is 16 March 2017

IMPORTANT NOTICES

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms (as defined herein) for each Tranche (as defined herein) of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with any supplements thereto and, in relation to any Tranche of Notes which is the subject of the Final Terms, must be read and construed together with the relevant Final Terms.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or the Arrangers (as defined in "*Overview of the Programme*"). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Dealers and the Arrangers to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see "*Subscription and Sale*".

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Dealers or the Arrangers accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each Arranger and Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as

referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arrangers undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arrangers.

In making an investment decision, investors must rely on their own independent examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. None of the Arrangers, the Dealers or any of their respective affiliates or the Issuer makes any representation to any investor regarding the legality of its investment under any applicable laws. Any investor should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Notes may not be a suitable investment for all investors. Accordingly, each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial or other professional advisers, whether it:

- has sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understands thoroughly the terms of the relevant Notes and be familiar with the behaviour of financial markets; and
- is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (1) the Notes are legal investments for it; (2) the Notes can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

STABILISATION

In connection with the issue of any Tranche (as defined in "*Overview of the Programme – Method of Issue*"), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher

than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

NOTICE TO RESIDENTS OF THE STATE OF KUWAIT

The Notes may not be issued, offered for sale, nor sold in Kuwait unless all necessary approvals pursuant to Law No. 7 of 2010 (as amended) and Decree No. 72 of 2015 regarding the Executive Bylaws of Law No. 7 of 2010 and the various Resolutions, Instructions and Announcements issued pursuant thereto, or in connection therewith (the "CMA Law") have been obtained from the Kuwait Capital Markets Authority (the "CMA") and from the Central Bank of Kuwait (the "CBK"), in respect of banks and financial institutions regulated by the CBK, in relation to the issue, marketing and sale of the Notes.

The Base Prospectus may not be distributed nor may the Notes be marketed or sold within Kuwait, whether to the public or to Professional Clients except with the prior written approval of the CMA, nor will the Notes be traded on the Kuwait Stock Exchange.

NOTICE TO RESIDENTS OF QATAR

This Base Prospectus does not and is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of Qatar and the rules and regulations applicable in the Qatar Financial Centre and has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority, the Qatar Stock Exchange or the Qatar Central Bank in accordance with their regulations or any other regulations in Qatar and the Qatar Financial Centre. The Notes are not and will not be traded on the Qatar Stock Exchange.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, Notes issued in connection with this Base Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain ("CBB") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or the equivalent amount in any other currency or such other amount as the CBB may determine.

This Base Prospectus does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). The offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Base Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Base Prospectus or related offering documents and it has not in any way considered the merits of the Notes to be offered for investment, whether in or

outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Base Prospectus. No offer of Notes will be made to the public in the Kingdom of Bahrain and this Base Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "Capital Market Authority").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of the Notes issued under the Programme should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Base Prospectus he or she should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). The Notes will not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of financial information

Historical financial statements

The financial statements relating to the Group and included in this Base Prospectus are:

- the audited consolidated financial statements as at and for the year ended 31 December 2016 (the "**2016 Financial Statements**"); and
- the audited consolidated financial statements as at and for the year ended 31 December 2015 (the "**2015 Financial Statements**" and, together with the 2016 Financial Statements, the "**Financial Statements**").

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

The Financial Statements have been jointly audited in accordance with International Standards on Auditing by Ernst and Young (Al Aiban, Al Osaimi and Partners) ("**EY Kuwait**") and Deloitte & Touche, Al Wazzan & Co. ("**Deloitte Kuwait**"), without qualification as stated in their reports appearing herein.

The Issuer's financial year ends on 31 December and references in this Base Prospectus to "**2016**", "**2015**" and "**2014**" are to the 12 month period ended on 31 December in each such year.

All financial information as at and for the year ended 31 December 2014 contained in this Base Prospectus is as reported in the 2015 Financial Statements. All financial information as at and for the year ended 31 December 2015 contained in this Base Prospectus is as reported in the 2016 Financial Statements.

Impact of acquisition of Piraeus Bank Egypt S.A.E. (now renamed ABK Egypt)

In November 2015, the Group acquired a 98.5 per cent. interest in Al Ahli Bank of Kuwait – Egypt S.A.E. ("**ABK Egypt**"), then known as Piraeus Bank Egypt S.A.E., for a cash consideration of KD 45.5 million (the "**Acquisition**"). In compliance with IFRS 3, "Business Combinations", the Group carried out one time purchase price allocation ("**PPA**") exercise. The PPA exercise resulted in a KD 8 million gain from the business combination, since the fair value of the assets acquired and the liabilities assumed exceeded the cash consideration paid and the related transaction expenses. The Group's consolidated income statement for 2015 includes operating income of KD 1.5 million and operating profit of KD 0.3 million attributable to ABK Egypt. Had ABK Egypt been consolidated from 1 January 2015, the consolidated income statement would have included operating income of KD 15 million and operating profit of KD 2.4 million. In November 2016, the legal name of Piraeus Bank Egypt S.A.E. was changed to Al Ahli Bank of Kuwait – Egypt S.A.E..

Certain non-IFRS financial information

This Base Prospectus includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Group believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels. The Group's interpretation of any future planned ratios and the basis of its calculation of these ratios may be different from those of other financial institutions. None of the non-IFRS financial information included in this Base Prospectus is subject to any audit or review by independent auditors.

Presentation of Other Information

Rounding

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments. Accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Currencies

Unless otherwise indicated, in this Base Prospectus, all references to:

- "**EGP**" are to the lawful currency of Egypt;
- "**KD**" and "**dinar**" are to the lawful currency of Kuwait;
- "**U.S. dollars**" and "**U.S.$**" are to the lawful currency of the United States; and
- "**€**" and "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Unless otherwise indicated, the financial information contained in this Base Prospectus has been expressed in dinar. The Group's functional currency is the dinar and the Group prepares its financial statements in dinar.

Third party and market share data

There is no independently determined financial services industry data available in Kuwait. As a result, any Group market share data included in this Base Prospectus represents the Group's own estimates of its market shares based on the financial statements published by Kuwaiti banking groups and, where available, industry data, such as that produced by the CBK. All such market share information is referred herein to as having been estimated and potential investors should note that the data so derived includes significant assets and liabilities outside Kuwait and excludes any Kuwaiti assets and liabilities of non-Kuwaiti banking groups. As a result, it simply represents an approximation of the Group's actual market shares. Nevertheless, the Group believes that its estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Group's knowledge of the market within which it operates, the Issuer cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Kuwait included in this Base Prospectus has been derived from official public sources, including the Organization of Petroleum Exporting Countries ("**OPEC**"), the International Monetary Fund ("**IMF**"), the Sovereign Wealth Fund Institute, the United States Central Intelligence Agency (the "**CIA**"), the Kuwait Public Authority for Civil Information, the CBK and the Kuwait Central Statistical Bureau (the "**CSB**"). All such statistical information may differ from that stated in other sources for a variety of reasons, including the fact that the underlying assumptions and methodology (including definitions and cut-off times) may vary from source to source. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased any Notes issued under the Programme.

The statistical information in this Base Prospectus, including in relation to Gross Domestic Product ("**GDP**"), balance of payments, revenues and expenditures, and indebtedness of the Kuwaiti government, have been obtained from public sources identified in this Base Prospectus. All statistical information provided in this Base Prospectus, and the component data on which it is based, may not have been compiled in the same manner as data provided by, and may be different from statistics published by, other sources. Accordingly, the statistical data contained in this Base Prospectus should be treated with caution by prospective investors.

Where information has not been independently sourced, it is the Group's own information.

No Incorporation of website information

The Issuer's website is www.eahli.com. The information on this website or any other website mentioned in this Base Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Base Prospectus, and investors should not rely on it.

Definitions

Capitalised terms which are used but not defined in any section of this Base Prospectus will have the meaning attributed thereto in the Conditions or any other section of this Base Prospectus. In addition, the following terms as used in this Base Prospectus have the meanings defined below:

- references to "**Egypt**" are to the Arab Republic of Egypt;
- references to "**GCC**" are to the Gulf Co-operation Council;
- references to "**GREs**" are to government related entities;
- references to "**Kuwait**" are to the State of Kuwait;
- references to a "**Member State**" are references to a Member State of the European Economic Area;
- references to the "**MENA region**" are to the Middle East and North Africa region; and
- references to the "**UAE**" are to the United Arab Emirates.

FORWARD-LOOKING STATEMENTS

This Base Prospectus contains certain forward-looking statements. The words “anticipate”, “believe”, “expect”, “plan”, “intend”, “targets”, “aims”, “estimate”, “project”, “will”, “would”, “may”, “could”, “continue” and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Base Prospectus, including, without limitation, those regarding the financial position, business strategy, management plans and objectives for future operations of the Issuer are forward looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements. These forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which the Issuer expects to operate in the future. Important factors that could cause actual results, performance or achievements to differ materially from those in the forward looking statements include, among other factors described in this Base Prospectus:

- the Issuer's ability to receive distributions and other revenue flows from its investments (including its subsidiaries);
- the Issuer's ability to obtain and maintain sufficient capital to fund its current and future investments and financial obligations, including the Issuer's ability to obtain external financing;
- the Issuer's ability to manage the growth of the Group successfully;
- changes in political, social, legal or economic conditions in the markets that affect the Group and the value of the Group’s investments;
- the political and economic conditions in Kuwait and the Middle East and North Africa (“**MENA**”) region; and
- changes in the competitive environment in which the Group operates.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Issuer operates. Such forward-looking statements speak only as of the date on which they are made and are not subject to any continuing obligations under the listing rules of the Irish Stock Exchange. Accordingly, the Issuer does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Issuer does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

SUPPLEMENTARY PROSPECTUS

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to Regulation 51 of Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland (S.I. No. 324 of 2005) (the "**Irish Prospectus Regulations**"), the Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Main Securities Market, shall constitute a supplementary prospectus as required by Regulation 51 of the Irish Prospectus Regulations.

The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

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RISK FACTORS

Any investment in Notes issued under the Programme is subject to a number of risks and uncertainties. Before making any investment decision, prospective investors should consider carefully the risks and uncertainties associated with an investment in any Notes, the Group's business and the countries and markets in which it operates, together with all of the other information that is included in this Base Prospectus. Prospective investors should also consult their own financial and legal advisers about the risks associated with an investment in Notes issued under the Programme and the suitability of investing in those Notes in light of their particular circumstances, without relying on the Issuer. Should one or more of the events or circumstances described as risks below occur at the same time or separately, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, could cause the value of Notes issued under the Programme to decline and could result in an investor losing part or all of its investment.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

The order in which the risks are presented below does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Issuer or the Group.

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with Notes issued under the Programme

The Group is affected by regional and global financial markets and economic conditions and could be materially adversely affected by any deterioration in economic conditions in Kuwait, Egypt and the wider MENA region

There has been significant volatility and disruption in the global capital and credit markets since the onset of the global financial crisis in late 2007. At times since then, there has also been a material reduction in the availability of financing, both for financial institutions and their customers. As a result, many financial institutions have been compelled to rely on central banks and governments to provide liquidity and, in some cases, additional capital. Governments around the world, including in Kuwait, Egypt and other countries in the MENA region, have taken actions intended to stabilise financial markets and prevent the failure of financial institutions. See "*Banking industry and regulation in Kuwait*". Despite such measures, international capital and credit markets have continued to experience volatility.

The Group's business growth and results of operations were adversely affected by these conditions and the impact they had in Kuwait and other countries in the MENA region. In particular, many countries in the MENA region experienced significant declines in real estate prices and in stock exchange indices and these factors adversely affected companies engaged in the real estate sector (including developers, construction companies and others) and investment companies. Reflecting a lack of diversification in Kuwait's economy, Kuwaiti banks had significant concentrations of these companies as borrowers and, as a result of the difficulties these

companies experienced, Kuwaiti banks, including the Group, significantly increased their provisions in 2008 and 2009 compared to prior years, which in turn adversely affected their results of operations.

If comparable market disruptions and levels of volatility recur, the Group may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, increased credit losses and impairment charges, and lower profitability and cash flows. The Group's business and financial performance may also be adversely affected by future recovery rates on assets (including real estate and equity securities which it has accepted as security), particularly as the historical assumptions underlying asset recovery rates may prove to be inaccurate.

In addition, although economic conditions are different in each country in the MENA region, investors' reactions to developments in one country may affect the price of securities of issuers in other countries in the MENA region, including Kuwait. Accordingly, the market price of Notes issued under the Programme may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Group.

In November 2015, the Bank acquired ABK Egypt, which is engaged in providing corporate, retail and investment banking services in Egypt through a network of 39 branches as at 31 December 2016. As at the same date, assets attributable to ABK Egypt constituted 6.4 per cent. of the Group's total assets.

Egypt has experienced significant political unrest since 2010. This unrest negatively affected the Egyptian banking system through reduced demand for credit and an outflow of foreign investment and has also had negative macro-economic consequences for the Egyptian economy, including low levels of growth in real GDP. According to the IMF's October 2016 World Economic Outlook Database, real GDP in Egypt declined from 5.1 per cent. in 2010 to 1.8 per cent. in 2011 and was 2.2 per cent. in 2012, 2.1 per cent. in 2013, 2.2 per cent. in 2014 and 4.2 per cent. in 2015. The IMF predicts that real GDP in Egypt will have grown at 3.8 per cent. in 2016 and will grow at 4.0 per cent. in 2017. Inflation and unemployment rates have generally remained high throughout the same period and, according to the same source, were 11.4 per cent. and 12.9 per cent., respectively, in 2015. There can be no assurance that Egypt's political and economic fundamentals will improve and, if the economy does not improve or there is an increase in political uncertainty or renewed violent protests or civil war in Egypt, this could adversely affect the Group's business.

In particular, 24.1 per cent. of the Group's investment securities portfolio of KD 238 million at 31 December 2016 (excluding its holdings of Kuwait government treasury bonds and CBK bonds which are separately recorded on its balance sheet and referred to below as its "**Kuwait bond portfolio**") was held in treasury bills and bonds issued by the Egyptian government and any failure of the Egyptian government to manage the economic concerns listed above could result in Egypt being downgraded by international rating agencies or, in extreme cases, defaulting on its sovereign debt, which would, in turn, have a negative impact on the value of the Group's investment securities portfolio and could result in increased impairment losses.

The Group is exposed to volatility in international oil prices and the sustained significant fall in these prices since mid-2014 could materially adversely affect the Group

The Group's operations are focused in the MENA region, primarily in Kuwait. It also operates in the UAE and, since November 2015, in Egypt. In 2015, 88.5 per cent of the Group's operating income was derived from its operations in Kuwait and 86.8 per cent. of its maximum exposure to credit risk (including credit-related contingent liabilities) as at 31 December 2015 was concentrated in the MENA region, principally in Kuwait and, to a lesser extent, in Egypt and the UAE. In 2016, 82.2 per cent. of the Group's operating income was derived from its operations in Kuwait and 88.8 per cent. of its maximum exposure to credit risk (including credit-related contingent liabilities) as at 31 December 2016 was concentrated in the MENA region, principally in Kuwait and, to a lesser extent, in Egypt and the UAE.

Kuwait's economy and the economies of a number of other countries in the MENA region are dependent on oil and gas and related industries, as well as the prices and production quantities of these commodities. Oil prices have, however, been volatile in recent years, which has impacted economic growth in Kuwait. For example, following the significant decline in international oil prices in the second half of 2008 and comparatively very low prices for most of 2009, Kuwait's real GDP contracted by 7.1 per cent. in 2009 and by 2.4 per cent. in 2010, according to CBK data. Since the middle of 2014, international oil prices have fallen significantly, with the monthly average price of the OPEC reference basket falling from U.S.$105.61 in July 2014 to a low of U.S.$26.50 in January 2016 before recovering to a high of U.S.$52.40 in January 2017. These significantly lower oil prices have adversely affected Kuwait's economy. Real GDP in Kuwait contracted by 1.6 per cent. in 2014 and grew by 1.8 per cent. in 2015, according to CBK data. The IMF projects Kuwait's real GDP to have increased by 2.5 per cent in 2016. Should international oil prices continue to remain at their current low levels for an extended period, this will be likely to continue to adversely affect Kuwait's economy.

Further, the impact of the oil price on Kuwait's economy could materially adversely affect many of the Group's borrowers and contractual counterparties. This, in turn, would adversely affect the Group's business, in particular through increases in the Group's non-performing loan ("**NPL**") portfolio, increased loan loss provisions which would negatively impact the Group's profitability and reduced demand for loans and other banking services. See "*—The Group's customer loan portfolio, deposit base, bond portfolios and investment securities portfolio are concentrated in Kuwait and the MENA regio*n" below.

The Group's business may be impacted by ongoing unrest in the Middle East

Many of the Group's customers and a significant part of its business are based in the MENA region. The Group intends to continue to focus on growing its business in the MENA region in the near future. Since 2010, there has been political unrest in a range of countries in or proximate to the MENA region, including Syria, Iraq, Egypt, Turkey, Bahrain, Algeria, Libya, Iran, Lebanon, Jordan, Tunisia and Yemen. This unrest, which has ranged from public demonstrations to, in extreme cases, armed conflict and civil war, has led to the collapse of political regimes in Tunisia, Egypt and Libya, civil war in Syria and armed insurrection in Iraq and Yemen. It has also given rise to significantly increased political uncertainty across the region. This situation has caused significant disruption to the economies of affected countries and has had a destabilising effect on international oil and gas prices.

A significant proportion of the Group's customers are located in the MENA region. Wars, acts of terrorism and uncertain political or economic prospects or instability in Kuwait, Egypt or the wider MENA region may adversely impact regional financial markets and the Group's business. Renewed protests in the MENA region, including Kuwait or Egypt, could lead to significant political uncertainties in a number of countries. Financial market and political uncertainty in the MENA region could decrease the Group's customer deposits or its customers' demand for loans or other products offered by the Group. Continued instability in the MENA region, and in particular in Egypt where the Group has a significant presence, could impact the Group's MENA-based operations and investments and could materially impact the financial prospects and conditions of its MENA-based customers. These factors could result in decreased asset values and increased provisions for the Group. Such instability could also negatively affect the value of the Group's investments in affected countries.

The Group may not realise in full the anticipated synergies from the Acquisition

In November 2015, the Group completed the Acquisition.

The Group may not be able to realise the potential cost savings, synergies and revenue enhancements that were anticipated from the integration, either in the full amount or within the time frame that it expected, and the costs of achieving these benefits may be higher than, and the timing may differ from, what the Group expected. The Group's ability to realise all of the anticipated cost savings, synergies and revenue enhancements may be affected by a number of factors, including, but not limited to, the following:

- the use of more cash or other financial resources on integration and implementation activities than expected; and
- the Group's ability to eliminate duplicative back-office overhead and overlapping and redundant general and administrative functions.

The Group is exposed to the credit risk of borrowers and other counterparties and anticipated future growth in, or deterioration in the quality of, the Group's loan portfolio, bond portfolios or investment securities portfolio could result in an increase in its credit risk profile

Risks arising from adverse changes in the credit quality and recoverability of loans, securities and amounts due from counterparties are inherent in a wide range of the Group's businesses, principally in its lending and investment activities. In particular, the Group is exposed to the risk that borrowers may not repay their loans according to their contractual terms and that the collateral (if any) securing the payment of these loans may be insufficient. The Group regularly reviews and analyses its loans and advances (the "**loan portfolio**") and credit risks, and the Group's provision for losses on loans is based on, among other things, its analysis of current and historical delinquency rates and loan management and the valuation of the underlying assets, as well as numerous other management assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in a volatile economic climate. See "*—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

As at 31 December 2016, the Group's loan portfolio amounted to KD 3,029 million compared to KD 3,047 million at 31 December 2015. The Group's NPLs increased from KD 74.4 million as at 31 December 2015 to KD 83.2 million as at 31 December 2016 and its provision for credit losses in respect of its loan portfolio amounted to 7.1 per cent. and 6.5 per cent. of its gross loan portfolio as at 31 December 2016 and 31 December 2015, respectively. The growth in provisions in 2016 principally reflected increased general provisions as management sought to bolster these in the light of prevailing economic conditions and an increased focus on growing revenue.

To the extent that the Group's loan portfolio expands in the future, reflecting its strategy to focus on growing its retail business in both Kuwait and Egypt, and its credit exposure consequently increases, management of the Group will need to continually monitor the credit quality of the loan portfolio. This will be particularly important in the light of deteriorating economic conditions in Kuwait and the generally riskier nature of retail lending. See "*Risk management—Principal risks—Credit risk*", note 5A to the 2016 Financial Statements and "*—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

Credit losses could also arise from a deterioration in the credit quality of specific issuers and counterparties of the Group, from a general deterioration in local or global economic conditions, or from systemic risks within these financial systems, which could affect the recoverability and value of the Group's assets and require an increase in its provisions for the impairment of loans, securities and other credit exposures.

Any failure by the Group to maintain the quality of its assets through effective risk management policies could lead to higher loan loss provisioning and result in higher levels of defaults and write-offs, all of which would be likely to reduce the Group's profitability.

Security interests or loan guarantees provided in favour of the Group may not be sufficient to cover any losses and may not be legally enforceable

The practice of pledging assets (such as share portfolios and real estate assets) to obtain a bank loan is subject to certain limitations and administrative restrictions under Kuwaiti law. In particular, such security may not be enforced without a court order. As a result, security over certain pledged assets may not be enforceable in

Kuwaiti courts. Accordingly, the Group may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third party credit support arrangements when debtors default on their loans.

In addition, even if such security interests are enforceable in Kuwaiti courts, the time and costs associated with enforcing security interests in Kuwait may make it uneconomical for the Group to pursue such proceedings, adversely affecting the Group's ability to recover its loan losses. As at 31 December 2016, 42.1 per cent. of the Group's loans were secured by collateral, including share pledges governed by Kuwaiti law and real estate collateral.

The Group typically requires additional collateral in the form of cash and/or other assets in situations where the Group may not be able to exercise rights over pledged shares or where it enters into guarantees or other third party credit support arrangements for loans made to individuals and corporations. Any decline in the value or liquidity of such collateral may prevent the Group from foreclosing on such collateral for its full value or at all in the event that a borrower becomes insolvent and enters bankruptcy, and could thereby adversely affect the Group's ability to recover the full amounts advanced to the borrower.

The Group's loan portfolio, deposit base, bond portfolios and investment securities portfolio are concentrated in Kuwait and the MENA region

The Group's loan portfolio and its investment securities portfolio are concentrated, geographically, in Kuwait and the MENA region. Together, these portfolios (including the Group's holding of Kuwaiti government treasury bonds and CBK bonds) constituted 85.5 per cent. of its total assets, or KD 3,664 million, as at 31 December 2016 and 86.6 per cent. of its total assets, or KD 3,775 million, as at 31 December 2015. As at 31 December 2016, 93.7 per cent. of the Group's loan portfolio was advanced to borrowers in the MENA region, principally in Kuwait, and, as at the same date, 88.8 per cent. of the Group's maximum exposure to credit risk (including credit-related contingent liabilities) was to counterparties located in the MENA region, principally in Kuwait and, to a lesser extent, in Egypt and the UAE.

The Group's investment securities portfolio principally comprises debt instruments, with KD 181 million, or 76.1 per cent. of the portfolio being debt instruments as at 31 December 2016. The issuers of these instruments were principally MENA region issuers. In addition, the Group's Kuwait bond portfolio, which amounted to KD 397 million at 31 December 2016, solely comprised Government of Kuwaiti and CBK bonds.

The Group's customer deposits constituted 77.8 per cent. of its total liabilities, or KD 2,900 million, as at 31 December 2016 and 65.6 per cent. of its total liabilities, or KD 2,496 million, as at 31 December 2015. In particular, the Group has a significant concentration of deposits from the Kuwaiti government and its related agencies which approximated 15 to 20 per cent. of the Group's total funding over the three years to 31 December 2016.

As a result, any deterioration in general economic conditions in Kuwait and the wider MENA region or any failure by the Group to manage effectively its geographic risk concentrations could have a more significant adverse effect on the Group's business than on that of a more diversified bank. See "*—The Group is affected by regional and global financial markets and economic conditions and could be materially adversely affected by any deterioration in economic conditions in Kuwait, Egypt and the wider MENA region*" above.

The Group has significant customer and sector concentrations

The Group's 25 largest loans and advances outstanding as a percentage of its gross loan portfolio as at 31 December 2016 was 25.7 per cent. compared to 28.6 per cent. as at 31 December 2015. In addition, the Group's holdings of Kuwait government treasury bonds and CBK bonds amounted to KD 397 million, or 62.5 per cent. of the Group's combined Kuwait bond and investment securities portfolios of KD 635 million as at

31 December 2016, compared to KD 384 million, or 52.7 per cent. of the Group's combined Kuwait bond and investment securities portfolios of KD 728 million as at 31 December 2015.

Although diversified by industry sector, the Group's credit risk exposure is concentrated on (i) the construction and real estate industry sectors and (ii) governments and their related entity borrowers which, as at 31 December 2016, accounted for 19.7 per cent. and 19.1 per cent., respectively, of the Group's credit risk exposure (excluding contingent liabilities) compared to 20.3 per cent. and 18.5 per cent., respectively, as at 31 December 2015. In addition, the retail sector accounted for 22.3 per cent. and 24.2 per cent. of the Group's credit risk exposure as at 31 December 2016 and 31 December 2015, respectively.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Group's large loan customers or issuers of debt securities, or any factors which negatively impacted any of the sectors to which the Group has significant exposure, could result in the Group having to make significant additional loss provisions and experiencing reduced interest income. Sector specific factors might include:

- a significant decline in real estate values which would weaken the credit quality of the Group's construction and real estate borrowers and could also reduce the value of the real estate collateral which the Group holds;
- continued low oil and gas prices which could reduce the liquidity of its government and GRE borrowers, particularly those that operate in the oil and gas sector or provide products and services to that sector; and
- continued low levels of economic growth or a recession in Kuwait which, particularly if coupled with increased levels of unemployment and falling house prices, could materially adversely impact the ability of the Group's retail customers to repay their loans.

In terms of liabilities, the Group's 25 largest customer deposits as at 31 December 2016 constituted 45.8 per cent. of its total customer deposits at that date. The Group's 10 largest depositors as at 31 December 2016 constituted 35.6 per cent. of its total customer deposits at that date. The withdrawal or non-renewal of its deposits by any one or more of the Group's large depositors could require the Group to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive, which would reduce the Group's net interest margin and adversely impact its operating income and profitability. See further "*—The Group is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business*" below.

The Group has significant credit-related contingent liabilities and commitments that may lead to potential losses

As part of its normal banking business, the Group issues guarantees, letters of credit ("**LCs**") and acceptances which are accounted for off the Group's balance sheet until such time as they are actually funded or cancelled. In addition, the Group makes irrevocable commitments to advance credit to its customers. Although these commitments are contingent, they nonetheless subject the Group to both credit and liquidity risks. As at 31 December 2016, the Group had KD 1,137 million in such contingent liabilities and commitments outstanding, equal to 27.3 per cent. of its combined loan portfolio and contingent liabilities.

Although the Group anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Group may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This would result in the Group needing to obtain additional funding, potentially at relatively short notice, which may not be readily available or may be significantly more expensive, which would reduce the Group's net interest margin and adversely impact its operating income and profitability.

The Group is exposed to reputational risks related to its operations and industry

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Group is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Group's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it has made loans or in which it has invested. For example, if one of the Group's borrowers becomes associated with financial scandals or widely publicised improper behaviour, the Group's own reputation may be affected. In common with other banks, the Group is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Group or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Group's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Group.

The Group could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties

Against the backdrop of constraints on liquidity and the high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions that became most evident following the bankruptcy of Lehman Brothers in 2008, the Group is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009, concerns about, or a default by, one institution could also lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Group or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with whom the Group interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Group's ability to raise new funding and on its business generally.

The Group is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business

Liquidity risk is the risk that the Group will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009. Since then, market conditions have been volatile with financial institutions continuing to experience periods of reduced liquidity.

The perception of counterparty risk between banks has also increased significantly since the final quarter of 2008, which led to reductions in certain traditional sources of liquidity, such as the debt markets, asset sales and redemption of investments. The Group's access to these traditional sources of liquidity may be restricted or available only at a higher cost and there can be no assurance that the Kuwaiti government will continue to provide the levels of support that it has provided to date to the Kuwaiti banking sector. See "*—The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*" below.

In addition, uncertainty or volatility in the capital and credit markets may limit the Group's ability to refinance maturing liabilities with long-term funding or may increase the cost to the Group of such funding. The Group's access to any additional financing it may need will depend on a variety of factors, including market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and the Group's financial condition, credit ratings and credit capacity.

The Group has historically relied on both customer and interbank deposits, which are mainly short-term and generally low cost in nature, to meet most of its funding needs. The availability of deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time or may cause the Group to increase the interest paid on its deposits to ensure that it retains sufficient deposits. As at 31 December 2016, 29.6 per cent. of the Group's non-equity funding (which comprises amounts due to banks and other financial institutions and customer deposits) had remaining contractual maturities of up to one month or was payable on demand and 77.9 per cent. had remaining maturities of one year or less or was payable on demand. The Group may experience outflows of deposits at times when liquidity is constrained generally in Kuwait or when its major depositors experience short- or longer-term liquidity requirements. Particularly if international oil and gas prices remain at relatively low levels, the Group's large Kuwaiti governmental depositors may start to withdraw part or even all of their deposits with it.

In addition, the Group's deposits are geographically concentrated and the Group is reliant on certain large deposits from a limited group of government-related and private sector corporate customers. See "*—The Group's customer loan portfolio, deposit base, bond portfolios and investment securities portfolio are concentrated in Kuwait and the MENA region*" above and "*—The Group has significant individual customer concentrations*" above.

If a substantial portion of the Group's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Group may need to seek other sources of funding or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. There can be no assurance that the Group will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Group is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Group is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on its business generally and could, potentially, result in its insolvency.

The Group is subject to extensive regulation and changes in this regulation, or the interpretation and enforcement of this regulation, or any failure by the Group to comply with this regulation could have a material adverse effect on the Group

The Group is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. These controls include laws and regulations promulgated by the CBK, the CMA and the Kuwait Stock Exchange (the "**KSE**") and are further described under "*Banking industry and regulation in Kuwait*".

The regulations to which the Group is subject may limit its ability to carry on certain parts of its business, to increase its loan portfolio or to raise capital and may also increase its cost of doing business. In addition, increased regulations or changes in applicable laws and regulations and the manner in which they are interpreted or enforced in Kuwait may impose significant additional compliance costs on the Group. Furthermore, non-compliance by the Group with any applicable regulations could expose it to potential liabilities and fines, which may be significant.

In order to carry out and expand its businesses, it is necessary for the Group to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Group is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired.

The Group is also required to comply with applicable know-your-customer, anti-money laundering and counter-terrorism financing laws and regulations in Kuwait and other jurisdictions where it operates, including those related to countries subject to sanctions by the United States Office of Foreign Assets Control ("**OFAC**"), similar regulations of other jurisdictions, and applicable anti-corruption laws in the jurisdictions in which it conducts business. To the extent that the Group fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged and it could be subject to fines or other monetary penalties, which could materially adversely impact its cash flow and profitability.

A negative change in the Bank's credit rating could limit its ability to raise funding and may increase its borrowing costs

The Bank has a long-term foreign currency issuer default rating of A+ with stable outlook from Fitch and a long-term bank deposits rating of A2 with stable outlook from Moody's. These ratings, which are intended to measure the Bank's ability to meet its debt obligations as they mature, are an important factor in determining the Group's cost of borrowing funds.

There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade of the Bank's credit ratings, or a negative change in their outlook, may:

- limit the Bank's or any other member of the Group's ability to raise funding;
- increase the Bank's or any other member of the Group's cost of borrowing; and
- limit the Bank's or any other member of the Group's ability to raise capital.

In addition, actual or anticipated changes in the Bank's credit rating may negatively affect the market value of any Notes issued under the Programme.

According to each of Moody's and Fitch, a significant factor underpinning the Bank's ratings is their assessment that there is an extremely high probability of support for the Bank from the Kuwaiti authorities. Any event that causes these or any other applicable rating agency in the future to adjust this view would be likely to result in a negative change in the Bank's rating. See "*—The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*" below.

In addition, the credit ratings assigned to the Bank may not reflect the potential impact of all risks related to an investment in Notes issued under the Programme, the market, additional factors discussed in this Base Prospectus and other factors that may affect the value of any Notes. A security rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past

Although the Kuwaiti government has in the past supported the domestic banking industry, including in the period following the global financial crisis, there can be no assurance that it will continue to provide support to the domestic banking industry in the future. Notes issued under the Programme are not guaranteed by the Kuwaiti government, any of the Bank's shareholders or any other party.

The banking industry is competitive and the Group is exposed to significant competition in Kuwait

The Group faces high levels of competition for all of its products and services in Kuwait. In particular, the Group competes with other domestic banks (both conventional and Islamic) and such competition may increase. See "*Description of the Group—Competition*".

The Kuwaiti banking sector currently comprises five Kuwait-incorporated conventional commercial banks and branches of 11 other non-Kuwaiti conventional banks and a non-Kuwaiti bank operating according to the requirements of Islamic Sharia. In addition, a specialised bank, and six banks operating according to the provisions of Islamic Sharia are also licensed to operate in Kuwait. The Group's relatively small size compared to some of the other conventional banks in Kuwait could constrain its efforts to attract very large corporate customers.

The banking sectors in Egypt and the UAE where the Group also operates are also highly competitive.

The Group believes that, in order to compete effectively, it will need to successfully implement its strategy, including by upgrading its existing IT capabilities and infrastructure, offering new products and services and adopting new approaches that differentiate it, such as the Group's strategy of making banking simpler for its retail customers. See "*Description of the Group—Strategy*".

Any failure by the Group to successfully develop and implement its strategy in the coming years could negatively affect its competitive position in the markets in which it operates which could result in reduced income or a failure to achieve anticipated levels of income.

The Group could be adversely affected by market risks

The Group could be adversely affected by market risks that are outside its control, including, without limitation, volatility in interest rates, prices of securities and currency exchange rates. In particular, an increase in interest rates generally may decrease the value of the Group's fixed-rate loans and the debt securities in its bond portfolios and investment securities portfolio and may increase the Group's funding costs. In addition, fluctuations in interest rates may result in a pricing gap between the Group's interest-rate sensitive assets and liabilities. For example, the Group generally has a discretionary right to change the rates it charges on its customer loans and advances (subject to the cap described below) whilst the rates that it pays on a part of its customer deposit base (namely, term deposits) are contractually fixed for the term of the deposit. As a result, the Group generally experiences an increase in its net interest income in times of rising interest rates and a reduction in its net interest income in times of falling interest rates. The reduction is driven by the fact that the interest rates chargeable by the Group on its Kuwaiti dinar-denominated customer loans are capped at prescribed percentages above the CBK discount rate. See "*Financial review—Principal factors affecting results of operations— Factors affecting net interest income*" as well as note 5C1 to the 2016 Financial Statements which illustrates the Group's sensitivity to a 0.25 per cent. increase in interest rates on major currencies, such as the Kuwaiti dinar, the U.S. dollar and the Egyptian pound, as at 31 December 2016 and 31 December 2015. Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, such as the CBK and the U.S. Federal Reserve, political factors and domestic and international economic conditions.

The Group maintains a small portfolio of available for sale equity securities in its investment securities portfolio. Any changes in the fair value of these securities, for example as a result of changing equity prices where the securities are quoted on an active market, has an impact on the Group's equity and note 5C3 to the 2016 Financial Statements illustrates the Group's sensitivity to a 5 per cent. change in relevant market indices as at 31 December 2016 and 31 December 2015. In addition, the Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility.

As a financial intermediary, the Group is also exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by the CBK. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks. See note 5C2 to the 2016 Financial Statements which illustrates the Group's sensitivity to a 5 per cent. change in the exchange rate of a number of different currencies against the Kuwaiti dinar as at 31 December 2016 and 31 December 2015.

The Group enters into derivative transactions, such as interest rate swaps and forward foreign exchange contracts, to manage its interest rate risk on its interest bearing assets and liabilities and to manage its foreign currency positions and cash flows. These derivative contracts had a notional value of KD 467 million as at 31 December 2016 and KD 334 million as at 31 December 2015 and the Group's derivatives portfolio had negative net fair values of KD 2.2 million as at 31 December 2016 and KD 7.5 million as at 31 December 2015. There is no assurance that the Group's derivative contracts will be successful in mitigating its interest rate and foreign exchange exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

Adverse movements in interest and foreign exchange rates may also adversely impact the revenues and financial condition of the Group's depositors, borrowers and other counterparties which, in turn, may impact the Group's deposit base and the quality of its credit exposures to certain borrowers and other counterparties.

Ultimately, there can be no assurance that the Group will be able to protect itself from any adverse effects of a currency revaluation or future volatility in interest rate or currency exchange rates or from a significant change in the prices of its securities.

Rising inflation, or deflation, may adversely affect the Group's profitability

Kuwait has, at times since 1990, experienced both high levels of inflation and short periods of deflation. High inflation could slow the rate of economic growth and consumer spending in Kuwait. A deflationary environment in Kuwait could also adversely affect the Group's profitability by adversely affecting property values, which could have an adverse effect on the Group's real estate loan portfolio. There can be no assurance that the Government and the CBK will be able to achieve or maintain price stability, in the real estate market or otherwise and thus control inflation.

The Group is exposed to a range of operational risks. In particular, the Group is exposed to the risk of loss as a result of employee misrepresentation, misconduct and improper practice and through any failure of the Group's IT systems

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, IT failures), natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). The Group has

implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business generally and its reputation.

The Group's employees and members of its direct sales team who receive commissions based on the business they generate for the Group could engage in misrepresentation, misconduct or improper practice that could expose the Group to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter these types of misconduct, and the precautions which the Group takes to detect and prevent such misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat these types of misconduct will be successful. Any such actions by employees or members of the Group's direct sales team could expose the Group to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Group's reputation.

The Group is dependent on its IT systems and any failure of these systems could materially disrupt the Group's business

The Group depends on its IT systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and ability to compete effectively. The Group's business activities would be materially disrupted if there is a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of factors, many of which are wholly or partially outside the Group's control, including natural disasters, extended power outages, computer viruses and malicious third party intrusions. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties. The Group has implemented and tested business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective at all times or that they will protect the Group from all losses that could occur.

The Group routinely upgrades and enhances its IT systems. It is currently engaged in upgrading its core banking system which is a larger scale project and is an important element of the Group's strategy. Any failure to implement this upgrade in a timely and cost effective manner could negatively impact the Group's ability to implement its strategy and grow its business in the manner currently envisaged.

The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant losses as a result of unidentified credit, liquidity, market or operational risks, should they occur.

The Group's internal compliance systems might not be fully effective in all circumstances

The Group's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Group is subject to oversight by regulatory authorities, including regular examination activity, and performs regular internal audits and employs an external auditing firm to review its internal control systems, the Group cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it. In the case of actual or alleged non-compliance with applicable regulations, the Group could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages.

The Group may not be able to raise capital as and when needed on commercially attractive terms

As at 31 December 2016, the Group's tier 1 capital adequacy ratio (calculated according to Basel III standards) was 16.5 per cent. and its total capital adequacy ratio was 17.7 per cent., in each case above the level required by the CBK of 13.0 per cent. The Group's tier 1 capital adequacy ratio was 16.0 per cent. and its total capital adequacy ratio was 17.2 per cent. as at 31 December 2015. The Group has been designated as a domestically systemic important bank ("**D-SIB**") with an additional Common Equity Tier 1 D-SIB surcharge of 0.5 per cent. required from 31 December 2016. As a result, the Group's total minimum capital requirement from that date is 13.5 per cent., which includes a capital conservation buffer.

A variety of factors affect the Group's capital adequacy levels. For example, a significant increase in lending in 2017 and beyond is likely to reduce the Group's capital adequacy ratios and any losses experienced by it in future periods would have a similar effect. In addition, regulatory requirements in relation to the calculation of capital adequacy and required levels of capital adequacy may change from time to time, including as a result of new guidelines issued by the Basel Committee on Banking Supervision. The Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

As a result, the Group is likely to need to obtain additional capital in the future to support the future growth of its business. Such capital, whether in the form of debt financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Group's capital ratios fall close to regulatory minimum levels or the Group's own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities or undertaking asset disposals. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase and it may suffer regulatory sanctions.

The Group may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

The Group's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in the Middle East is intensely competitive and the Group could face challenges in recruiting and retaining such personnel to manage its businesses.

The Group depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Group from implementing its strategies. The Group is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel.

The Group's accounting policies and methods are critical to how it reports its financial condition and results of operations and require management to make estimates about matters that are uncertain

Accounting policies and methods are fundamental to how the Group records and reports its financial condition and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies and methods so they comply with IFRS.

Management has identified the most significant judgments and estimates made by it in note 2 to the 2016 Financial Statements under the heading "*Use of estimates and judgements*". These judgements and estimates include, for example, the determination of when assets may be impaired, the classification of financial assets and the determination of provisions for credit losses and fair values of assets and liabilities.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Group has established policies and control procedures that are intended to ensure that its significant accounting estimates and judgements are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. However, due to the uncertainty surrounding the Group's judgements and the estimates pertaining to these matters, the Group cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

IFRS 9 (Financial Instruments) is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt this new standard on the required effective date and has started the process of evaluating its potential impact. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's consolidated financial statements.

The interests of the Bank's shareholders may, in certain circumstances, conflict with those of Noteholders

The Bank is controlled by members of the Behbehani family. Investors should be aware that the interests of the Bank's shareholders may, in certain circumstances, be different from those of the Group's creditors (including the holders of any Notes issued under the Programme) and, in those circumstances, the holders of Notes could be disadvantaged.

Risks relating to the Region in which the Group Operates

Investing in securities involving emerging markets generally involves a higher degree of risk

Investors in emerging markets, such as Kuwait and Egypt, should be aware that these markets are subject to greater risks than more developed markets, including, but not limited to, higher volatility, limited liquidity and changes in the political and economic environment. In addition, there can be no assurance that the market for securities bearing emerging market risk, such as any Notes issued under the Programme, will not be affected negatively by events elsewhere, especially in the emerging markets.

Specific risks in Kuwait, Egypt and the MENA region that could have a material adverse effect on the Group's business include, without limitation, the following:

- political, economic or social instability;

- external acts of warfare, civil clashes or other hostilities or conflict;
- domestic unrest or violence;
- increases in inflation and the cost of living;
- changing tax regimes and tax laws, including the possible introduction of value added tax among some or all of the GCC countries and the imposition of other taxes in tax-free jurisdictions or the increase of taxes in low-tax jurisdictions;
- government interventions and protectionism;
- potential adverse changes in laws and regulatory practices, including legal structures and tax laws;
- difficulties in staffing and managing operations;
- legal systems which could make it difficult for the Group to enforce its intellectual property and contractual rights;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles; and
- logistical and communications challenges.

Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must determine for themselves whether, in light of those risks, an investment in any Notes is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Kuwait and other MENA region legal systems continue to develop and this may create an uncertain environment for investment and business activity

Kuwait and many of the other MENA region countries, including Egypt, are in various stages of developing legal and regulatory institutions that are characteristic of more developed markets. As a result, procedural safeguards as well as formal regulations and laws may not be applied consistently. In some circumstances it may not be possible to obtain the legal remedies provided under the relevant laws and regulations in a timely manner.

As the legal environment remains subject to continuous development, investors in Kuwait and the other MENA region countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in Kuwait and the MENA region may have a material adverse effect on the rights of holders of Notes issued under the Programme or the investments that the Group has made or may make in the future, which may in turn have a material adverse effect on the Group's business generally.

The Egyptian banking sector faces significant challenges

Since 2004, as a result of the prior systemic weakness of the Egyptian banking sector, the Egyptian government and the Central Bank of Egypt (the "**CBE**") have been implementing a reform programme. Since then, improvements have been made to consolidate and stabilise the banking sector; reduce non-performing loans; divest state-owned banks' of stakes in joint venture banks; strengthen the capital base of Egyptian banks; divest or restructure state-owned banks; and strengthen the supervisory capacity of the CBE. As a result of this reform programme, Egyptian banks are now subject to key regulations relating to capital requirements, capital adequacy, reserve requirements, liquidity requirements, exposure limits, asset classification and provisioning and credit exposure limits. Although the Egyptian government had stated its belief that this programme has strengthened Egypt's banking sector, unaddressed sector weaknesses could negatively impact the banking

sector as a whole, which could, in turn, have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations in Egypt.

The banking sector in Egypt remains in a relatively early stage of development compared with other countries. The CBE has commenced the implementation of Basel III standards in Egypt and the process is expected to be completed in stages up to 2018.

Political events in Egypt have also introduced further challenges for the banking system, including liquidity and reserves pressures, as well as an outflow of foreign investments. While the banking system has remained largely resilient in the face of unfavourable market conditions, the events of the 2011 revolution caused Egyptian banks to close for 11 days. Reduced demand for credit in the market has also resulted in Egyptian banks, including ABK Egypt, allocating large portions of excess liquidity to their sovereign investment portfolios. If market conditions in Egypt worsen or political instability in Egypt continues or increases, there can be no assurance that the banking system will not face further closures or that the Group will be able to compensate for further reduced demand for credit in the market.

Egypt has experienced a number of terrorist attacks in recent years which could adversely impact its banking sector

In common with other countries in the MENA region, Egypt has experienced occasional terrorist attacks in recent years. For example, there was a violent incident in Luxor in 1997, attacks in Sharm el-Sheikh and Cairo in 2005, and an attack in the Sinai resort city of Dahab in April 2006 in which 23 people were killed. More recently, there were violent incidents outside a Coptic church in Alexandria in 2011, which killed at least 21 people, at an Egyptian military base in Sinai in August 2012, resulting in the death of 16 Egyptian soldiers, in Mansoura in December 2013, which killed 12 people, and the Russian jet crash in the Sinai in October 2015, for which Islamic State have claimed responsibility.

There can be no assurance that extremists or terrorist groups will not escalate or continue occasional violent activities in Egypt, particularly as a result of the social and political upheaval Egypt has experienced following the 2011 revolution. The effects of any such terrorist activities could have a material adverse effect on the Group's business in Egypt as investor confidence in investing in Egypt and Egyptian banks is further weakened.

The statistical data contained in this document should be treated with caution by prospective investors

Statistics contained in this document, including in relation to GDP, money supply, inflation and indebtedness of the Kuwaiti government, have been obtained from, among other sources, the CBK and the IMF. Such statistics, and the component data on which they are based, may not have been compiled in the same manner as data provided by other sources and may be different from statistics published by third parties, reflecting the fact that the underlying assumptions and methodology may vary from source to source.

There may also be material variances between preliminary, estimated or projected statistics set forth in this document and actual results, and between statistics set forth in this document and corresponding data previously published by or on behalf of Kuwait. Consequently, the statistical data contained in this document should be treated with caution by prospective investors.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Notes may be redeemed prior to maturity in the event of taxation

Unless in the case of any particular Tranche of Notes the relevant Final Terms specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any change of law in, or amendment to, the laws or regulations of Kuwait or any political subdivision or authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, which results in withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Kuwait or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions. See "*Terms and Conditions of the Notes – Condition 6(c)*" for further details.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Where the relevant Global Note or Global Certificate (as defined herein) is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes or Global Certificates will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes or Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes or Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes or Global Certificates the Issuer will discharge its payment obligations under the Notes by making payments to the, where applicable, common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Certificates.

Holders of beneficial interests in a Global Note or Global Certificate will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of

beneficial interests in a Global Note or Global Certificate will not have a direct right under such Global Note or Global Certificate to take enforcement action against the Issuer in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification and waivers

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and to obtain Written Resolutions on matters relating to the Notes from Noteholders without calling a meeting. A Written Resolution signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes of the relevant Series who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Agency Agreement and whose Notes are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Notes are held in global form in the clearing systems, the Issuer will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes of the relevant Series for the time being outstanding; and

(ii) where electronic consent is not being sought: (a) consent or instructions given in writing directly to the Issuer by accountholders in the clearing systems with entitlements to such Global Note or Global Certificate; and/or (b) where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above;

A Written Resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Noteholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Noteholders satisfying the special quorum in accordance with the provisions of the Agency Agreement, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Notes which are "non-GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances

Article 150 (bis) of Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities, (which was introduced pursuant to Law No. 22 of 2015) ("**Article 150 bis**"), provides that, without prejudice to the exemptions prescribed on capital gains tax arising from the disposal of

securities issued by companies listed on the Kuwait Stock Exchange, the returns from bonds and other similar securities, regardless of the nature of the issuer, are exempt from Kuwaiti tax.

However, the Ministry of Finance's Department of Income Tax ("**DIT**") has to date not always adopted consistent rulings on Kuwaiti tax matters more generally. Accordingly, to the extent that the exemption afforded by Article 150 (bis) is held not to apply to the Notes, or to a particular Noteholder, such Noteholder or the Noteholders which are non-GCC corporate entities may become subject to income tax in Kuwait (see "*Taxation – Kuwait*" for further details).

In addition, neither Article 150 (bis) nor Ministry of Finance Administrative Order No. 2028/2015 endorsing the provisions thereof addressed the issue of whether or not there remains an obligation (as described under "*Taxation — Kuwait - Retention*") to deduct five per cent. of the amount of any payments made by the Issuer directly to the holders of the Notes. Accordingly, there is a possibility that the deduction of the five per cent. obligation may be applied in certain circumstances, pending resolution of their tax position. The deducted five per cent. would be released by the Issuer upon presentation to it by the holders of the Notes of a tax clearance certificate from the DIT. In any event, any deducted amounts would be required to be grossed up by the Issuer pursuant to the provisions of the Deed of Covenant and the Terms and Conditions of the Notes (*See Condition 8 (Taxation)*).

To date there has been no official statement made publicly by the DIT regarding its interpretation of Article 150 (bis) and/or its application. Similarly, the Kuwaiti courts (who will be the final arbiters on the matter) have not been required to interpret such provision to date. Therefore, it is not possible to state definitively how the DIT and/or the Kuwaiti courts may implement or enforce the Taxation Laws (as defined in "*Taxation — Kuwait*") including Article 150 (bis) in practice. Furthermore, the DIT has to date not always adopted consistent rulings on Kuwaiti tax matters more generally.

Prospective purchasers of the Notes are advised to consult their tax advisers as to the consequences under Kuwaiti and other applicable tax laws of acquiring, holding and disposing of the Notes and receiving payments under the Notes.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Change of tax law

Statements in this Base Prospectus concerning the taxation of investors are of a general nature and are based upon current law and practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in legislation or in practice in a relevant jurisdiction could adversely impact (i) the ability of the Issuer to service the Notes and (ii) the market value of the Notes.

Bearer Notes where denominations involve integral multiples

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denominations (as defined in the Conditions). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time will not receive a definitive Note in respect of such holding (should definitive Notes be printed)

and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Enforcement of arbitration awards and foreign judgments in Kuwait

Each of the Dealer Agreement, Deed of Covenant, Agency Agreement and the Notes (the "**Documents**") contains a provision to the effect that disputes arising under the Documents will, unless the option to litigate set out therein is exercised, be referred to arbitration under the LCIA Arbitration Rules. If such option to litigate is exercised, the Issuer has agreed to the courts of England (the "**Courts of England**") having exclusive jurisdiction to settle any such disputes.

Foreign judgments

Although the choice of submission to the jurisdiction of the Courts of England in the Documents is valid and binding, if a claim is brought before the courts of Kuwait (the "**Kuwaiti Courts**"), the Kuwaiti Courts may still accept jurisdiction in any suit, action or proceedings in the situations identified in Articles 23, 24 and 26 of Kuwaiti Law No. 38 of 1980 (the Code of Civil and Commercial Procedure), as amended (the "**Code**"). These situations include (a) where the defendant in the proceedings expressly or impliedly accepted the jurisdiction of the Kuwaiti Courts, (b) where the defendant is a Kuwaiti national or is resident, domiciled or has a place of business or a chosen domicile in Kuwait or (c) if such legal proceedings relate to property (movable or immovable) located in Kuwait, an obligation is created, executed or required to be performed in Kuwait or a bankruptcy is declared in Kuwait.

There can therefore be no assurance that the Kuwaiti Courts will decline jurisdiction to adjudicate any dispute under the Documents, notwithstanding that the Documents provide that the Courts of England shall have exclusive jurisdiction to settle any disputes arising thereunder. The Kuwaiti Courts could be influenced when deciding whether or not to decline jurisdiction by the existence of proceedings relating to such dispute in another jurisdiction.

The enforcement of a monetary judgment (not involving the payment of taxes or the like) obtained in the Courts of England by the Kuwaiti Courts would require the filing of an enforcement action in the Kuwaiti Courts. Such action does not involve either a re-trial or an examination of the merits of the case; its sole purpose is to establish whether the judgment is compliant with the provisions of Article 199 of the Code which require that: (a) the courts of the jurisdiction by which the judgment was rendered must afford reciprocal treatment to judgments rendered in Kuwait; (b) the judgment must be rendered by a competent authority according to the law of the jurisdiction in which it was rendered; (c) the parties must have been duly summoned to appear and were duly represented at the proceedings; (d) the judgment must be final and non-appealable (res judicata) according to the law of the jurisdiction in which it was rendered; (e) the judgment must not contradict any prior judgment rendered by a Kuwaiti Court; and, finally (f) the judgment must not contain anything in conflict with the general morals or public order of Kuwait.

In respect of the requirement that the courts of the jurisdiction in which the judgment was issued must afford reciprocal treatment to judgments issued by the Kuwaiti Courts, there is no treaty between Kuwait and the United Kingdom that affords such required reciprocal treatment. There are no known instances of the Courts of England enforcing Kuwaiti judgments, while there are different decisions issued by the Court of Cassation (the highest court in Kuwait) with regard to the enforcement in Kuwait of a monetary judgment issued by the Courts of England. In 2004 and again in 2005, the Court of Cassation had to consider applications for the enforcement in Kuwait of an English judgment. In the 2004 case, the Court of Cassation was satisfied that, on the facts, the criteria for enforcement set out in Article 199 of the Code had been satisfied and therefore approved

enforcement. In the 2005 case, however, the Court of Cassation concluded that the criteria had not been satisfied and therefore did not approve enforcement. It should be noted that precedents are not binding on but only of persuasive value to the Kuwaiti Courts.

Arbitral awards

Kuwait is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). A foreign arbitral award will be recognised and enforced in Kuwait (without re-trial or examination of the merits of the case) in accordance with the Code. Article 200 of the Code provides that foreign arbitral awards are to be recognised and enforced under the same conditions (applied *mutatis mutandis* to foreign arbitral awards) as are applied in respect of the enforcement of foreign judgments under Article 199 of the Code (as detailed above) save that, in addition, the subject matter of the award must be considered arbitrable under Kuwaiti law and the arbitral award must be enforceable in the jurisdiction in which it was rendered. The requirement to establish reciprocal enforcement under Article 199 of the Code with respect to the recognition and enforcement of arbitral awards issued in England is satisfied as England and Kuwait are both signatories to the New York Convention.

As noted above, enforcement of a foreign arbitral award or foreign judgment in Kuwait requires the filing of an enforcement action in the Kuwaiti Courts. Proceedings before the Kuwaiti Courts, including enforcement actions, can take a relatively long time before a final and non-appealable judgment is issued.

There have not been many occasions in which the Kuwaiti Courts have been asked to consider the enforcement of foreign arbitral awards or foreign judgments and so (notwithstanding that on those occasions when they have been asked to do so they have shown that they will follow the provisions of the Code and enforce an arbitral award) there is not a large body of decided cases in which the practical implications of complying with Article 199 of the Code have been analysed.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the

Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Base Prospectus. Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this overview.

Issuer:	Al Ahli Bank of Kuwait K.S.C.P.
Description:	Euro Medium Term Note Programme
Size:	Up to U.S.$1,500,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arrangers:	Citigroup Global Markets Limited, HSBC Bank plc and National Bank of Abu Dhabi P.J.S.C.
Dealers:	Ahli Capital Investment Company K.S.C.C., Citigroup Global Markets Limited, HSBC Bank plc and National Bank of Abu Dhabi P.J.S.C. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent:	HSBC Bank plc
Transfer Agent:	HSBC Bank plc
Registrar:	HSBC Bank plc
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in Series having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in Tranches on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Form of Notes:	The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date

or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "– *Selling Restrictions*" below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**".

Clearing Systems: Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.

Initial Delivery of Notes: On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies: Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.

Maturities: Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer and the relevant Dealers.

Specified Denomination: Definitive Notes will be in such denominations as may be specified in the relevant Final Terms save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the UK Financial Services and Markets Act 2000 ("**FSMA**") will have a minimum denomination of £100,000 (or its equivalent in other currencies).

Fixed Rate Notes:	Fixed Rate Notes will bear fixed interest payable in arrear on the date or dates in each year as specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. or (ii) by reference to the relevant Reference Rate as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms. The length of the interest periods for the Floating Rate Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Floating Rate Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Floating Rate Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Zero Coupon Notes:	Zero Coupon Notes (as defined in "*Terms and Conditions of the Notes*") may be issued at their nominal amount or at a discount to it and will not bear interest.
Redemption:	The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption for Taxation Reasons:	The Issuer may elect to redeem the Notes in whole, but not in part, if the Issuer has or will become obliged to pay additional amounts in respect of the Notes, as a result of any change in, or amendment to the laws and regulations of Kuwait or any political subdivision or authority thereof having power to tax, or any change in the application or official interpretation of such laws and regulations, and such obligation can not be avoided by the Issuer taking reasonable measures available to it, as more particularly described in "*Terms and Conditions of the Notes – Condition 6(c)*".

Redemption at the Option of the Issuer	If so specified in the applicable Final Terms, the Issuer may redeem all or some of the Notes on any Optional Redemption Date at the relevant Optional Redemption Amount (each as specified in the applicable Final Terms), as more particularly described in "*Terms and Conditions of the Notes –Condition 6(d)*".
Redemption at the Option of the Noteholders	If so specified in the applicable Final Terms, the Noteholders may elect to redeem their Notes on any Optional Redemption Date at the relevant Optional Redemption Amount (each as specified in the applicable Final Terms), as more particularly described in "*Terms and Conditions of the Notes – Condition 6(e)*".
Status of Notes:	The Notes will constitute unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and the payment obligations of the Issuer under the Notes relating shall at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future, as described in "*Terms and Conditions of the Notes – Condition 3*".
Negative Pledge:	The Notes will have a benefit of a negative pledge as described in "*Terms and Conditions of the Notes – Condition 4*".
Cross Default:	The Notes will have a benefit of a cross default provision as described in "*Terms and Conditions of the Notes – Condition 10*".
Ratings:	The Issuer has been assigned ratings of A+ by Fitch and by Moody's, each with a stable outlook. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms. Whether or not a rating in relation to any Series of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Taxation:	All payments of principal and interest in respect of the Notes will be made free and clear of, and without withholding or deduction for, any taxes imposed in Kuwait, unless such withholding or deduction is required by law. In such event, the Issuer shall, subject to the exemptions in "*Terms and Conditions of the Notes – Condition 8*", pay such additional amounts as shall result in receipt by the Noteholder of such amounts as would have been received by it had no such withholding or deduction been required, all as described in "*Terms and Conditions of the Notes – Condition 8*".
Governing Law:	English.
Listing and Admission to Trading:	Application has been made to the Irish Stock Exchange for each Series of the Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the Official List and to be admitted to trading on the Regulated Market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer(s) in relation to the Series and as will be specified in the applicable Final Terms. Notes may also be issued which are neither listed nor admitted to trading on any market
Immunity	To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer will agree in the Notes not to claim and will irrevocably and unconditionally waive such immunity to the fullest extent permitted by the laws or such jurisdiction. Further, the Issuer will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings and disputes.
Selling Restrictions:	The United States, the United Kingdom, Kuwait, the Dubai International Financial Centre (the "**DIFC**"), the United Arab Emirates (the "**UAE**") (excluding the DIFC), the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Qatar and Japan. See "*Subscription and Sale*". The Issuer is Category 2 for the purposes of Regulation S under the Securities Act, as amended.

The Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) (the "**D Rules**") unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are issued pursuant to an Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 16 March 2017 between the Issuer, HSBC Bank plc as fiscal agent, HSBC Bank plc as registrar and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 16 March 2017 executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**". The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Notes which are identical in all respects.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1 Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

(a) **No Exchange of Notes**: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes**: One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes**: In the case of an exercise of an Issuer's or Noteholders' option pursuant to Condition 6(d) or 6(e), respectively in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Conditions 2 (b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfer Free of Charge**: Transfers of Registered Notes on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents (except for any costs or expenses of delivery other than by regular uninsured mail), but upon payment by Noteholders of any stamp duty, tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods**: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (ii) after any such Note has been called for redemption or (iii) during the period of seven days ending on (and including) any Record Date.

3 Status

The Notes and any Coupons relating to them (as the case may be) constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4 Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement) the Issuer will not, and will ensure that none of its Subsidiaries will create, or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

In this Condition:

(i) "**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and

(ii) "**Subsidiary**" means at any particular time, a company which is then directly or indirectly controlled, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its Subsidiaries. For a company to be "**controlled**" by another, means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company.

5 Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage)

equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date provided that if the Specified Currency is Hong Kong dollars and any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. The amount of interest payable shall be determined in accordance with Condition 5(f).

(b) **Interest on Floating Rate Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(i) the offered quotation; or

(ii) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at the Relevant Time on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

(y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(i) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(ii) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the Relevant Time, subject as provided below, the Calculation Agent shall request the principal Relevant Financial Centre office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the Relevant Financial Centre interbank market, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the

Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in the Relevant Financial Centre interbank market, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(e) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the fifth decimal place of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the

obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual - ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30;

(viii) if "**Actual/Actual-ICMA**" is specified hereon,

if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

"**Interest Accrual Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date;

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part provided that if the Specified Currency is Hong Kong dollars, the Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest HK$0.01 (HK$0.005 being rounded upwards); and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong Dollars or (ii)the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (as amended and updated as at the Issue Date), unless otherwise specified hereon;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

"**Reference Banks**" means, in the case of a determination of LIBOR, LIMEAN and LIBID, the principal London office of four major banks in the London inter-bank market, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in the case of a determination of SHIBOR, the principal Shanghai office of four major banks in the Shanghai inter-bank market, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market, in the case of a determination of KIBOR, the principal Kuwait City office of four major banks in the Kuwait inter-bank market, in the case of a determination KLIBOR, the principal Kuala Lumpur office of four major banks in the Kuala Lumpur inter-bank market, in the case of a determination of EIBOR, the principal Dubai office of four major banks in the Emirates inter-bank market, in the case of a determination of SAIBOR, the principal Riyadh office of four major banks in the Saudi Arabia inter-bank market, in the case of a determination of BBSW, the principal Sydney office of four major banks in the Australia inter-bank market, in the case of a determination of TRLIBOR or TRYLIBOR, the principal Istanbul office of four major banks in the Turkish inter-bank market, or in the case of a determination of TIBOR, the principal Tokyo office of four major banks in the Tokyo inter-bank market and, in the case of a determination of a Reference Rate that is not specified above, the principal office of four major banks in the inter-bank market of the Relevant Financial Centre, in each case selected by the Calculation Agent or as specified hereon;

"**Reference Rate**" means one of the following benchmark rates (as specified in the Relevant Final Terms) in respect of the currency and period specified in the relevant Final Terms:

(i) Euro interbank offered rate ("**EURIBOR**");

(ii) London interbank bid rate ("**LIBID**");

(iii) London interbank offered rate ("**LIBOR**");

(iv) London interbank mean rate ("**LIMEAN**");

(v) Shanghai interbank offered rate ("**SHIBOR**");

(vi) Hong Kong interbank offered rate ("**HIBOR**");

(vii) Kuwait interbank offered rate ("**KIBOR**")

(viii) Kuala Lumpur interbank offered rate ("**KLIBOR**");

(ix) Emirates interbank offered rate ("**EIBOR**");

(x) Saudi Arabia interbank offered rate ("**SAIBOR**");

(xi) Bank Bill Swap Rate ("**BBSW**");

(xii) Turkish Lira interbank offered rate ("**TRLIBOR** or **TRYLIBOR**"); and

(xiii) Tokyo interbank offered rate ("**TIBOR**");

"**Relevant Financial Centre**" means (i) London, in the case of a determination of LIBOR, LIBID and LIMEAN; (ii) Beijing, in the case of a determination of SHIBOR; (iii) Brussels, in the case of a determination of EURIBOR; (iv) Kuwait City, in the case of a determination of KIBOR; (v) Kuala Lumpur, in the case of a determination of KLIBOR; (vi) Dubai, in the case of a determination of EIBOR; (vii) Riyadh, in the case of a determination of SAIBOR; (viii) Sydney, in the case of a determination of BBSW; (ix) Istanbul, in the case of a determination of TRLIBOR or TRYLIBOR; (x) Tokyo, in the case of a determination of TIBOR; or (xi) Hong Kong, in the case of a determination of HIBOR or (xii) such other financial centre as specified hereon;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service);

"**Relevant Time**" means: (a) 11.00 a.m. (London time, in the case of a determination of LIBOR, LIMEAN and LIBID, Brussels time, in the case of a determination of EURIBOR, Shanghai time, in the case of a determination of SHIBOR, Hong Kong time, in the case of a determination of HIBOR, Kuwait time, in the case of a determination of KIBOR, Kuala Lumpur time, in the case of a determination of KLIBOR, Dubai time, in the case of a determination of EIBOR, Riyadh time, in the case of a determination of SAIBOR, Sydney time, in the case of a determination of BBSW, Istanbul time, in the case of a determination of TRLIBOR or TRYLIBOR, or Tokyo time, in the case of a determination of TIBOR); or (b) Relevant Financial Centre time in the case of a determination of any other Reference Rate;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated;

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(i) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in

the Agency Agreement). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) **Final Redemption:**

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise specified hereon, is its nominal amount). In the case of Fixed Rate Notes where the Specified Currency is Hong Kong dollars, if the Maturity Date falls on a day which is not a Business Day, the Maturity Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Maturity Date shall be brought forward to the immediately preceding Business Day.

(b) **Early Redemption:**

(i) *Zero Coupon Notes*:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 shall be the "**Amortised Face Amount**" (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as calculated in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and

payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d) or Condition 6(e) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or, at any time (if this Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon), at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the State of Kuwait ("**Kuwait**") or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Purchases:** The Issuer or any of its Subsidiaries (as defined in the Agency Agreement) may at any time purchase Notes (provided that, in the case of Bearer Notes, all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(g) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments and Talons

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(v)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET SYSTEM.

(b) **Registered Notes:**

(i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the

Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank:

(c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments Subject to Laws:** All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents:** The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent in a jurisdiction within Europe and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, those Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days:** If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Kuwait or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

(a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with Kuwait other than the mere holding of the Note or Coupon; or

(b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth such day.

As used in these Conditions, "**Relevant Date**" in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

9 Prescription

Claims against the Issuer for payment in respect of the Notes and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable:

(a) **Non-Payment**: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal (as the case may be) in respect of any of the Notes; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Issuer by any Noteholder requiring the same to be remedied; or

(c) **Cross-Default**: (A) any other present or future indebtedness of the Issuer or any of its Subsidiaries (as defined in the Agency Agreement) for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer fails to pay when due or, as the case may be, within any originally applicable grace period, any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the

aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) shall have occurred and be continuing equals or exceeds U.S.$10 million or its equivalent; or

(d) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 90 days; or

(e) **Unsatisfied Judgment**: one or more judgments, final orders or final decrees of any court or regulatory or administrative agency for the payment of money in excess of U.S.$10 million (or its equivalent in any currency or currencies), either individually or in aggregate, is rendered against the Issuer or any of its Subsidiaries or any of its respective properties and continues unsatisfied, unstayed and unappealed (or, if appealed, the appeal is unsuccessful and thereafter the judgment continues unsatisfied and unstayed for a period of 30 calendar days) for a period of 30 calendar days after the date thereof or, if later, the date therein specified for payment; or

(f) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries in respect of all or material part of the property, assets and revenue of the Issuer and its Subsidiaries taken as a whole becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or

(g) **Insolvency**: the Issuer or any of its Subsidiaries is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or a material part of the debts of the Issuer or any of its Subsidiaries; or

(h) **Winding-up**: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Subsidiaries, or the Issuer or any of its Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(i) **Government Intervention**: by or under authority of any government, (i) the management of the Issuer or any of its Subsidiaries is wholly or substantially displaced or the authority of the Issuer or its Subsidiaries in the conduct of its business is wholly or substantially curtailed or (ii) all or a majority of the issued share capital of the Issuer or any of its Subsidiaries or the whole or substantial part of its undertaking or assets are seized, nationalised, expropriated or compulsorily acquired; or

(j) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes admissible in evidence in the courts of Kuwait is not taken, fulfilled or done; or

(k) **Illegality**: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or

(l) **Analogous Events**: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (g) and (h) above.

11 Meeting of Noteholders and Modifications

(a) **Meetings of Noteholders:** The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification of Agency Agreement:** The Fiscal Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders, to: (a) any modification (except such modifications in respect of which an increased quorum is required in accordance with Schedule 3 to the Agency Agreement) of the Notes, the Coupons, the Deed of Covenant or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or (b) any modification of the Notes, the Coupons, the Deed of Covenant or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law. Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter..

12 Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

13 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "Issue Date" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

14 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). So long as the Notes are listed on the Irish Stock Exchange and the rules of that exchange so require, notices to holders of the Notes shall also be published either on the website of the Irish Stock Exchange (www.ise.ie) or in a daily newspaper with general circulation in Ireland (which is expected to be the *Irish Times*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

15 Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note or Coupon is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer, as the case may be, to the extent of the amount in the currency of payment under the relevant Note or Coupon that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note or Coupon, the Issuer shall indemnify it against any loss sustained by

it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any other judgment or order.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms

17 Governing Law and Jurisdiction

(a) **Governing Law:** The Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**: Subject to Condition 17(c), any dispute, claim, difference or controversy arising out of, related to, or having any connection with the Notes, the Coupons and the Talons (including any dispute regarding their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the LCIA Arbitration Rules (the "**Rules**"), which Rules (as amended from time to time) are incorporated by reference into this Condition 17(b). For these purposes:

(i) the seat of arbitration shall be London;

(ii) there shall be three arbitrators each of whom shall be disinterested in the arbitration, shall have no connection with any party hereto and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly shall each nominate one arbitrator. If one party or both fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party-nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

(iii) the language of the arbitration shall be English.

(c) **Option to litigate**: Notwithstanding Condition 17(b), any Noteholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

(i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(ii) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 17(d) and, subject as provided below, any arbitration commenced under Condition 17(b) in respect of that Dispute will

be terminated. Each of the parties to the terminated arbitration will bear its own costs in relation thereto.

(d) **Provisions relating to Judicial Proceedings**: In the event that a notice pursuant to Condition 17(c) is issued, the following provisions shall apply:

(i) subject to paragraph (iii) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and the Issuer submits to the exclusive jurisdiction of such courts;

(ii) the Issuer has agreed that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 17(d) is for the benefit of the Noteholders only. As a result, and notwithstanding paragraph (i) above, a Noteholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law a Noteholder may take concurrent Proceedings in any number of jurisdictions.

(e) **Appointment of a Process Agent**: The Issuer irrevocably appoints Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX as its authorised agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process, the Issuer shall forthwith appoint a new agent for service of process in England and shall notify Noteholders of such appointment. The Issuer will procure that, so long as any of the Notes remain outstanding, a person with an office in London shall be appointed to accept service. Nothing herein shall affect the right to serve process in any manner permitted by law.

(f) **Waiver of Immunity**: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably and unconditionally waives such immunity to the fullest extent permitted by the laws or such jurisdiction. Further, the Issuer irrevocably and unconditionally consents to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 Initial Issue of Notes

Global Notes and Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

Upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(iv) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme – Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(v) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

(i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Permanent Global Certificates

If the Final Terms state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) if principal in respect of any Notes is not paid when due; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the registered holder of the Notes represented by the relevant Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if principal in respect of any Notes is not paid when due.

3.5 Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. In this Base Prospectus,

"**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

4.3 Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such

meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

4.4 Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation.

4.8 Events of Default

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the nominal amount of such Global Note that is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 16 March 2017 to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of

the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

4.9 Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the Irish Stock Exchange's regulated market and the rules of that exchange so require, notices shall also be published either on the website of the Irish Stock Exchange (*www.ise.ie*) or in a daily newspaper with general circulation in Ireland (which is expected to be the *Irish Times*).

5 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

(a) approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Fiscal Agency Agreement shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Fiscal Agency Agreement has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer by (a) accountholders in the clearing system with entitlements to such Global Note or Global Certificate and/or, where (b) the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms dated [●]

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

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$ 1,500,000,000
Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "**Conditions**") set forth in the Base Prospectus dated 16 March 2017 [and the supplement(s) to it dated [●] and [●]]which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein [for the purposes of Article 5.4 of the Prospectus Directive][1] and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement[s] to the Base Prospectus dated [●] and [●]] and these Final Terms have been published on the Central Bank of Ireland's website (*www.centralbank.ie*).

1	Issuer:		Al Ahli Bank of Kuwait K.S.C.P.
2	[(i)]	Series Number:	[●]
	[(ii)	Tranche Number:	[●]
	[(iii)	Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [*insert description of the Series*] on [[●]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [22] below [which is expected to occur on or about [●]]].]
3	Specified Currency or Currencies:		[●]
4	Aggregate Nominal Amount:		[●]
	[(i)]	Series:	[●]
	[(ii)	Tranche:	[●]]
5	Issue Price:		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●] (*if applicable*)]
6	(i)	Specified Denominations:	[●]
	(ii)	Calculation Amount:	[●]

1 To be included only if the Notes are to be admitted to trading on the regulated market, and listing on the official list, of the Irish Stock Exchange.

7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date	[*Specify*/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes*)
8	Maturity Date:		[*Specify date or (for Floating Rate Notes)* Interest Payment Date falling in or nearest to *[specify month and year*]] (*N.B. For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here*)
9	Interest Basis:		[[●] per cent. Fixed Rate] [[●] month [EURIBOR/LIBOR/LIBID/LIMEAN/SHIBOR/HIBOR/KIBOR/KLIBOR/EIBOR/SAIBOR/BBSW/TRLIBOR/TIBOR]+/– [●] per cent. Floating Rate] [Zero Coupon] (See paragraph [14/15/16] below)
10	Redemption/Payment Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount.
11	Change of Interest Basis:		[*Specify the date when any fixed to floating rate change occurs or refer to paragraphs 14 and 15 below and identify there*/Not Applicable]
12	Put/Call Options:		[Put Option] [Call Option] See paragraph [17/18/19] below)]
13	[(i)]	Status of the Notes:	Senior
	[(ii)]	[Date [Board] approval for issuance of Notes obtained:	[●]] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum payable in arrear on each Interest Payment Date

(ii)	Interest Payment Date(s):	[●] in each year up to and including the Maturity Date
(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
(iv)	Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]] / [Not Applicable]
(v)	Day Count Fraction:	[Actual/Actual / Actual/Actual – ISDA / Actual/365 (Fixed) / Actual/365 (Sterling) / Actual/360 / 30/360 / 360/260 / Bond Basis / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual – ICMA]
(vi)	[Determination Dates:	[●] in each year]
15	Floating Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(i)	Interest Period(s):	[[●] [, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
(ii)	Specified Interest Payment Dates:	[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]
(iii)	Interest Period Date:	[Not Applicable]/ [[●] in each year [, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]
(iv)	First Interest Payment Date:	[●]
(v)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
(vi)	Business Centre(s):	[●]

(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination / ISDA Determination]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[●]
(ix)	Screen Rate Determination:	
	– Reference Rate:	[[●]month [EURIBOR/LIBOR/LIBID/LIMEAN/ SHIBOR/HIBOR/KIBOR/KLIBOR/EIBOR/SAIBOR /BBSW/TRLIBOR/TIBOR]]
	– Interest Determination Date(s):	[●]
	– Relevant Screen Page:	[●]
	– Relevant Financial Centre:	[Brussels/London/Beijing/Kuwait City/Kuala Lumpur/ Dubai/Riyadh/Sydney/Istanbul/Tokyo/Hong Kong]
(x)	ISDA Determination:	
	– Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
(xi)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(xii)	Margin(s):	[+/-][●]per cent. per annum
(xiii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiv)	Maximum Rate of Interest:	[●] per cent. per annum
(xv)	Day Count Fraction:	[Actual/Actual / Actual/Actual – ISDA / Actual/365 (Fixed) / Actual/360 (Sterling) / Actual/360 / 30/360 / 360/260 / Bond Basis / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual – ICMA]

16	Zero Coupon Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

	(i)	Amortisation Yield:		[●] per cent. per annum
	(ii)	[Day Count Fraction in relation to Early Redemption Amounts:		[Actual/Actual / Actual/Actual – ISDA / Actual/365 (Fixed) / Actual/360 (Sterling) / Actual/360 / 30/360 / 360/260 / Bond Basis / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual – ICMA]

PROVISIONS RELATING TO REDEMPTION

17	Call Option			[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):		[●]
	(ii)	Optional Redemption Amount(s) of each Note:		[●] per Calculation Amount
	(iii)	If redeemable in part:		
		(a)	Minimum Redemption Amount:	[●] per Calculation Amount
		(b)	Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period:		Minimum period: [15 days]/[[●] days] Maximum period: [30 days]/[[●] days]
18	Put Option			[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):		[●]
	(ii)	Optional Redemption Amount(s) of each Note:		[●] per Calculation Amount
	(iii)	Notice period:		Minimum period: [15 days]/[[●] days] Maximum period: [30 days]/[[●] days]
19	Redemption for Taxation Reasons – Notice Period			Minimum period: [30 days]/[[●] days] Maximum period: [60 days]/[[●] days]
20	Final Redemption Amount of each Note			[●] per Calculation Amount
21	Early Redemption Amount			

	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:	[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22	Form of Notes:	**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** [Regulation S Global Note registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg]
23	Financial Centre(s):	[Not Applicable/[●]]
24	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes [●]] / [No].

Signed on behalf of Al Ahli Bank of Kuwait K.S.C.P.:

By: …………………………………………
Duly authorised

PART B – OTHER INFORMATION

1 **LISTING AND ADMISSION TO TRADING**

(i)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to listing on the Irish Stock Exchange and trading on its regulated market with effect from [●].] (*Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*
(ii)	Estimate of total expenses related to admission to trading:	[●]

2 **RATINGS**

Ratings:	[[The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]: [[Moody's: [●]] [[Other]: [●]] [Each of [●] and][●] is established in the European Union and registered under Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**")] [Each of [●] and][●] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). However, the application for registration under the CRA Regulation of [●], which is established in the European Union, disclosed the intention to endorse credit ratings of [●].] [Each of [●] and][●] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (the "**CRA Regulation**"). The ratings [[have been]/[are expected to be]] endorsed by [●] in accordance with the CRA Regulation. [●] is established in the European Union and registered under the CRA Regulation.] [Each of [●] and][●] is not established in the European Union and has not applied for registration under Regulation (EC) No.1060/2009 (the "**CRA Regulation**"), but it is certified in accordance with the CRA Regulation.]

3 **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

["Save as discussed in ["*Subscription and Sale/General Information*"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

4	**[*Fixed Rate Notes only* – YIELD**	
	Indication of yield:	[●]
		The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
5	**OPERATIONAL INFORMATION**	
	ISIN:	[●]
	Common Code:	[●]
	Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
	Delivery:	Delivery [against/free of] payment
	Names and addresses of additional Paying Agent(s) (if any):	[●]
6	**DISTRIBUTION**	
	(i) Method of distribution:	[Syndicated/Non-syndicated]
	(ii) If syndicated:	
	(A) Names of Managers:	[Not Applicable/*give names*]
	(B) Stabilisation Manager(s) (if any):	[Not Applicable/*give names*]
	(iii) If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
	(iv) Date of [Subscription] Agreement	[●]
	(v) US Selling Restrictions:	[Reg. S Compliance Category 2; TEFRA C/TEFRA D/TEFRA not applicable]

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be applied by the Issuer for general corporate purposes.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and should also be read in conjunction with "Financial review".

See also "Presentation of financial and other information" for a discussion of the sources of the numbers contained in this section.

Consolidated Statement of Financial Position Data

The table below shows the Group's consolidated statement of financial position data as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s)	
Assets			
Cash and balances with banks	494,678	432,173	144,825
Kuwait Government treasury bonds	223,142	204,246	279,831
Central Bank of Kuwait bonds	173,715	179,713	221,228
Loans and advances	3,029,384	3,047,143	2,422,297
Investment securities	237,905	343,809	345,011
Investment in an associate	18,263	16,572	14,865
Premises and equipment	46,695	53,125	33,826
Intangible assets	17,698	41,217	—
Other assets	43,333	41,066	37,156

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s)	
Total assets	4,284,813	4,359,064	3,499,039
Liabilities and shareholders' equity			
Liabilities			
Due to banks and other financial institutions	734,771	1,199,192	923,752
Customers' deposits	2,899,908	2,496,278	1,938,297
Other liabilities	94,331	107,135	78,642
Total liabilities	3,729,010	3,802,605	2,940,691
Shareholders' equity			
Share capital	161,917	161,917	161,917
Share premium	108,897	108,897	108,897
Treasury shares	(4,958)	(4,528)	(2,303)
Reserves	289,301	289,314	289,837
Equity attributable to shareholders of the Bank	555,157	555,600	558,348
Non-controlling interests	646	859	—

	As at 31 December		
	2016	2015	2014
		(KD '000s)	
Total equity	555,803	556,459	558,348
Total liabilities and shareholders' equity	4,284,813	4,359,064	3,499,039

Consolidated Income Statement Data

The table below shows the Group's consolidated income statement data for each of 2016, 2015 and 2014.

	2016	2015	2014
		(KD '000s)	
Interest income	179,408	127,003	111,829
Interest expense	(70,222)	(32,610)	(27,469)
Net interest income	109,186	94,393	84,360
Net fee and commission income	30,317	25,228	22,030
Net foreign exchange gain	3,970	3,134	2,973
Net (loss)/gain on investment securities	(2,549)	(1,008)	1,860
Dividend income	2,162	3,478	2,671
Share of results of associate	2,571	2,506	1,976

	2016	2015	2014
		(KD '000s)	
Other income	1,860	801	1,740
Operating income	147,517	128,532	117,610
Staff expenses	(34,236)	(25,608)	(22,181)
Other operating expenses	(19,435)	(13,849)	(11,524)
Depreciation and amortisation	(4,417)	(1,729)	(1,366)
Operating expenses	(58,088)	(41,186)	(35,071)
Operating profit for the year	89,429	87,346	82,539
Net gain from business combination	—	8,005	—
Provisions on credit facilities			
General	(22,761)	(44,740)	(21,604)
Specific	(28,052)	(13,939)	(20,196)
Net impairment on investment securities and others	(1,626)	(2,750)	(581)
Profit for the year before taxation and Directors' fees	36,990	33,922	40,158
Directors' fees	(375)	(480)	(360)

	2016	2015	2014
		(KD '000s)	
Taxation	(4,103)	(3,074)	(2,212)
Net profit for the year	32,512	30,368	37,586
Attributable to:			
Shareholders of the Bank	32,472	30,360	37,586
Non-controlling interests	40	8	—

Consolidated Statement of Comprehensive Income Data

The table below shows the Group's consolidated statement of comprehensive income data for each of 2016, 2015 and 2014.

	2016	2015	2014
		(KD '000s)	
Net profit for the year	32,512	30,368	37,586
Other comprehensive (loss) income			
Items that may be reclassified subsequently to consolidated income statement:			
Effect of changes in fair values of investments available for sale	(7,093)	(13,576)	(989)
Net gain/(loss) on sale/Impairment losses on investments available for sale	4,143	3,198	(270)
Exchange difference on translation of foreign operations	(13,154)	(130)	58
	(16,104)	(10,508)	(1,201)
Items that will not be reclassified to consolidated income statement:			

	2016	2015	2014
		(KD '000s)	
Re-measurement of defined benefit obligation	(63)	(105)	—
Revaluation of freehold land	(436)	714	2,232
	(499)	609	2,232
Total other comprehensive (loss)/income for the year	(16,603)	(9,899)	1,031
Total comprehensive income for the year	15,909	20,469	38,617
Attributable to:			
Shareholders of the Bank	16,058	20,460	38,617
Non-controlling interests	(149)	9	—

Consolidated Statement of Cash Flows Data

The table below summarises the Group's consolidated statement of cash flows data for each of 2016, 2015 and 2014.

	2016	2015	2014
		(KD '000s)	
Net cash flows from operating activities	28,542	155,349	44,310
Net cash flows from/(used in) investing activities	15,012	117,368	(81,949)
Net cash flows used in financing activities	(16,507)	(23,208)	(21,101)
Foreign currency translation difference	(33,988)	(942)	58

	2016	2015	2014
		(KD '000s)	
Net (decrease)/increase in cash and cash equivalents	(6,941)	248,567	(58,682)
Cash and cash equivalents at 1 January	343,971	95,404	154,086
Cash and cash equivalents at 31 December	337,030	343,971	95,404

Selected Consolidated Ratios

The table below shows selected consolidated ratios for the Group as at, and for the years ended, 31 December in each of 2016, 2015 and 2014. For further information on the selected consolidated ratios, see the table on pages 73 to 78 of this Base Prospectus.

	As at/years ended 31 December		
	2016	**2015**	**2014**
		(per cent.)	
Performance measures			
Return on average assets	0.8	0.8	1.1
Return on average equity	5.8	5.5	6.8
Cost to income ratio	39.4	32.0	29.8
Financial ratios			
Net interest margin	2.5	2.5	2.6
Net profit margin	22.0	23.6	32.0
Asset quality			
Non performing loans ratio	2.6	2.3	2.5

	As at/years ended 31 December		
	2016	2015	2014
		(per cent.)	
Loan loss coverage ratio	277.6	285.3	242.5
Liquidity coverage ratio	132.0	102.0	N/A
Loans to deposits ratio	83.3	82.5	84.6
Other ratios			
Common equity Tier 1 capital adequacy ratio	16.5	16.0	22.7
Tier 1 capital adequacy ratio	16.5	16.0	22.7
Total capital adequacy ratio	17.7	17.2	23.7
Leverage ratio	10.3	10.1	13.1

Alternative Performance Measures

The following table contains information relating to Alternative Performance Measures ("**APMs**") as defined in the European Securities and Markets Authority Guidelines ("**ESMA Guidelines**") on Alternative Performance Measures. APMs are presented in this Base Prospectus because the Group considers them an important supplemental measure of the Group's operating performance and financial position and the Group believes they may be used by securities analysts, investors and other interested parties in the evaluation of banks in the banking industry. See further "*Presentation of Financial and Other Information—Certain non-IFRS financial information*".

APM	Definition	Reconciliations with the relevant Financial Statements
Return on average assets	Financial measure expressing the profit for the year attributable to shareholders of the Bank divided by average assets for	Profit for the year attributable to shareholders of the Bank Refers to the same concept/figure as "Net profit for the year attributable to shareholders of the Bank" as set out

APM	Definition	Reconciliations with the relevant Financial Statements
	the year, with average assets calculated as the sum of the opening and closing assets divided by two.	in the Consolidated Income Statement and the Consolidated Statement of Changes in Equity of the 2016 Financial Statements. Refers to the same concept/figure as "Net profit for the year" in the Consolidated Income Statement and the Consolidated Statement of Changes in Shareholders' Equity of the 2015 Financial Statements. Assets Refers to the same concept/figure as "Total assets" as set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements.
Return on average equity	Financial measure expressing the profit for the year attributable to shareholders of the Bank divided by average equity for the year, with average equity calculated as the sum of the opening and closing equity divided by two.	Profit for the year attributable to shareholders of the Bank See above. Equity Refers to the same concept/figure as "Equity Attributable to Shareholders of the Bank" as set out in the Consolidated Statement of Financial Position and the Consolidated Statement of Changes in Equity of the 2016 Financial Statements. Refers to the same concept/figure as "Total Shareholders' Equity" as set out in the Consolidated Statement of Financial Position and the Consolidated Statement of Changes in Shareholders' Equity of the 2015 Financial Statements.
Cost to income ratio	Financial measure to express operating expenses divided by operating income.	Operating expenses As set out in the Consolidated Income Statement of each of the 2016 Financial Statements and the 2015 Financial Statements. Operating income As set out in the Consolidated Income Statement of each of the 2016 Financial Statements and the 2015 Financial Statements.
Net interest margin	Financial measure stating the difference between the yield and cost of funds.	Yield See below. Cost of funds See below.
Yield	Financial measure to express interest income divided by average interest earning	Interest income

APM	Definition	Reconciliations with the relevant Financial Statements
	assets for the year, with average interest earning assets calculated as the sum of the opening and closing interest earning assets divided by two. Interest-earning assets comprise balances with banks, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, loans and advances and interest-earning investment securities.	As set out in the Consolidated Income Statement of each of the 2016 Financial Statements and the 2015 Financial Statements. <u>Balances with banks</u> Refers to the figures comprising "Balances and deposits with Central Banks" and "Deposits with Banks" under "Cash and balances with banks" in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. See also Note 9 to the 2016 Financial Statements and Note 9 to the 2015 Financial Statements, respectively. <u>Central Bank of Kuwait bonds</u> As set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. <u>Kuwait Government treasury bonds</u> As set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. <u>Loans and advances</u> As set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. <u>Interest-earning investment securities</u> Refers to the figures comprising "Debt securities" forming part of "Investment securities" in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements. See also Note 12 to the 2016 Financial Statements and Note 12 to the 2015 Financial Statements, respectively.
Cost of funds	Financial measure stating the interest expense divided by average interest-bearing liabilities, with the average being determined on the basis of the sum of opening and closing balances divided by two.	<u>Interest expense</u> As contained in the Consolidated Income Statement of each of the 2016 Financial Statements and the 2015 Financial Statements. <u>Interest-bearing liabilities</u> Refers to the same concept/figures as "Due to banks and other financial institutions" and "Customers' deposits" as set out in the Consolidated Statement of

APM	Definition	Reconciliations with the relevant Financial Statements
		Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements.
Net profit margin	Financial measure to express profit for the year attributable to shareholders of the Bank divided by operating income for the year.	Profit for the year attributable to shareholders of the Bank See above. Operating income See above.
Non performing loans ratio	Financial measure to express non-performing loans as a percentage of total gross loans.	Non performing loans Refers to the same concept/figure as "Loans and advances individually determined to be impaired" as set out in Note 11 of the 2016 Financial Statements and Note 11 of the 2015 Financial Statements. Gross loans Refers to the sum of the figure "Loans and advances" as set out in the Consolidated Statement of Financial Position of the 2016 Financial Statements plus the figures under "General Provision" and "Specific Provision" under Note 11 of the 2016 Financial Statements. Refers to the sum of the figure "Loans and advances" as set out in the Consolidated Statement of Financial Position of the 2015 Financial Statements plus the figures under "General Provision" and "Specific Provision" under Note 11 of the of the 2015 Financial Statements.
Loan loss coverage ratio	Financial measure to express loan loss provisions as a percentage of non-performing loans.	Loan loss provisions Sum of "General Provision" and "Specific Provision" in Note 11 to the 2016 Financial Statements Sum of "General Provision" and "Specific Provision" in Note 11 of the 2015 Financial Statements. Non performing loans See above.
Liquidity coverage ratio	Financial measure calculated as stipulated in CBK Circular number 2/BS/345/2014 dated 23 December 2014. Reporting of the liquidity coverage ratio was introduced from 1 January 2015.	Calculated as stipulated in CBK Circular number 2/BS/345/2014 dated 23 December 2014.
Loans to deposits ratio	Financial measure to express loans and advances as a	Loans and advances

APM	Definition	Reconciliations with the relevant Financial Statements
	percentage of the sum of due to banks and other financial institutions and customers' deposits.	Refers to the same concept/figure as set out in the Consolidated Statement of Financial Position of the 2016 Financial Statements and the 2015 Financial Statements. <u>Due to banks and other financial institutions</u> Refers to the same concept/figure as set out in the Consolidated Statement of Financial Position of the 2016 Financial Statements and the 2015 Financial Statements. <u>Customers' deposits</u> Refers to the same concept/figure as set out in the Consolidated Statement of Financial Position of the 2016 Financial Statements and the 2015 Financial Statements.
Common equity tier 1 capital adequacy ratio	Financial measure calculated in accordance with Basel III regulations issued by the CBK via circular 2/RB, RBA/336/2014 dated 24 June 2014.	As contained in note 6 to the 2016 Financial Statements and note 6 to the 2015 Financial Statements, respectively.
Tier 1 capital adequacy ratio	Financial measure calculated in accordance with Basel III regulations issued by the CBK via circular 2/RB, RBA/336/2014 dated 24 June 2014.	As contained in note 6 to the 2016 Financial Statements and note 6 to the 2015 Financial Statements, respectively.
Total capital adequacy ratio	Financial measure calculated in accordance with Basel III regulations issued by the CBK via circular 2/RB, RBA/336/2014 dated 24 June 2014.	As contained in note 6 to the 2016 Financial Statements and note 6 to the 2015 Financial Statements, respectively.
Leverage ratio	Financial measure introduced in 2014 and calculated for 2015 and 2014 in accordance with CBK Circular number 2/BS/342/2014 dated 21 October 2014.	Refers to the same concept/figure as "Financial leverage ratio" as contained in note 6 to the 2016 Financial Statements.
Gross loans	Financial measure stating loans and advances disregarding impairment.	See above.

APM	Definition	Reconciliations with the relevant Financial Statements
Net loans	Financial measure stating gross loans less impairment.	Refers to same concept/figure as "Loans and advances" set out in the Consolidated Statement of Financial Position of the 2016 Financial Statements and the 2015 Financial Statements.
Net loans/customer deposits	Financial measure stating net loans divided by customers' deposits.	Net loans See above. Customers' deposits As contained in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and the 2015 Financial Statements.
Net loans/total deposits	Financial measure stating net loans divided by total deposits (comprising customer deposits and due to banks and other financial institutions).	Net loans See above. Total deposits Refers to the same figure as arrived at under "Interest-bearing liabilities" above comprising "Due to banks and other financial institutions" and "Customers' deposits" as set out in the Consolidated Statement of Financial Position of each of the 2016 Financial Statements and 2015 Financial Statements.
Shareholders' equity to total assets	Financial measure expressing the equity attributable to shareholders of the Bank as a percentage of the total assets of the Bank.	Equity attributable to shareholders of the Bank As contained in the Consolidated Statement of Financial Position of the 2016 Financial Statements. Total Assets As set out in the Consolidated Statement of Financial Position of the 2016 Financial Statements.
Pre-provision income	Financial measure expressing the Group's operating profit for the year before provisions/ impairment losses.	Operating profit for the year before provisions/impairment losses "Operating profit for the year" as contained in the Consolidated Income Statement of the 2016 Financial Statements.

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" and the Financial Statements.

The discussion of the Group's financial condition and results of operations is based upon the Financial Statements, which have been prepared in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK. These regulations require the adoption of all IFRS requirements except for the collective provision requirement of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement'. This has been replaced by the CBK's requirement for a minimum general provision to be made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Forward-looking statements" and "Risk factors".

See "Presentation of financial and other information" for a discussion of the source of the numbers presented in this section and certain other relevant information.

Overview

The Group provides a wide range of corporate, retail and treasury services to customers in Kuwait through its network of 30 branches in that country. The Bank also has two branches in the UAE, a wholly-owned investment banking subsidiary in Kuwait and, since November 2015, a subsidiary bank in Egypt. As at 31 December 2016, the Group's total assets were KD 4,285 million and its equity attributable to shareholders of the Bank was KD 555 million.

The Group's core businesses are corporate and retail banking, which generate net interest income as well as net fee and commission income. The Group also undertakes treasury and investment activities (which generate interest income, dividend income and investment gains or losses) and provides corporate advisory and asset management services through its investment banking subsidiary, Ahli Capital Investment Company K.S.C.C. ("**Ahli Capital**"). These latter activities generate fee and commission income. The Group's services are provided through branch networks in Kuwait, Egypt and the UAE, a network of automated teller machines ("**ATMs**") and point of sale ("**POS**") terminals, telebanking, internet banking and mobile banking.

As at 31 December 2016, the Group's customer loan portfolio was KD 3,029 million and its customer deposits were KD 2,900 million. In 2016, the Group's net profit was KD 32.5 million compared to KD 30.4 million in 2015.

As at 31 December 2016, the Group's total and tier 1 capital adequacy ratios, calculated in accordance with Basel III methodology adopted by the CBK, were 17.7 per cent. and 16.5 per cent., respectively, and its leverage ratio, calculated in accordance with CBK requirements, was 10.3 per cent.

Principal Factors affecting Results of Operations

The Group completed the Acquisition in November 2015 and, as a result, its 2016 financial results are not directly comparable with those of 2015. The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

Economic conditions

The Group is a Kuwaiti bank primarily focused on lending to, and accepting deposits from, institutions, companies and residents in Kuwait. As a result, its revenues and results of operations are principally affected by economic and market conditions in Kuwait and, to a lesser extent, in certain other MENA region countries.

According to the CBK and the CSB, Kuwait's real GDP increased by 1.8 per cent. in 2015 compared to 2014, with most sectors of the economy remaining relatively flat. Based on the IMF's World Economic Outlook Database October 2016, Kuwait's real GDP is projected to have grown by 2.5 per cent. in 2016. According to the IMF's December 2016 Staff Report on its Article IV Consultation with Kuwait, Kuwait's medium-term economic outlook is favourable. Non-oil GDP growth in Kuwait is expected to increase to between 3.5 per cent. and 4.0 per cent. in the medium term supported by government investment in infrastructure (based on Kuwait's Development Plan for 2015 to 2019). The main downside risk to the medium term outlook identified by the IMF is a further sustained drop in oil prices.

The Group also remains exposed to the risk of external changes, such as an increase in global financial market volatility, which could pose funding, market and credit risks for investment companies and banks.

Factors affecting net interest income

The Group's net interest income is the major contributor to its operating income, comprising 74.0 per cent. of its operating income in 2016, 73.4 per cent. in 2015 and 71.7 per cent. in 2014. Within the Group's net interest income:

- interest earned on loans and advances to customers is the major contributor to total interest income, comprising 85.3 per cent. of total interest income in 2016, 88.7 per cent. in 2015 and 87.2 per cent. in 2014, with interest income from debt investment securities comprising 11.3 per cent. of total interest income in 2016, 9.8 per cent. in 2015 and 12.3 per cent. in 2014; and

- interest paid on customer deposits is the major contributor to total interest expense, comprising 78.3 per cent. of total interest expense in 2016, 62.2 per cent. in 2015 and 63.9 per cent. in 2014, with the balance in each year being made up by interest on short-term interbank funding.

The Group's net interest income is affected by a number of factors. It is primarily determined by the volume of interest-earning assets relative to interest-bearing liabilities, as well as the differential between rates earned on interest-earning assets and paid on interest-bearing liabilities. The Group's interest-earning assets principally consist of its customer loan portfolio and the debt investment securities held by it. The Group's interest-bearing liabilities principally comprise its interest-bearing customer deposits and deposits from financial institutions.

The increase in the Group's net interest income for 2016 compared to 2015 was principally driven by increased interest income from loans and advances, which increased by KD 40.4 million, or 35.9 per cent. This increase principally reflected diversified growth in assets and an increased contribution from ABK Egypt at higher margins. The Group's interest expense increased by KD 37.6 million, or 115.3 per cent., principally as a result of increased interest expense on customer deposits as the Group sourced longer tenor customer deposits. The Acquisition contributed KD 32.2 million to the increase in interest income and KD 18.0 million to the increase in interest expense in 2016 compared to 2015.

The Group's average customer loan portfolio (based on balances as at the start and end of each year) was KD 3,038 million for 2016 compared to KD 2,735 million for 2015, an increase of KD 303 million, or 11.1 per cent. The Group's average customer deposit portfolio (based on balances as at the start and end of each year) was KD 2,698 million for 2016 compared to KD 2,217 million for 2015, an increase of KD 481 million, or 21.7 per cent.

The increase in the Group's net interest income for 2015 compared to 2014 was principally driven by increased interest income from loans and advances, which increased by KD 15.1 million, or 15.5 per cent. This increase was driven by growth in the loans and advances portfolio in Kuwait and the UAE in 2015 and, to a lesser extent, reflected the impact of the Acquisition. The Group's interest expense increased by KD 5.1 million, or 18.7 per cent., principally as a result of increased interest expense on interbank loans and customer deposits, both driven by increased volumes rather than rate changes. The Acquisition contributed KD 2.7 million to the increase in interest income and KD 1.7 million to the increase in interest expense in 2015.

The Group's average customer loan portfolio (based on balances as at the start and end of each year) was KD 2,735 million for 2015 compared to KD 2,306 million for 2014, an increase of KD 429 million, or 18.6 per cent. This increase principally reflected organic growth. The Acquisition added loans and advances of KD 155 million in November 2015.

The CBK's discount rate was 2.0 per cent. throughout 2014, increased to 2.25 per cent. in December 2015 and to 2.50 per cent. in December 2016. The CBK's discount rate directly impacts the interest rates chargeable by the Group on its Kuwaiti dinar-denominated customer loans, as these rates are capped at prescribed percentages above the CBK discount rate. See "*Banking industry and regulation in Kuwait—Certain banking regulations—Interest rate cap regulations*".

Principally reflecting the factors described above, the Group's net interest margin (being its net interest income divided by its average interest-earning assets for the year, with average interest-earning assets calculated as the sum of the opening and closing balances of interest-earning assets divided by two) was 2.7 per cent. in 2016 compared to 2.6 per cent. in 2015 and 2.7 per cent. in 2014.

Provisions and impairment losses

The Group's provisions and impairment losses for 2016 were KD 52.4 million compared to KD 61.4 million for 2015 and KD 42.4 million for 2014.

In 2016, the provisioning charge on credit facilities comprised KD 28.8 million in specific provisions on cash facilities and KD 21.5 million in general provisions on cash facilities as well as a KD 1.6 million impairment loss on investment securities and others. In 2015, the provisioning charge on credit facilities comprised KD 14.2 million in specific provisions on cash facilities and KD 44.0 million in general provisions on cash facilities, as well as a KD 2.8 million impairment loss on investment securities and others. In 2014, the Group's provisions and impairment losses comprised KD 19.5 million in specific provisions on cash facilities and KD 21.2 million in general provisions on cash facilities.

The Group makes general provisions in accordance with CBK regulations and IFRS as adopted in Kuwait. The Group's general provisions increased in 2014 and 2015, and decreased in 2016. In 2016, the absence of two significant developments in 2015 (a gain on business combination that was appropriated towards general provisions and substantial credit growth) and the utilisation of general provisions towards specific provisions, were the principal factors leading to the decrease in general provisions and the increase in specific provisions in that year. The KD 19.0 million increase in provisions and allowances in 2015 was the principal factor that drove the significant fall in the Group's net profit for 2015.

The Acquisition

On 10 November 2015, the Group acquired a 98.5 per cent. shareholding in ABK Egypt. ABK Egypt is incorporated in Egypt and is engaged in providing corporate, retail and investment banking services in Egypt through a network of 39 branches.

The Group recorded a KD 8.0 million net gain from business combination on the Acquisition.

The 2015 consolidated statement of income of the Group includes net operating income of KD 1.5 million and operating profit of KD 0.3 million of ABK Egypt. Had the Acquisition taken place at 1 January 2015, the net operating income of the Group for 2015 would have been higher by KD 15.1 million and the net operating profit of the Group would have been higher by KD 2.4 million.

Significant Accounting Policies

The Financial Statements have been prepared in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK. For a discussion of the accounting policies applied by the Group generally, see note 2 to the 2016 Financial Statements.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenue and expenses during the years presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements.

For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements, see "*Use of estimates and judgements*" in note 2 to the 2016 Financial Statements, which identifies:

- management estimates of the amount and timing of future cash flows when determining the level of provisions/impairment losses on loans and receivables;
- assumptions made when determining fair values using valuation techniques or pricing models, including, in particular in 2015, the judgment required in estimating the fair value of assets acquired and liabilities assumed (including intangibles and contingent liabilities) as part of the Acquisition;
- the classification of financial assets; and
- the classification of investments as impaired,

as the principal estimates and judgments impacting the Financial Statements.

Results of Operations in 2016, 2015 and 2014

Net interest income

Interest income is the Group's principal source of income. The Group earns interest income on the customer loans and advances made by it, on its portfolio of debt investment securities and on its deposits with central banks and other banks. The Group incurs interest expense on its customer, bank and other financial institution deposits. Interest income and expense is recognised in the income statement using the effective interest method, as explained under "*Revenue recognition*" in note 2 to the 2016 Financial Statements.

The Group's net interest income for 2016 amounted to KD 109.2 million compared to KD 94.4 million for 2015 and KD 84.4 million for 2014. The Group's net interest income increased by KD 14.8 million, or 15.7 per cent.,

in 2016 and by KD 10 million, or 11.9 per cent., in 2015, reflecting the changes in interest income and interest expense discussed below.

The table below shows a breakdown of the Group's net interest income in each of 2016, 2015 and 2014.

	2016		2015		2014	
	(KD '000s)	*(% of total)*	*(KD '000s)*	*(% of total)*	*(KD '000s)*	*(% of total)*
Interest income						
Balances with banks	6,091	3.4	1,905	1.5	583	0.5
Debt securities	20,232	11.3	12,441	9.8	13,699	12.3
Loans and advances	153,085	85.3	112,657	88.7	97,547	87.2
Total interest income	**179,408**	**100.0**	**127,003**	**100.0**	**111,829**	**100.0**
Interest expense						
Due to banks and other financial institutions	15,233	21.7	12,340	37.8	9,904	36.1
Customers' deposits	54,989	78.3	20,270	62.2	17,565	63.9
Total interest expense	**70,222**	**100.0**	**32,610**	**100.0**	**27,469**	**100.0**
Net interest income	**109,186**		**94,393**		**84,360**	

Interest income

The Group's total interest income for 2016 amounted to KD 179.4 million compared to KD 127.0 million for 2015 and KD 111.8 million for 2014.

The increase in the Group's total interest income of KD 52.4 million, or 41.3 per cent., in 2016 principally reflected a KD 40.4 million, or 35.9 per cent., increase in interest income on loans and advances.

The increase in the Group's total interest income of KD 15.2 million, or 13.6 per cent., in 2015 principally reflected a KD 15.1 million, or 15.5 per cent., increase in interest income on loans and advances.

See generally "*Principal factors affecting results of operations—Factors affecting net interest income*" for a discussion of the reasons for these changes in interest income.

Interest expense

The Group's total interest expense for 2016 amounted to KD 70.2 million compared to KD 32.6 million for 2015 and KD 27.5 million for 2014.

The increase of KD 37.6 million, or 115.3 per cent., in 2016 principally reflected a KD 30.6 million, or 168.9 per cent., increase in interest expense on customer time deposits.

The increase of KD 5.1 million, or 18.7 per cent., in 2015 reflected both a KD 2.7 million, or 15.4 per cent., increase in interest expense on customer deposits and an increase of KD 2.4 million, or 24.6 per cent., in interest expense on short-term interbank funding.

See "*Principal factors affecting results of operations—Factors affecting net interest income*" for a discussion of the reasons for these changes in interest expense.

Net Fees and Commission Income

The Group earns fees and commissions on customer loans advanced by it, on other credit facilities (such as commitments to lend made by it and letters of credit and guarantees issued by it), and on other bank services (principally trade finance and card services) as well as asset management, account servicing and syndication fees.

The Group pays fees and commissions principally in respect of cards.

The Group's net fees and commission income for 2016 amounted to KD 30.3 million compared to KD 25.2 million for 2015 and KD 22.0 million for 2014. The increases of KD 5.1 million, or 20.2 per cent., in 2016 and KD 3.2 million, or 14.5 per cent., in 2015 principally reflected the changes in fees and commission income and fees and commission expense described below.

Fees and commission income

The Group's fees and commission income increased by KD 6.0 million, or 21.4 per cent., in 2016 from KD 28.0 million in 2015 to KD 34.0 million. This increase principally reflected the impact of the Acquisition.

The Group's fees and commission income increased by KD 3.7 million, or 15.0 per cent., in 2015 from KD 24.3 million in 2014 to KD 28.0 million. This increase principally reflected increased income from trade finance and cards activities.

Fees and commission expense

The Group's fees and commission expense increased by KD 0.9 million, or 32.9 per cent., in 2016 from KD 2.8 million in 2015 to KD 3.7 million. This increase principally reflected the impact of the Acquisition.

The Group's fees and commission expense increased by KD 0.5 million, or 19.6 per cent., in 2015 from KD 2.3 million in 2014 to KD 2.8 million. This increase principally reflected cards promotion, fund management fees and the impact of the Acquisition.

Other sources of operating income

The Group's other sources of operating income principally include the net foreign exchange gain recorded on customer transactions, dividend income received from the equity securities in its investment securities portfolio, its share of results from its associate, Credit One Kuwait Holding Company K.S.C., in which it has a 40.0 per cent. shareholding, and the net loss or gain recorded on its investment securities and other operating income.

The Group's other sources of operating income amounted to KD 8.0 million for 2016 compared to KD 8.9 million for 2015 and KD 11.2 million for 2014.

The fall in the Group's other sources of operating income of KD 0.9 million, or 10.1 per cent., in 2016 compared to 2015 reflected a combination of factors including an increased loss on investment securities and lower dividend income offset by increased net foreign exchange income and other operating income.

The fall of KD 2.3 million, or 20.6 per cent., in 2015 principally reflected the fact that a KD 1.0 million loss was realised on the sale of investment securities in 2015 compared to a KD 1.9 million gain in 2014. This principally reflected adverse market movements in 2015.

Operating income

Reflecting the above factors, the Group's operating income for 2016 was KD 147.5 million compared to KD 128.5 million for 2015 and KD 117.6 million for 2014, an increase of KD 19.0 million, or 14.8 per cent., in 2016 compared to 2015 and an increase of KD 10.9 million, or 9.3 per cent., in 2015 compared to 2014.

Operating expenses

The Group's operating expenses comprise staff expenses, depreciation and amortisation and other operating expenses. The Group's total operating expenses amounted to KD 58.1 million for 2016 compared to KD 41.2 million for 2015 and KD 35.1 million for 2014.

The increase of KD 16.9 million, or 41.0 per cent., in 2016 compared to 2015, reflected a KD 8.6 million, or 33.7 per cent., increase in staff expenses, a KD 5.6 million, or 40.3 per cent., increase in other operating expenses and a KD 2.7 million, or 155.5 per cent., increase in depreciation and amortisation. These increases all principally arose from the Acquisition. The Group's cost to income ratio increased to 39.4 per cent. in 2016 from 32.0 per cent. in 2015, principally reflecting expenditure aimed at implementing the Group's strategy of developing its IT infrastructure, strengthening its human resource capabilities and integrating ABK Egypt.

The increase of KD 6.1 million, or 17.4 per cent., in 2015 reflected increases in all categories of expense and was principally driven by increased spending on developing IT technology and infrastructure, building human resources capabilities, simplifying processes and outsourcing non-core activities. The Group's cost to income ratio in 2015 was 32.0 per cent., up from 29.8 per cent. in 2014.

Operating profit for the year

Reflecting the above factors, the Group's operating profit for the year for 2016 was KD 89.4 million compared to KD 87.3 million for 2015 and KD 82.5 million for 2014, an increase of KD 2.1 million, or 2.4 per cent., in 2016 compared to 2015 and an increase of KD 4.8 million, or 5.8 per cent., in 2015 compared to 2014.

Net gain from business combination

In 2015, the Group recorded a net gain of KD 8.0 million on the Acquisition. No such gains or losses were made in 2016 or 2014.

Provisions and impairment losses

At each reporting date and in accordance with both CBK regulations relating to the method of calculating specific provisions and estimates made in accordance with IAS 39 as adopted for use by Kuwait for financial institutions regulated by the CBK, the Group assesses its financial assets for objective evidence of impairment. In particular:

- all individually significant loans and advances to customers are assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortised cost (including the Group's customer loan portfolio) are measured as the difference between the carrying amount of the relevant asset and the present value of the estimated future cash flows from it discounted at the asset's original effective interest rate (in the case of fixed rate customer loans) or its current effective interest rate (in the case of customer loans with variable rates);
- a minimum general provision is made on all credit facilities net of certain categories of collateral as mandated by the CBK, with additional general provisions being made at management's discretion with the approval of the CBK; and

- impairment losses on available for sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to the income statement as a reclassification adjustment.

For further information, see "*Impairment of financial assets*" in note 2 to the 2016 Financial Statements.

The table below shows details of the Group's provision charges and impairment losses in each of 2016, 2015 and 2014.

	2016	**2015**	**2014**
		(KD '000s)	
Cash facilities – general	21,488	43,993	21,168
Cash facilities – specific	28,767	14,244	19,491
Non-cash facilities	558	442	1,141
Investments available for sale	1,626	2,750	1,581
Other (release)/charge	—	—	(1,000)
Total provisions and impairment losses	**52,439**	**61,429**	**42,381**

The Group's total provisions and impairment losses amounted to KD 52.4 million for 2016 compared to KD 61.4 million for 2015 and KD 42.4 million for 2014.

The reduction of KD 9.0 million in 2016 primarily reflects lower general provisioning at KD 21.5 million compared to the KD 44.0 million general provision made in 2015.

The increase of KD 19 million in 2015 primarily reflects an increase in general provisioning of nearly KD 23 million over the general provision of KD 21 million made in 2014.

See "Principal factors affecting results of operations—Provisions/impairment losses" for a discussion of the factors underlying these changes in provisions.

Profit for the year before taxation and Directors' fees

Reflecting the above factors, the Group's profit for the year before taxation and Directors' fees for 2016 was KD 37.0 million compared to KD 33.9 million for 2015 and KD 40.2 million for 2014. These figures represent an increase of KD 3.1 million, or 9.0 per cent., in 2016 compared to 2015 and a fall of KD 6.2 million, or 15.5 per cent., in 2015 compared to 2014.

Directors' fees and taxation

The Group paid directors' fees of KD 375 thousand in 2016, KD 480 thousand in 2015 and KD 360 thousand in 2014. The Group's taxation charge comprises the tax paid by its overseas branches and subsidiary, national labour support tax charged in Kuwait, its contribution to the Kuwait Foundation for the Advancement of Sciences and its Zakat charge. Together, these amounted to KD 4.1 million for 2016 compared to KD 3.1 million for 2015 and KD 2.2 million for 2014. The increases in 2016 and 2015 are on account of increased tax on overseas locations, primarily the UAE in 2015 and Egypt in 2016.

Net profit for the year

Reflecting the above factors, the Group's net profit for the year for 2016 was KD 32.5 million compared to KD 30.4 million for 2015 and KD 37.6 million for 2014, an increase of KD 2.1 million, or 7.1 per cent., in 2016 compared to 2015 and a fall of KD 7.2 million, or 19.2 per cent., in 2015 compared to 2014.

Other comprehensive loss or income

The Group's other comprehensive income/(loss) principally comprises changes in the fair value of its available for sale investments as well as, in 2016 and 2015, net gains/impairment losses on sale of its available for sale investments and, in 2016, exchange differences on the translation of foreign operations.

In 2016, the Group recorded a comprehensive loss of KD 13.2 million arising principally from changes in dinar/Egyptian pound exchange rates when translating the operations of ABK Egypt into dinar. The comparable loss in 2015 was KD 130 thousand. In addition, in 2016, the Group recorded a comprehensive loss of KD 7.1 million on changes in fair values of its available for sale investments and a net gain of KD 4.1 million on the recycling of net gains/impairment losses on its available for sale investments compared to a comprehensive loss of KD 13.6 million on fair value changes and a net recycling gain of KD 3.2 million in 2015.

In 2015, the Group recorded a comprehensive loss of KD 13.6 million on changes in fair values of its available for sale investments compared to a loss of KD 1.0 million in 2014. The Group recorded a net gain of KD 3.2 million on the recycling of net gains/impairment losses on its available for sale investments that were transferred to the income statement in 2015 compared to a net loss of KD 0.3 million in 2014.

Total comprehensive income for the year

Reflecting the above factors and the Group's profit for the year, the Group's total comprehensive income for 2016 was KD 15.9 million compared to KD 20.5 million for 2015 and KD 38.6 million for 2014, a fall of KD 4.6 million, or 22.3 per cent., in 2016 and a fall of KD 18.1 million, or 47.0 per cent., in 2015.

Segmental Analysis

In 2016 and 2015, the Group had three reporting segments as follows:

- "**Retail and Commercial banking**", which comprises a full range of credit, deposit and related banking services provided to its commercial and retail customers;
- "**Treasury and Investments**", which comprises money market, foreign exchange, treasury bonds, assets and surplus fund management, investment securities, investment in an associate and the residual impact of transfer pricing and inter-segment allocation; and
- "**International**", which comprises the operations related to overseas subsidiaries and branches.

In 2014, the Group had two reporting segments, being Commercial Banking and Treasury and Investments. In 2014, the Group's overseas branches in the UAE were included in the Commercial Banking reporting segment.

The table below shows certain income statement and statement of financial position line items of the Group's reporting segments as at, and for the years ended, 31 December in each of 2016, 2015 and 2014, based on its three reporting segment structure adopted in 2015.

	Retail and Commercial banking	**Treasury and Investments**	**International**	**Total**
		(KD '000s)		
2016				
Operating income	113,170	1,378	32,969	147,517
Segment result	51,464	(1,008)	4,885	55,341
Unallocated expense				(18,351)
Net gain from business combination				—
Profit for the year before taxation and Directors' fees				36,990
Segment assets	2,607,195	862,006	745,625	4,284,813[(1)]
Segment liabilities	1,953,210	1,032,102	696,633	3,729,010[(2)]
2015				
Operating income	101,383	12,369	14,780	128,532
Segment result	28,823	8,500	6,104	43,427
Unallocated expense				(17,510)
Net gain from business combination				8,005
Profit for the year before taxation and Directors' fees				33,922

	Retail and Commercial banking	Treasury and Investments	International	Total
		(KD '000s)		
Segment assets	2,589,267	870,806	835,022	4,359,064(1)
Segment liabilities	1,609,850	1,361,783	788,141	3,802,605(2)
	Commercial banking	**Treasury and Investments**	**International**	**Total**
2014(3)				
Operating income	91,075	17,194	9,341	117,610
Segment result	39,069	14,088	3,083	56,240
Unallocated expense				(16,082)
Profit for the year before taxation and Directors' fees				40,158
Segment assets	2,177,073	916,860	337,123	3,499,039(1)
Segment liabilities	1,651,206	937,132	296,772	2,940,691(2)

Notes:

(1) Total column includes unallocated assets of KD 70.0 million in 2016, KD 64.0 million in 2015 and KD 68.0 million in 2014.

(2) Total column includes unallocated liabilities of KD 47.1 million in 2016, KD 42.8 million in 2015 and KD 55.6 million in 2014.

(3) The classification of the Group's reporting segments changed as a result of the Acquisition. This is reflected in the 2016 and 2015 figures. The 2014 figures have not been restated for comparability.

Retail and Commercial banking

Retail and Commercial banking recorded operating income of KD 113.1 million in 2016 compared to KD 101.4 million in 2015, and in 2014 Commercial banking (which included retail banking) recorded operating income of KD 91.1 million. The increase of KD 11.8 million, or 11.6 per cent., in 2016 compared to 2015 principally reflected increased interest income from higher rates charged. The increase of KD 10.3 million, or 11.3 per cent., in 2015 compared to 2014 principally reflected increased interest income from loan growth during the year. Retail and Commercial banking's segment profit was KD 51.5 million in 2016 compared to KD 28.8

million in 2015, and in 2014 Commercial banking (which included retail banking) recorded a segmental profit of KD 39.1 million. The increase of KD 22.6 million, or 78.6 per cent., in 2016 principally reflected an increase in operating income and lower precautionary general provisions charged compared to 2015. The fall of KD 10.2 million, or 26.2 per cent., in 2015 principally reflected the significant increase in precautionary general provisions on loans and advances in 2015.

Treasury and Investments

Treasury and Investments recorded operating income of KD 1.4 million in 2016 compared to KD 12.4 million in 2015 and KD 17.2 million in 2014. The fall of KD 11.0 million, or 88.9 per cent., in 2016 compared to 2015 principally reflected lower investment income and residual transfer pricing. The fall of KD 4.8 million, or 28.1 per cent., in 2015 compared to 2014 principally reflected lower investment income and residual transfer pricing. The Treasury and Investments' segment loss was KD 1.0 million in 2016 compared to a segment profit of KD 8.5 million in 2015 and KD 14.1 million in 2014. The fall of KD 9.5 million in 2016 reflected the impact of lower operating income. The fall of KD 5.6 million, or 39.7 per cent., in 2015 principally reflected impairments arising from market conditions.

International

International recorded operating income of KD 33.0 million in 2016 compared to KD 14.8 million in 2015 and KD 9.3 million in 2014. The increase of KD 18.2 million, or 123.1 per cent., in 2016 compared to 2015 principally reflected the full year impact of ABK Egypt. The increase of KD 5.4 million, or 58.3 per cent., in 2015 compared to 2014 principally reflected the effects of volume growth in the UAE and the Acquisition. International's segment profit was KD 4.9 million in 2016 compared to KD 6.1 million in 2015 and KD 3.1 million in 2014. The fall of KD 1.2 million, or 20.0 per cent., in 2016 principally reflected increased impairment charges. The increase of KD 3.0 million, or 98.0 per cent., in 2015 principally reflected the effects of volume growth in the UAE and the Acquisition.

Liquidity and Funding

Overview

The Group's liquidity needs arise primarily from making loans and advances to customers, the payment of expenses and investments in securities. To date, the Group's liquidity needs have been funded principally through deposits and operating cash flow, including interest income received on its customer loan portfolio and its portfolio of debt investment securities. See "—*Funding*".

Liquidity

The table below shows the Group's cash flow from operating activities, investing activities and financing activities for each of 2016, 2015 and 2014.

	2016	2015	2014
		(KD '000s)	
Net cash flows from operating activities	28,542	155,349	44,310
Net cash flows from/(used in) investing activities	15,012	117,368	(81,949)

	2016	2015	2014
		(KD '000s)	
Net cash flows used in financing activities	(16,507)	(23,208)	(21,101)
Cash and cash equivalents at 1 January	343,971	95,404	154,086
Cash and cash equivalents at 31 December	337,030	343,971	95,404

Operating activities

The Group's net cash flow from operating activities in 2016 was KD 28.5 million compared to KD 155.3 million in 2015 and KD 44.3 million in 2014. The decline in net cash flow in 2016 is primarily due to the consolidation of ABK Egypt's operations in 2015. The Group's net cash flow from operating activities before changes in operating assets and liabilities principally reflects its profit for the year adjusted to reflect its provisions and impairment losses.

Investing activities

The Group's net cash flow from investing activities was KD 15.0 million in 2016 and KD 117.4 million in 2015. The decline in net cash flow in 2016 is primarily due to the consolidation of ABK Egypt's operations in 2015. The Group's cash flow used in investing activities was KD 81.9 million in 2014. In 2016, the Group received a net KD 19.5 million from the sale and purchase of available for sale investments. In 2015, the Group received a net KD 68.0 million in cash from the Acquisition and a net KD 48.3 million from the sale and purchase of available for sale investments. In 2014, the principal investments made were purchases and sales of available for sale investments, with significantly more cash being spent on purchases than was received from sales.

Financing activities

The Group's net cash flow used in financing activities in 2016 was KD 16.5 million compared to KD 23.2 million in 2015 and KD 21.1 million in 2014. The fall in 2016 reflected lower dividends paid and lower amounts spent on the purchase of treasury shares. The increase in 2015 principally reflected the purchase of treasury shares.

Funding

The Group's principal sources of funding are its customer deposits and, to a lesser extent, interbank deposits.

The Group also has access to a pool of unencumbered and liquid securities in the form of treasury bills and bonds and CBK bonds as well as quoted available for sale debt and equity securities that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions. As at 31 December in each of 2016, 2015 and 2014 the Group's liquid assets (defined as cash and balances with banks, Kuwaiti government treasury bonds and CBK bonds) comprised 20.8 per cent., 18.7 per cent. and 18.5 per cent., respectively, of its total assets.

The Group's customer deposits were KD 2,899.9 million, or 77.8 per cent. of its total liabilities, as at 31 December 2016, KD 2,496.3 million, or 65.6 per cent. of its total liabilities, as at 31 December 2015 and KD 1,938.3 million, or 65.9 per cent. of its total liabilities, as at 31 December 2014. The Group has a significant

concentration of deposits from the Kuwaiti government and its related agencies (as is common for banks in Kuwait) which amounted to approximately 15 to 20 per cent. of the Group's total funding over the three years to 31 December 2016, see "*Risk factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Group's loan portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region*".

The Group currently has no outstanding loans or debt securities in issue. During 2014, the Group focused on reducing its cost of funding through optimising its funding mix (including through the use of financial institution deposits in 2014), increasing its low cost deposits and rebalancing its liquidity profile. During 2015 and 2016, the Group continued to diversify its long-term deposit base.

The table below shows the Group's funding in the form of customer deposits and amounts due to banks and other financial institutions as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December					
	2016		**2015**		**2014**	
	(KD '000s)	*(% of total)*	*(KD '000s)*	*(% of total)*	*(KD '000s)*	*(% of total)*
Due to banks and other financial institutions	734,771	20.2	1,199,192	32.5	923,752	32.3
Customer deposits	2,899,908	79.8	2,496,278	67.5	1,938,297	67.7
Total funding	**3,634,679**	**100.0**	**3,695,470**	**100.0**	**2,862,049**	**100.0**

The Group's customer deposits comprise current and demand accounts, savings accounts and time deposits.

The Group's current and demand accounts are mostly non-interest bearing and amounts may be withdrawn from these accounts at any time without notice. The Group's savings accounts are interest bearing accounts and amounts may also be withdrawn from these accounts at any time without notice. See "*Risk factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Group has significant customer and sector concentrations*" and "*Risk factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Group is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business*".

The Group believes that its current, demand and savings accounts are diversified and sticky in nature, and constitute a stable and secure source of low cost funding. The Group's current, demand and savings accounts form a significant proportion of its total customer deposits.

The Group accepts time deposits for a range of periods up to three years.

Maturity profile

The table below shows the maturity profile of the Group's total deposits as at 31 December 2016, 2015 and 2014. This analysis is based on contractual undiscounted repayment obligations.

	Less than one month	One month to one year	Over one year	Total
		(KD '000s)		
31 December 2016				
Due to banks and other financial institutions	287,442	334,328	128,186	749,956
Customer deposits	817,772	1,428,967	695,997	2,942,736
Total	**1,105,214**	**1,763,295**	**824,183**	**3,692,692**
31 December 2015				
Due to banks and other financial institutions	391,340	793,392	25,538	1,210,270
Customer deposits	687,559	1,091,713	747,922	2,527,194
Total	1,078,899	1,885,105	773,460	3,737,464
31 December 2014				
Due to banks and other financial institutions	198,644	715,214	20,598	934,456
Customer deposits	1,091,641	749,630	112,826	1,954,097
Total	1,290,285	1,464,844	133,424	2,888,553

A significant proportion of the Group's funding disclosed in the table above as at 31 December 2016 is short term in nature, with 29.9 per cent. of such funding being repayable within one month and a further 47.8 per cent. being repayable within one year. See "*Risk Factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Group is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business or results of operations*". The issue of Notes under the Programme is intended to help the Group diversify its sources of funding and to extend the average maturity of its funding base.

Given the state-run and oil-driven nature of the domestic economy, the Group's deposit base is, at least in the near future, expected to remain concentrated by depositor type, namely cash-rich Kuwaiti government and government-related entities. Significant time deposits from large customers are, with the customers' agreement, divided into smaller deposits with varying maturities, thereby partly mitigating the risks associated with single party deposit concentration.

Equity funding

For a discussion of the Group's share capital and reserves as at 31 December 2016, 2015 and 2014, see note 17 to the Financial Statements.

Lending

Total loan portfolio

The Group's total loan portfolio (net of provisions) was KD 3,029.4 million as at 31 December 2016. The table below shows the breakdown of the Group's total loan portfolio (net of provisions) as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s)	
Corporate and banks	2,493,580	2,537,795	2,059,418
Retail	535,804	509,348	362,879
Total loans	**3,029,384**	**3,047,143**	**2,422,297**

The table below shows the Group's total gross and net loan portfolio and loan to deposit ratios as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s, except percentages)	
Gross loans(1)	3,260,574	3,259,375	2,575,398
Less: impairment	231,190	212,232	153,101
Net loans(2)	**3,029,384**	**3,047,143**	**2,422,297**
Net loans/customer deposits	104.5%	122.1%	125.0%

	As at 31 December		
	2016	2015	2014
	(KD '000s, except percentages)		
Net loans/total deposits[(3)]	83.3%	82.5%	84.6%

Notes:

(1) Gross loans comprises loans and advances disregarding impairment.

(2) Net loans comprises gross loans less impairment charges.

(3) Total deposits comprise customer deposits and due to banks and other financial institutions.

The Group's customer loan portfolio is principally denominated in Kuwaiti dinar, although loans are also made in U.S. dollars, Egyptian pounds and euro, among other currencies. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms. In addition, the Group hedges a part of its currency exposure through the use of derivative contracts, such as forward foreign exchange contracts.

The majority of the loans within the Group's customer loan portfolio in Kuwait contain terms permitting it to adjust the interest rate payable by the customer upon any change in the CBK discount rate or the relevant interbank benchmark. The Group believes that there is only limited structural exposure to interest rate movements as the majority of its assets and liabilities re-price within one year. However, the Group's experience is that, whilst its assets generally re-price immediately upon a change in the CBK discount rate, there is typically a time lag on deposit re-pricing which means that in the past its net interest margin has improved in increasing interest rate environments.

The Group may also, from time to time, enter into forward contracts to manage its interest rate exposure.

Distribution of loans by maturity

The table below shows the distribution of the Group's total loan portfolio by maturity (based on the remaining term at the date of the relevant consolidated statement of financial position) as at 31 December in each of 2016, 2015 and 2014.

	Less than one month	One month to one year	One year to five years	Over five years	Total
			(KD '000s)		
31 December 2016					
Loans and advances	422,436	1,309,041	831,368	466,539	3,029,384
31 December 2015					
Loans and advances	465,678	1,354,462	815,933	411,070	3,047,143
31 December 2014					

	Less than one month	One month to one year	One year to five years	Over five years	Total
			(KD '000s)		
Loans and advances	401,234	1,198,864	558,166	264,033	2,422,297

Gross maximum exposure to credit risk

Note 5A to each of the Financial Statements contains an analysis of the Group's maximum exposure to credit risk (without taking account of collateral or other credit enhancements) by credit quality.

The table below shows the Group's credit risk exposure by credit quality of financial assets by class, grade and status as at 31 December 2016.

	Neither past due nor impaired				
	High grade	**Standard grade**	**Acceptable grade**	**Past due including individually impaired**	**Gross maximum exposures**
			(KD '000s)		
Balances with banks	461,320	5,137	—	—	466,457
Kuwait government treasury bonds	223,142	—	—	—	223,142
CBK bonds	173,715	—	—	—	173,715
Loans and advances					
Corporate and banks	2,151,404	90,855	114,066	137,945	2,494,300
Retail	516,300	—		18,784	535,084
Debt securities available for sale	181,079	—	—	—	181,079
Other assets	36,659	557	662	678	38,556
Total	**3,743,619**	**96,579**	**114,728**	**157,407**	**4,112,333**

As at 31 December 2016, the Group's gross maximum exposure to credit risk was KD 4,112.3 million, of which its loan portfolio comprised 73.7 per cent. and its debt securities (including Kuwait government treasury bonds and CBK bonds) comprised 14.1 per cent. As at 31 December 2016, 91.0 per cent. of the Group's gross maximum exposure to credit risk was considered to be high grade, 2.3 per cent. was considered to be standard grade, 2.8 per cent. was considered to be acceptable grade and 3.9 per cent. was past due.

The table below shows the Group's credit risk exposure by credit quality of financial assets by class, grade and status as at 31 December 2015.

	Neither past due nor impaired				
	High grade	**Standard grade**	**Acceptable grade**	**Past due including individually impaired**	**Gross maximum exposures**
			(KD '000s)		
Balances with banks	405,038	12,337	—	—	417,375
Kuwait government treasury bonds	204,246	—	—	—	204,246
CBK 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	247,398	—	—	—	247,398
Other assets	33,302	632	856	477	35,267
Total	**3,750,124**	**119,061**	144,957	117,000	4,131,142

As at 31 December 2015, the Group's gross maximum exposure to credit risk was KD 4,131.1 million, of which its loan portfolio comprised 73.8 per cent. and its debt securities (including Kuwait government treasury bonds and CBK bonds) comprised 15.3 per cent. As at 31 December 2015, 90.8 per cent. of the Group's gross maximum exposure to credit risk was considered to be high grade, 2.9 per cent. was considered to be standard grade, 3.5 per cent. was considered to be acceptable grade and 2.8 per cent. was past due.

Distribution of the Group's gross maximum exposure to credit risk by geography and by sector

The Group does not disclose the geographical or sectoral split of its loan portfolio in the Financial Statements, although it does disclose the geographical and sectoral split of its gross maximum exposure to credit risk. The table below shows the breakdown by geography and by industry sector of the Group's maximum exposure to credit risk (ignoring credit-related contingent liabilities) as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
		(KD '000s)	
Geographic region			
MENA	3,830,644	3,805,380	3,077,798
Europe	125,926	105,769	95,163
Asia Pacific	76,406	152,450	111,672
Rest of the world	79,357	67,543	32,144
	4,112,333	**4,131,142**	**3,316,777**
Industry sector			
Trading and manufacturing	457,245	440,616	336,472
Banks and other financial institutions	688,008	685,071	448,270
Construction and real estate	810,722	839,844	788,095
Government and related entities	787,484	765,699	737,582
Personal	918,820	1,001,474	801,726
Other	450,054	398,438	204,632
	4,112,333	**4,131,142**	**3,316,777**

The Group seeks to limit its credit risk through diversification of its assets by geography and industry sector. As at 31 December 2016, the Group's gross maximum credit exposure to personal banking customers accounted for 22.3 per cent. of its total gross maximum credit exposure compared to 24.2 per cent. at each of 31 December 2015 and 31 December 2014. These exposures mainly comprise a range of products and services to individuals, including consumer instalment and auto loans, credit cards and other branch-related services.

The Group's second largest sector of credit exposure is the construction and real estate segment, which accounted for 19.7 per cent. of the Group's gross maximum credit exposure as at 31 December 2016 compared

to 20.3 per cent. as at 31 December 2015 and 23.8 per cent. as at 31 December 2014. As per CBK regulations, the real estate segment includes not only credit facilities granted to companies engaged in real estate business but also to borrowers where the purpose of the specific facility concerned is to finance real estate development and acquisition. The Group's exposure to this sector is primarily in Kuwait.

The Group's third largest sector of credit exposure is the government and related entities segment, which accounted for 19.1 per cent. of the Group's gross maximum credit exposure as at 31 December 2016 compared to 18.5 per cent. as at 31 December 2015 and 22.2 per cent. as at 31 December 2014. The Group considers that this segment comprises a relatively low risk component of its loan portfolio, reflecting both the sovereign nature of the exposure and the fact that it is geographically limited to the GCC.

The Group's loans that finance the trading of securities listed on the Kuwait Stock Exchange are regulated and monitored by the CBK which requires that this lending does not exceed the lower of 10 per cent. of the total credit facilities portfolio granted to resident customers and 25 per cent. of the Bank's regulatory capital.

See "*Risk management—Credit risk*" for a discussion of the Group's loan origination and monitoring procedures, its loan classification system, collateral policy and an analysis of its non-performing loans and provisioning and write-off policies.

Kuwait Bond Portfolio and Investment Securities Portfolio

The Group's Kuwait bond portfolio and investment securities portfolio comprise fixed rate treasury bills and bonds (with maturities ranging from short-term to in excess of five years) issued by the CBK on behalf of the Kuwaiti Ministry of Finance, fixed rate bonds issued by the CBK (with maturities of less than one year) and a portfolio of debt and equity investment securities, which are principally held on an available for sale basis. Additionally, the Group holds similar securities in other jurisdictions in which it operates. The Group invests in these securities both to generate returns and to provide an additional source of liquidity when needed.

The table below summarises the Group's combined Kuwait bond portfolio and investment securities portfolio as at 31 December 2016, 2015 and 2014.

	As at 31 December[1]		
	2016	**2015**	**2014**
		(KD '000s)	
Investment securities portfolio			
Available for sale investments			
Debt securities, fair valued using quoted bid price (level 1)	83,206	165,251	192,017
Debt securities, fair valued using brokers' quotes (level 2)	74,789	82,147	46,939
Debt securities, fair valued using discounted cash flows (level	—	—	—

	As at 31 December[1]		
	2016	2015	2014
		(KD '000s)	
3)			
Total available for sale debt securities	**157,995**	**247,398**	**238,956**
Equity securities, fair valued using quoted bid price (level 1)	4,860	13,409	8,577
Equity securities, fair valued using market multiples (level 2)	8,352	10,041	12,328
Managed funds, fair valued on a net asset value basis (level 2)	20,511	33,405	37,396
Equity securities, fair valued using discounted cash flows, dividend discount model (level 3)	23,103	32,436	33,941
Total available for sale equity securities	**56,826**	**89,291**	**92,242**
Total available for sale securities	214,821	336,689	331,198
Investments at fair value through profit and loss			
Equity securities, fair valued using quoted bid price (level 1)	—	1,213	1,690
Managed funds, fair valued on a net asset value basis (level 2)	—	5,907	12,123
Total investments at fair value through profit and loss	**—**	**7,120**	**13,813**

	As at 31 December[1]		
	2016	2015	2014
		(KD '000s)	
Investments held to maturity	23,084	—	—
Total investment securities	237,905	343,809	345,011
Kuwait Bond portfolio			
Kuwait government treasury bonds	223,142	204,246	279,831
CBK bonds	173,715	179,713	221,228
Total Kuwait bond portfolio and investment securities portfolio	**634,762**	**727,768**	**846,070**

Note:

(1) References to level 1, level 2 and level 3 are to the valuation techniques used to determine the fair value of the relevant investments. These techniques are:

- Level 1 – traded in an 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 transactions and comparisons to similar instruments for which market observable prices exists including price to book value multiples, price earnings multiples and net asset values published by fund managers.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Valuation techniques include the discounted cash flow method, the 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 rates, illiquidity discounts and cash flow estimates.

The Group's investment policy requires all investments in debt securities to have an investment grade rating, except for sovereign securities denominated and funded in local currencies in countries where the Group has an operating presence.

During 2016 and 2015, the Group maintained this policy, although it selectively disposed of some holdings. During 2014, the Group increased its investment grade fixed income securities portfolio in order to help diversify earnings and earn better risk-adjusted returns.

The Group's available for sale and fair value through statement of income securities are measured at fair value. For further information on the manner in which the fair value of these securities is determined, see note 12 to the 2016 Financial Statements.

Capital Adequacy

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are also governed by guidelines of the Basel Committee on Banking Supervision (the "**Basel Committee**") as adopted by the CBK.

In June 2014, the CBK issued directives on the adoption of capital adequacy standards under the Basel III framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier Basel II requirements. The Basel III reforms strengthen the quality of capital and introduce several buffer requirements in line with proposals made by the Basel Committee. The CBK Basel III framework consists of three Pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach";
- Pillar 2 relates to the supervisory review process and emphasises the importance of the Internal Capital Adequacy Assessment Process ("**ICAAP**") performed by banks; and
- Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

The Basel III framework raised both the quality and quantity of the capital base and increased capital requirements for certain positions. The minimum requirements for capital are underpinned by a leverage ratio that serves as a backstop to the risk-based capital measures. There are also buffer requirements in the form of a capital conservation buffer, a countercyclical capital buffer and an additional surcharge for banks designated as domestic systemically important.

A key objective for the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with externally imposed capital requirements. The Group aims to ensure adherence to the CBK's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures that pro-active action is taken where necessary and a strategy that ensures that a sufficient capital buffer above minimum required levels is maintained at all times. This process is supported by the use of proprietary capital-planning methodology which takes into consideration regulatory capital requirements, rating agency views, stress testing and bottom-up views of business plans.

The total capital adequacy ratio required by the CBK increased from 12.0 per cent. to 12.5 per cent. at 31 December 2015 and to 13.0 per cent. from 31 December 2016. The Group has been designated as a domestically systemic important bank ("**D-SIB**") with an additional Common Equity Tier 1 D-SIB surcharge of 0.5 per cent. required from 31 December 2016. As a result, the Group's total minimum capital requirement from that date is 13.5 per cent., which includes a capital conservation buffer.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 31 December in each of 2016, 2015 and 2014 (determined in accordance with Basel III as implemented in Kuwait).

	As at 31 December		
	2016	**2015**	**2014**
	(KD '000s, except percentages)		
Risk weighted exposure	3,183,705	3,169,487	2,345,011
Capital required	429,801	412,034	304,852
Capital available			
Tier 1 capital	523,976	507,991	531,826
Common equity tier 1	523,976	507,991	531,286
Additional tier 1		—	—
Tier 2 capital	38,473	38,230	23,433
Total capital	**562,449**	**546,221**	**555,259**
Common equity tier 1 capital adequacy ratio	16.5%	16.0%	22.7%
Tier 1 capital adequacy ratio	16.5%	16.0%	22.7%
Total capital adequacy ratio	17.7%	17.2%	23.7%

The principal factor behind the Group's falling capital ratios in 2015 was the significant increase in its risk weighted exposures, reflecting the increase in its portfolio of loans and advances in 2015 and to a lesser extent a decrease in the available capital as a result of the Acquisition. The Group's capital ratios increased in 2016, reflecting an increase in its common equity tier 1 capital as a result of retained earnings in 2016.

The Bank is also subject to a CBK Basel III leverage ratio requirement of 3 per cent. The Bank's financial leverage ratio was 10.3 per cent. as at 31 December 2016, 10.1 per cent. as at 31 December 2015 and 13.1 per cent. as at 31 December 2014.

Based on published financial statements, the Bank's capital adequacy ratio compares favourably with other commercial banks in Kuwait as at 31 December 2016.

Capital Expenditure and other Commitments

The Group's capital expenditure budget for 2017 is KD 15 million. A substantial part of this budget is IT-related expenditure on computer infrastructure, with expenditure on branch facilities being another significant item.

Contingent Liabilities

The Group has contingent liabilities in respect of funding commitments it has made as well as in relation to acceptances, letters of credit and guarantees issued by it. The table below shows these contingent liabilities as at 31 December in each of 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
		(KD '000s)	
Guarantees	960,191	755,051	628,149
Total commitments to extend credit	426,814	491,291	352,453
Letters of credit	147,918	153,087	231,567
Acceptances	29,036	22,489	21,459
Total contingent liabilities	**1,563,959**	**1,421,918**	**1,233,628**

Related Party Transactions

The Group's principal related party transactions are with its directors and executive officers, their close family members and companies controlled by them or their close family members as well as with associates of the Group. IFRS requires the disclosure of shareholder related parties only in cases where those related parties exercise significant influence. Certain related parties are customers of the Group in the ordinary course of business. Transactions with related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve an amount of risk that is higher than the amount of risk taken in comparable transactions with unrelated parties. Lending to directors and their related parties is secured by tangible collateral in accordance with CBK regulations.

The Group adheres to CBK guidelines on lending to related parties. Credit facilities to members of the Bank's Board of Directors (the "**Board**") can only be approved under conditions specified by the CBK which include the following:

- all facilities to Board members must be approved, renewed or modified only at the Board level and this authority cannot be delegated to a committee of other body;
- the approval, renewal or modification of Board members' facilities can only be considered approved when at least three-quarters of the Board members have approved the same; and
- the Group must acquire adequate collateral.

Further credit extensions to related parties are also subject to adherence to the overall CBK limits which include that the total related party exposures should not exceed 50 per cent. of a bank's capital.

Further information on the Group's related party transactions in 2016, 2015 and 2014 is set out in note 12 to the 2016 Financial Statements and note 8 to the 2015 Financial Statements.

BUSINESS DESCRIPTION OF THE GROUP

Overview

The Group provides a wide range of corporate, retail and treasury services to customers in Kuwait through its network of 30 branches in that country. The Bank also has two branches in the UAE, a wholly-owned investment banking subsidiary in Kuwait and, since November 2015, a subsidiary bank in Egypt. As at 31 December 2016, the Group's total assets were KD 4,285 million and its equity attributable to shareholders of the Bank was KD 555 million.

The Group's core businesses are corporate and retail banking. The Group also undertakes treasury and investment activities and provides corporate advisory and asset management services through its investment banking subsidiary, Ahli Capital. The Group offers its products and services in Kuwait, the UAE and, since November 2015, in Egypt.

The Group offers its clients a wide range of banking and financial services through its branch networks in Kuwait, Egypt and the UAE, a network of automated teller machines ("**ATMs**") and point of sale ("**POS**") terminals, telebanking, internet banking and mobile banking.

As at 31 December 2016, the Group's customer loan portfolio was KD 3,029 million and its customer deposits were KD 2,900 million. In 2016, the Group's net profit for the year was KD 32.5 million compared to KD 30.4 million in 2015.

As at 31 December 2016, the Group's total and tier 1 capital adequacy ratios, calculated in accordance with Basel III methodology adopted by the CBK, were 17.7 per cent. and 16.5 per cent., respectively, and its leverage ratio, calculated in accordance with CBK requirements, was 10.3 per cent.

The Bank has been listed on the KSE since 1984 and its total market capitalisation as at 31 December 2016 was KD 486 million.

The Bank's registered office is at Al Ahli Bank of Kuwait K.S.C.P. Building, Ahmad Al Jaber Street, Safat Square, Al Sharq Area, P.O. Box 1387, Safat, 13014 Kuwait and its telephone number is +965 240 0900/241 1100. Its commercial registration number with the Kuwaiti Ministry of Commerce is 3705.

History

The Bank was incorporated in Kuwait on 23 May 1967. It is regulated by the CBK. It was established by the Behbehani family, which continues to control the Bank.

In 1973, the Bank had 10 branches in Kuwait. By 1988, the Kuwaiti branch network had expanded to 21 branches and the Bank currently has 30 branches in Kuwait. The Bank opened its first overseas branch in Dubai in 1971 and a second branch in Abu Dhabi in 2009. In 2006, it established its investment arm, Ahli Capital.

On 10 November 2015, the Group acquired a 98.5 per cent. shareholding in ABK Egypt. ABK Egypt is incorporated in Egypt and provides corporate, retail and investment banking services in Egypt through a network of 39 branches. With the Acquisition, the Group extended its footprint from the GCC to the wider MENA region in line with its objective of regional expansion. For further information on ABK Egypt, see "—*Business—Reporting segments—International reporting segment—ABK Egypt*" below.

The Group has consistently recorded profits, including throughout the period following the global financial crisis, and paid regular dividends to its shareholders.

Strategy

The Group's vision is "reimagining a simpler bank" and its mission is "to consistently provide experiences that simplify and enrich people's lives." The Group's strategy for the 2015 to 2017 period is based on two major threads underpinned by two key enablers: infrastructure and people. The two major threads are:

- **simplification:** simplifying business and decision-making processes (in particular in the retail business), to ensure greater operational efficiency and drive revenue growth; and
- **new products and segments**: introducing new products and segments, including, for example, cash management, wealth management, mobile banking and corporate finance advisory.

The Group's key strategic focus in the short to medium-term is:

- delivering revenue growth in both its retail and international businesses; and
- managing other financial and operational aspects of the business, such as
    - ➢ controlling the growth in its provisions and managing its portfolio of **NPLs**;
    - ➢ building up its capital base and diversifying its sources of funding to facilitate its planned growth: and
    - ➢ improving its IT platform as part of its business process re-engineering.

Delivering revenue growth in both its retail and international businesses

The Group believes that there are limited prospects for significant growth in the corporate lending market in Kuwait, reflecting both high levels of competition and the negative effects of low international oil prices on Kuwait's economy and government fiscal position. See "*Overview of Kuwait—Economic overview*". As a result, the Group believes that growth in the next few years will be derived from increasing its retail market share in Kuwait as described under "*Retail growth*" below and growing its international business as described under "*—International growth*" below.

Retail growth

The Group's strategy to deliver retail revenue growth is based on organic growth through simplification and new sales initiatives.

In terms of simplification, since 2015, the Group has focused on implementing a number of initiatives, including:

- eliminating procedural complexities around account opening formalities and accelerating the retail loans approval process, which it believes have resulted and will, as further complexities are eliminated, continue to result in significant improvements to customer service;
- introducing new products, for example cross-border mortgages were introduced in 2015 and proposed future products include salary acquisition, and rationalising existing products, for example the Group is currently in the process of simplifying its credit, prepaid and debit cards portfolio by reducing the number of products from 17 to 10; and
- commencing an ambitious programme to modernise the Group's core banking system and introduce new tools, such as data warehouse, which is expected to deliver both customer benefits and improved operational efficiency.

In terms of sales initiatives, the Group has deployed a direct sales team of 40 individuals as at 31 December 2016. These individuals are not employees of the Group but they sell all of its retail products (loans, deposits

and cards) on a commission basis. The Group's experience to date is that the commission-based sales structure is a significant factor driving growth in its retail business. All sales by the sales team are subject to the same acceptance criteria that the Group applies for its directly originated business and accordingly the Group does not believe that utilising a direct sales force has increased, or will increase, the nature of the credit risk that it faces. These sales initiatives will be assisted by the fact that the Group's ATM network in Kuwait has been significantly increased from 80 ATMs at 31 December 2014 to 118 ATMs at 31 December 2015 and 136 ATMs at 31 December 2016.

International growth

The Group expects that growth in its international business will be driven by the Acquisition in 2015 and by corporate business generated through its two UAE branches. The Group continues to evaluate prospects for further expansion in the GCC.

The Group has adopted a growth-focused business strategy for ABK Egypt based on its strong balance sheet. The Group is targeting balanced growth in ABK Egypt's corporate, SME and retail loan portfolios. The Group is also strengthening ABK Egypt's management team with experienced executives to ensure the success of the business strategy and, as part of this strategy, a new chief executive officer for ABK Egypt was appointed in May 2016.

The Group believes that there is significant room for cross-border synergies. Currently, the Bank is one of two Kuwaiti banks operating in Egypt. The Bank's management aims to capitalise on the strong ties between the two countries to capture business opportunities in both governmental and private sectors.

Strategic pillars for ABK Egypt's growth include the following:

- enhance brand awareness through investing in the brand and carrying out product campaigns;
- seek strong growth of the balance sheet without sacrificing margins;
- expand current product offerings for corporate, retail and SME customers;
- improve the overall customer experience through optimising the branch network for better accessibility of addressable markets as well as shortening customer turn-around times; and
- establish and implement a "Human Capital Plan", which involves on-going engagement activities, attracting the right calibre of employees and talent development and retention in order to build a positive organisational culture in line with the Bank's values.

Managing other financial and operational aspects of the business

Controlling the growth in the Group's provisions and managing its NPLs

The Group experienced growth in provisions in 2014 and 2015, principally driven by increases in its general provision. These increases reflect both growth in the Group's loan portfolio and additional provisions which are precautionary in nature and principally reflect the Group's assessment of the likely impact of deteriorating economic conditions. In 2016, the Group's provisions were lower than in 2015 as the Group significantly reduced its general provision. The Group's NPLs amounted to KD 63.1 million as at 31 December 2014, KD 74.4 million as at 31 December 2015 and KD 83.3 million as at 31 December 2016. To better manage its NPLs and reduce provision requirements the Group seeks to identify all stressed assets and assets requiring management in order to apply a focused approach and rigorous follow-up of recovery efforts to these assets.

Building up the Group's capital base and diversifying its sources of funding to facilitate its planned growth

The Group recognises that continued growth, particularly in the retail and international segments, will impact its capital ratios and require increased funding. As a result, the Group is closely monitoring its capital, including

through the use of risk adjusted return on capital metrics, and is actively seeking to diversify its sources of funding, including through establishing the Programme.

Improving the Group's IT platform as part of its business process re-engineering

The Group intends to continue to invest significantly in its IT platform, with a focus on refreshing technology in order to simplify and automate essential processes. Major initiatives in progress include the replacement of the Group's core banking system, the acquisition of a data warehouse solution, the automation of various operations and the launch of new IT-enabled products and services for the Group's customers. During 2016, the Group invested significantly in new computer equipment and software as part of the replacement of its core banking system and middleware enhancement. Substantial investment in IT infrastructure is also budgeted for 2017.

Strengths

The Group benefits from a number of business strengths. In particular:

Strong capitalisation and solid revenue-generating capacity

As at 31 December 2016, the Bank had a Tier 1 capital adequacy ratio of 16.5 per cent. (consisting exclusively of common equity Tier 1), which was one of the highest among conventional banks in Kuwait and affords the Bank a good loss absorption buffer. The Bank's shareholders' equity to total assets was 13.0 per cent. at the same date.

The Group's revenue-generating capacity and underlying pre-provision profitability metrics are strong. In particular, the Group's operating profit for the year before provisions/impairment losses (its "**pre-provision income**") has increased since 2012. The Group's ratio of pre-provision income to its average assets was 2.1 per cent. at 31 December 2016, also one of the highest among conventional banks in Kuwait. However, see "*Risk factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Bank may not be able to realise in full the anticipated synergies from the Acquisition*".

The Acquisition diversifies the Group and provides additional profit opportunities

The Acquisition is the Group's first major cross-border transaction and is providing the Group with revenue and asset diversification and an opportunity to leverage economic links between Kuwait and Egypt (such as trade flows between the two countries as well as additional business from Egyptian expatriates working in Kuwait). However, see "*Risk factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Bank may not be able to realise in full the anticipated synergies from the Acquisition*".

The Group also believes that there is significant potential to benefit from the higher margins and growth rates currently being experienced in Egypt when compared with those achieved by the Group in Kuwait. However, see "*Risk factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Group's business, financial condition, results of operations and prospects are affected by regional and global financial markets and economic conditions and any deterioration in economic conditions in Kuwait, Egypt and the wider MENA region could materially adversely impact the Group*".

Stable funding base and good liquidity buffers

The Group's Basel III liquidity coverage ratio was 132 per cent. at 31 December 2016. Liquidity in the Kuwaiti banking sector reflects both banks' access to deposits of cash-rich government entities and subdued investment opportunities as government capital expenditure since 2014 has remained below anticipated levels. During

2015, the majority of the Group's 24.6 per cent. growth in the statement of financial position was funded by customer deposits and deposits from other financial institutions that grew by around 29.1 per cent. during 2015. During 2016, the Group's statement of financial position declined by 1.7 per cent. Systemic liquidity allows Kuwaiti banks to increase deposits depending on their funding needs, including through sizeable government and government-related entity deposits. However, see "*Risk factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Group's loan portfolio, deposit base, bond portfolios and investment securities portfolio are concentrated in Kuwait and the MENA region*" and "*Risk factors—Factors that may affect the Group's ability to fulfil its obligations under or in connection with Notes issued under the Programme—The Group has significant customer and sector concentrations*".

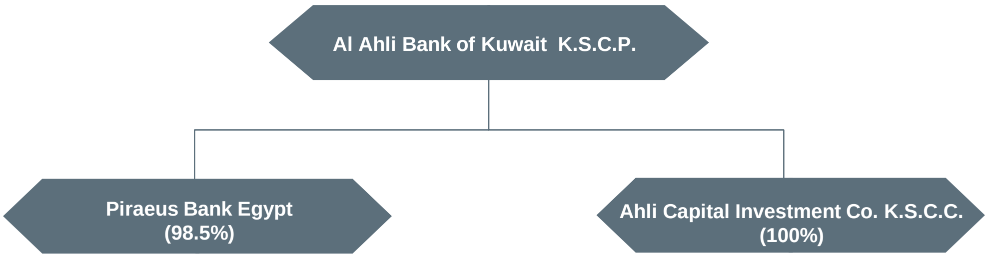
Stable shareholder base and strong management team

The Bank was established in 1967 by the Behbehani family and it has retained the same core shareholder base since that time. The Group believes that it has a strong and stable Board and a long-serving executive team with a strong track record in Kuwait. Further details of the Group's management are set out under "*Management and employees—Management*".

Group Structure and Shareholders

Group Structure

The diagram below illustrates the Group structure.



The Bank is the parent company of the Group. Ahli Capital is a wholly owned subsidiary of the Bank and ABK Egypt is 98.6 per cent. owned by the Bank as at 31 December 2016.

Shareholders

The table below shows all shareholders of the Bank which owned 5 per cent. or more of the Bank's share capital at 31 December 2016. The total direct and indirect holding of the Behbehani family at the same date was approximately 37.5 per cent.

Shareholder	Number of shares	Percentage of issued share capital
Wafra International Investment Co. – Customers	163,743,115	10.11
Kuwait Investment Co. – Customers' account	160,669,238	9.92

Shareholder	Number of shares	Percentage of issued share capital
Behbehani Investment Co. (direct and indirect)	159,280,433	9.84
Behbehani Telecommunications Co.	153,713,589	9.49
Heirs of Mohamed Saleh Yousuf Behbehani (direct and indirect)	110,179,587	6.80
Ali Morad Yousuf Behbehani	103,580,223	6.40
Behbehani Financial Co. (direct and indirect)	81,437,831	5.03
Total	932,604,016	57.59

Business

Reporting segments

The Group currently operates through three segments for financial reporting purposes:

- **Retail and Commercial banking**, which comprises a full range of credit, deposit and related banking services provided to its commercial customers and also includes the Group's retail banking business;
- **Treasury and Investments**, which comprises money market, foreign exchange, treasury bonds, assets and surplus fund management, investment securities and investment in an associate and also includes Ahli Capital; and
- **International**, which comprises operations related to overseas subsidiaries and branches.

The table below is derived from note 4 to the 2016 Financial Statements and shows certain financial information in relation to each reporting segment for each of 2016 and 2015.

	Retail and Commercial banking		Treasury and Investments		International		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
				(KD million)				
Operating income	113	101	1	12	33	15	**148**	**128**
Provisions for credit facilities, investments	43	56	1	2	8	4	**52**	**62**

	Retail and Commercial banking		Treasury and Investments		International		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
				(KD million)				
and other								
Segment result	51	29	(1)	9	5	6	**55**	**43**
Segment assets	2,607	2,589	862	871	746	835	**4,285**	**4,359[(1)]**

Note:

(1) Including unallocated assets of KD 70 million and KD 64 million in 2016 and 2015, respectively.

The table below is derived from note 4 to the 2015 Financial Statements and shows certain financial information in relation to each reporting segment for 2014.

	Commercial banking	Treasury and Investments	International	Total
		(KD million)		
Operating income	91	17	9	**118**
Provisions for credit facilities, investments and other	38	2	3	**42**
Segment result	39	14	3	**56**
Segment assets	2,177	917	337	**3,499[(1)]**

Note:

(1) Including unallocated assets of KD 68 million in 2014.

Retail and Commercial banking reporting segment

The Retail and Commercial banking reporting segment encompasses the Group's corporate and retail banking divisions. The table below provides summary unaudited management financial information for each of the corporate and retail banking divisions for each of 2016 and 2015.

	Corporate		**Retail**		**Total**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
			(KD million)			
Operating income	75	67	38	34	**113**	**101**
Provisions for credit facilities, investments and other	35	50	8	5	**43**	**56**
Division/segment result	37	14	14	15	**51**	**29**

Each of these divisions is described separately below.

Corporate banking division

The Group offers a broad spectrum of financial products and IT-enabled services to corporate entities engaged in various economic sectors, including power, oil and energy, telecommunications, infrastructure, petrochemicals, financial services and international trade. The services offered by the Group range from traditional working capital finance to complex structured financial products for large projects and multi-national companies. The Group's credit policies aim at creating long-term relationships with customers through a professional approach.

The Group offers its corporate clients in Kuwait a range of commercial banking products and services, including loans, overdrafts, trade finance (LCs and guarantees), online corporate cash management services, and a range of current and deposit accounts. Additionally, the corporate banking division works with other business units within the Group, such as those included within the Treasury and Investments reporting segment, to offer other services including foreign exchange, hedging products and corporate finance and advisory services.

The Group's corporate banking division comprises specialised business units designed to cater to the business and/or industry-specific needs of particular customer segments which are supported by the Corporate merchant services business unit.

Investment business unit

The investment business unit caters to businesses with significant investment needs in Kuwait as well as high net worth individuals. The investment business unit provides financial solutions and services to its clients, including providing comprehensive lending packages, meeting its clients' needs for deposit placements and arranging or participating in syndicated loans.

The range of services offered by the investment business unit includes:

- asset-based financing, including commercial real estate mortgage loans;
- term loans and working capital finance;

- trade finance-related products;
- structured cash financing to meet large funding requirements of corporate customers;
- arranging and/or participating in syndications; and
- financing mergers and acquisitions.

Each financial package is specifically designed to suit the cash-flow requirements of the customer. For example, loan repayments may be linked to the projected cash flows from investments, rental proceeds and other operational income.

Services business unit

The services business unit aims to meet the diverse financing requirements of service-oriented businesses such as educational and training institutions, cleaning companies, money exchanges, hospitals and clinics, hotels, large-scale retailers and electro-mechanical service providers.

The working capital cycle and the financing requirements of these companies generally vary in line with the nature of the services provided by them. The services business unit offers a wide range of credit lines, tailored to suit the specific operational and financial requirements of such companies, including working capital finance, short-, medium- and long-term loans, LCs and guarantees.

Financial institutions business unit

The financial institutions business unit was established to provide customers with professional and innovative solutions to their business and financing requirements. This business unit oversees and manages the Group's relationships with local non-bank financial institutions and local investment companies and groups by providing and arranging credit facilities on a bilateral or syndicated basis.

Trading business unit

The trading business unit caters to the financial needs of a large number of trading companies engaged in diversified trading activities, including consumer durables, consumer electronics, automobiles, textiles, equipment trading, commodities trading and merchant trading. The trading business unit offers tailor-made packages and solutions to suit its clients' funding requirements at various stages of trading activities, from procurement of goods to sales realisation.

The range of services offered by the trading business unit includes:

- working capital finance to fund its clients' receivables and/or inventory holdings;
- bill discounting;
- short- and medium-term loans;
- LCs and LC refinancing; and
- guarantees.

Infrastructure business unit

The infrastructure business unit was established in 2014 to serve the entities participating in major government projects under the Kuwait Development Plan. The infrastructure business unit serves the financial needs of public and private companies executing high value contracts as well as directly financing the projects. The infrastructure business unit provides tailor-made banking solutions for large infrastructure projects (such as engineering, procurement and construction (EPC) projects; public private partnership (PPP) projects; build operate and transfer (BOT) projects and build own and operate (BOO) projects) across various industry sectors.

The infrastructure business unit's offerings include financing products structured in line with the specific needs of the contracts or projects concerned and a full range of cash facilities, including overdrafts, bills discounting, term loans, LCs, guarantees and derivatives for hedging a range of currency and interest rate risks.

Middle Market business unit

The Middle Market business unit works with its customers to understand their business and financial needs and seeks to offer them comprehensive banking solutions. The range of services offered by this business unit includes:

- working capital finance;
- invoice discounting;
- short- and medium-term loans;
- mortgage loans;
- LCs and guarantees; and
- domestic and international payments.

Contracting business unit

The contracting business unit's customers comprise large companies engaged in executing high-value infrastructure projects, such as the construction of roads and bridges, power and oil sector installations, pipeline projects and large housing projects.

The contracting business unit offers one-stop financial solutions addressing entire contract financing requirements from tender guarantees for contract bidding through to completion of the project. The range of services offered by the contracting business unit includes:

- the issuance of guarantees;
- LCs for the procurement and/or import of materials;
- short- and medium-term loans for the purchase of equipment and/or meeting mobilisation expenses;
- overdraft facilities to meet working capital requirements;
- progress payment financing to meet short-term cash-flow imbalances; and
- LC refinancing to cover short-term financial requirements.

Financial packages are structured to take into account contract cash-flows and loan repayments are linked to progress payments receivable under the contract. Financing is normally advanced only against assignment of the contract proceeds.

Corporate merchant services business unit

The corporate merchant services business unit offers POS services to merchants in Kuwait. The Bank's POS terminals are driven by the Knet system, which accepts all locally issued debit cards and all the major credit cards. The payment gateway services offered by the business unit allow merchants to view funds collected for their products and services over the internet.

Retail banking division

The Group offers a wide range of retail banking products and related services in Kuwait through its integrated distribution network, comprising branches, ATMs and other remote banking platforms. In addition, the Group

has a direct sales force which markets its retail products and services to its customers. The Group's retail banking products principally include a range of loans, deposits and cards.

A key focus of the Group's current strategy is increasing revenue growth from its retail business in Kuwait. See "*—Strategy—Retail growth*" above. In line with this strategy, the Group continues to consider, on an opportunistic basis, additional growth through the acquisition of retail portfolios from third party originators. For example, in January 2015 the Group purchased a portfolio of car loan receivables from Al Soor Finance Co. K.S.C.C. for just under KD 16 million. In addition, the Group has ongoing arrangements with Kuwait Finance and Investment Company K.S.C.P. and Al Mulla International Finance Company KSCC which originate car loans that the Group purchases on a monthly basis, with the acquired portfolio being KD 13.9 million at 31 December 2016. Both portfolios are managed by the seller which is paid a management fee by the Group and the Group's exposure to NPLs arising from the acquired portfolios is contractually limited.

The Group offers its retail banking customers a wide range of banking services, including:

- *Deposits*: The Group has a range of deposit products, including salary-based and student current accounts, interest-bearing savings accounts for adults as well as young children and a number of term deposit accounts with tenors ranging from one week to three years. In addition, the Group's Al Manal term deposit pays interest like a fixed term account but allows full or partial withdrawal of the account balance at any time without penalty.

- *Loans*: The Group's loan products principally include consumer and instalment loans with repayment terms extending up to five years and 15 years, respectively. In accordance with CBK regulations, consumer loans have a maximum tenor of five years and a maximum amount of KD 15,000 and can be only be used for the purpose of paying medical and education expenses, purchasing furniture and cars or paying other personal expenses. Interest rates on consumer loans are fixed at the CBK discount rate plus 3 per cent. for the period of the loan. Instalment loans have a maximum tenor of 15 years and a maximum amount of KD 70,000 and can be used to purchase or renovate a private property. Interest rates on instalment loans are fixed for the first five years at 3 per cent. above the CBK discount rate and thereafter may be revised up or down by no more than 2 per cent. depending on the CBK discount rate at the time of the revision. All consumer and instalment loan customers are required to provide proof of debt in accordance with CBK requirements. Typically consumer and instalment loans are granted against the customer's salary or pension being paid to an account with the Group, although the Group does offer a small number of loans without this requirement. Consumer and instalment loans are only offered in Kuwaiti dinar. In addition to consumer and instalment loans, the Group also offers loans against collateral in Kuwaiti dinar, U.S. dollars, pounds sterling, euro and Japanese yen.

- *Cards*: The Group provides a range of Visa credit cards. The Group's cards are aimed at different customer segments based on income and offer a range of benefits that vary based on the card type. The Group has an exclusive co-brand arrangement in Kuwait with Emirates Airline on its premium Visa credit cards and Visa prepaid cards. The Group was the first bank in Kuwait to offer a single multi-currency card. The Group offers these cards pre-loaded with up to 10 currencies. Customers using their cards to make purchases in Kuwait in dinar or to make purchases in any other currency are able to earn Emirates Airline Skywards miles. In each of 2014, 2015 and 2016, the total spend on the Group's cards was KD 699 million, KD 792 million and KD 821 million, respectively, with the majority of the spend being on debit cards. As at 31 December in each of 2014, 2015 and 2016, the Group had 184,184, 181,367 and 174,336 active cards in circulation.

Applications for both loans and credit cards can be made through the Group's branch network, direct sales force, telebanking or through the internet. Consistent with its credit risk management strategy, the Group prioritises attracting loan and credit card customers with good credit standing. Loan and credit card applicants

are screened and credit limits are assessed according to the Group's credit policy based on demographic and financial factors and the past credit behaviour of the customer in question, while ensuring strict adherence to relevant CBK regulations.

The Group's principal distribution channels in Kuwait comprise:

- *Branch network*: The Group had a network of 30 branches in Kuwait and an ATM and customer deposit-machine network of 136 machines at 31 December 2016.
- *Telebanking*: The Group provides automated banking by telephone to its customers and also operates a call centre on a 24/7 basis. These services can be used by customers in Kuwait and abroad to conduct a variety of transactions, including credit card payments, transfers between accounts, requesting statements, releasing holds on customer accounts, requesting balances, statements and new cheque books, referring customers to apply for new products (such as accounts, cards and loans), reporting lost or stolen cards and making other enquiries or complaints. During 2016, the Group's call centre in Kuwait handled close to 265,000 calls.
- *Internet banking*: The Group's e-Ahli internet banking platform had approximately 54,600 registered online banking customers at 31 December 2016 with around 52,500 transactions executed during 2016. The services provided to accountholders through the platform include account balances, history and transaction detail enquiries, funds transfers, bill payments and cheque book ordering.
- *SMS and mobile banking*: The Group's customers can use its SMS banking services to receive regular account updates and SMS alerts and to make balance enquiries, view share prices and check foreign exchange rates. The Group also offers a mobile banking application that, among other things, allows account balance checking, local and international fund transfers and credit card payments. The Group had approximately 75,000 registered SMS and mobile application banking subscribers at 31 December 2016 with approximately 56,400 transactions executed during 2016.
- *Direct sales force*: The Group has a 40-member direct sales force in Kuwait which currently includes three members who are located within car dealerships in the peak afternoon periods.

Treasury and Investments reporting segment

The Group's Treasury and Investments reporting segment comprises the activities of the Treasury and Investments division and Ahli Capital and encompasses the Group's money market, foreign exchange, treasury bonds, assets and surplus fund management and other investment securities activities. This division is principally concerned with balance sheet management rather than acting as a profit centre in its own right.

Treasury and Investments division

The Group's treasury manages the Group's assets and liabilities and liquidity requirements under the supervision of the Assets and Liabilities Committee ("**ALCO**"), which meets monthly to monitor and review all aspects of the Group's liquidity profile, asset and liability structure and internal and statutory ratio requirements. Cash-flow requirements as well as foreign exchange activities in each of the Group's locations are managed by the respective treasury of that location, under the supervision of Group's treasury. Asset and liability management, including liquidity management, is managed by the treasury.

In addition, the Group's treasury:

- manages the money market books and money market funding positions for the Group's own account to fund its domestic and international foreign-currency assets;

- undertakes a range of foreign exchange business, across spot, forward and option markets, largely on behalf of the Group's customer base, and conducts a limited amount of proprietary foreign exchange trading within the constraints of what the Group considers to be prudent risk guidelines; and
- maintains a portfolio of Kuwaiti government treasury bills and bonds to meet relevant CBK requirements and to manage surplus domestic currency liquidity.

The Group's investment unit is responsible for managing the Group's fixed income proprietary portfolio with the objective of realising income while minimising the risk of default. The unit combines a bottom-up fundamental credit-research-driven investment process with a top-down macro-economic analysis. The portfolio is diversified, investing in fixed income securities issued by emerging and developed markets' corporates and sovereigns. The securities are denominated in hard currencies and carry investment-grade ratings. The investment unit is also responsible for the management and administration of securities acquired in the process of debt settlement.

Ahli Capital

Ahli Capital was established in June 2006 to be the main investment arm of the Group. Ahli Capital seeks to create long-term growth for its clients and shareholder by providing quality investment services through a team of experienced professionals. Its activities include fund and portfolio management (equities) and corporate advisory services to corporate and individual customers. It also acts as a custodian of collateral for the Group. The Group is currently developing within Ahli Capital a wealth management business which will focus on selling third party products (rather than developing and selling its own products) to serve its high net worth customer base.

Ahli Capital currently manages the Al Ahli Kuwaiti Fund and the Al Ahli Gulf Fund, in which the Bank has holdings, and also manages client investment portfolios. As at 31 December 2016, Ahli Capital had KD 346 million assets under management.

The Al Ahli Kuwait Fund aims to achieve capital growth through active investment management, targeting the securities of companies listed on the Kuwait Stock Exchange. The Al Ahli Gulf Fund aims to achieve capital growth through investment in the securities of companies listed on GCC stock exchanges. Both funds seek to achieve returns and capital gains exceeding the level of return in their respective markets, but within an acceptable degree of investment risk. The Al Ahli Gulf Fund can also invest its available financial surpluses in any money markets instruments.

International reporting segment

The Group's International reporting segment encompasses the operations of its UAE branches and its ABK Egypt subsidiary. Delivering increased revenue growth through its international business is an important strategic focus for the Group. See "—*Strategy—International growth*" above.

Overseas branches

The Group was the first Kuwaiti bank in the UAE and currently has two branches, located in Dubai and Abu Dhabi, respectively. The Group has been operating for over 40 years in Dubai where its branch was originally opened to support the needs of Kuwaiti businesses in Dubai. The Group's branch in Abu Dhabi was opened in 2009, since when the Group has expanded its UAE activities to provide retail deposit taking services to customers in the UAE, as well as a range of financing and treasury solutions to corporate customers. These include working capital, structured, contract, project and term financing, trade finance, money market and foreign exchange solutions and syndicated and corporate advisory services. The Group is aiming to continue to increase the business undertaken by its UAE branches in a cautious manner and only in market segments where it believes that it has a competitive advantage. The Group expects to grow its physical footprint in the UAE over time and to assess opportunities for local acquisitions if and when they occur.

ABK Egypt

In November 2015, the Group acquired ABK Egypt as a subsidiary. ABK Egypt, a mid-size bank operating in Egypt, was founded in 1978.

ABK Egypt provides the Group with revenue and asset diversification and an opportunity to leverage economic links between Kuwait and Egypt (such as trade flows between the two countries, additional business from Egyptian expatriates working in Kuwait and Kuwaiti businesses with operations in Egypt). In addition, the Group seeks to benefit from the higher margins and growth rates experienced in Egypt compared to the Kuwaiti market.

ABK Egypt provides services to its customers in corporate banking, retail banking, treasury and leasing (through a subsidiary). It operates through its 39 branches, 85 ATMs, internet banking and a call centre.

ABK Egypt had a capital adequacy ratio of 22 per cent. after including profits from 2016 (calculated in accordance with Basel II methodology) as at 31 December 2016.

ABK Egypt provides a wide range of financial services to its customer base of corporates, individuals and SMEs. It also has a treasury division that provides foreign exchange services, asset and liability management (to manage the overall liquidity and funding of ABK Egypt), interest rate and foreign exchange, and handles the liquidity requirements of ABK Egypt. This division also supervises the investment of ABK Egypt's capital in accordance with established guidelines.

As at 31 December 2016, ABK Egypt served over 150,000 clients.

Its retail offering is based on a customer-centric approach with a product range that includes current and saving accounts, term deposits, saving certificates, payroll accounts, retirement and protection products, consumer loans, automated payments, credit and debit cards and banc-assurance products. ABK Egypt's retail customer base accounts for 76 per cent. of its total deposits and 27 per cent. of its total loans.

The corporate banking division is the main business segment for ABK Egypt, accounting for approximately 72 per cent. of the bank's loans and advances to customers and approximately 17 per cent. of its deposits as at 31 December 2016. The division offers loans, trade financing and deposit products. Its corporate customers comprise:

- SME customers with an annual turnover of less than EGP 100 million which accounted for approximately 17 per cent. of ABK Egypt's corporate loan exposure at 31 December 2016;
- medium corporate clients with a turnover in the range of EGP 100 million to EGP 500 million, which accounted for approximately 23 per cent. of ABK Egypt's corporate loan exposure at 31 December 2016; and
- large corporate customers with turnover above EGP 500 million, which accounted for approximately 60 per cent. of ABK Egypt's corporate loan exposure at 31 December 2016.

At 31 October 2016, ABK Egypt accounted for slightly over 0.38 per cent. of total banking sector assets in Egypt.

International banking division

The international banking division operates from the Group's head office in Kuwait and is responsible for the Group's relationships with major international banks and correspondent banks around the world, including the Nostro and Vostro accounts for and with the Group. The Group has SWIFT arrangements with over 1,000 banks internationally and conducts accounts in all the major currencies. In the case of other currencies, the Group uses

its existing bank relationships to facilitate transfers. In addition, the international banking division manages the Group's multi-national corporate loan portfolio through relationship managers.

Competition in Kuwait

The Kuwaiti banking sector currently comprises five indigenous conventional commercial banks (the Bank, National Bank of Kuwait, Commercial Bank of Kuwait, Gulf Bank and Burgan Bank), branches of 11 other non-Kuwaiti conventional banks and a non-Kuwaiti bank operating according to the provisions of Islamic Sharia. In addition, a specialised bank (Industrial Bank of Kuwait) and six banks operating according to the provisions of Islamic Sharia (including the largest, Kuwait Finance House) are also licensed to operate in Kuwait.

The tables below show rankings for the six largest Kuwaiti banks by total assets, by customer deposits and by customer loans and advances as at 31 December in each of 2016 and 2015.

	At 31 December	
	2016	**2015**
	(KD million)	
Ranking by total assets[(1)]		
National Bank of Kuwait	24,204	23,598
Kuwait Finance House	16,272	16,527
Burgan Bank	7,269	6,825
Gulf Bank	5,467	5,438
The Bank	4,285	4,359
Commercial Bank of Kuwait	4,125	4,037

Source: 2016 annual financial statements for each bank.

Note:

(1) Total assets are based on consolidated figures and include international assets.

As at 31 December 2016, the Group's total assets represented 9.4 per cent. of the total assets of the Kuwaiti conventional commercial banking sector.

	At 31 December	
	2016	2015
	(KD million)	
Ranking by customer deposits[1]		
National Bank of Kuwait	12,608	12,059
Kuwait Finance House	10,662	10,839
Burgan Bank	3,737	3,874
Gulf Bank	3,395	3,837
Commercial Bank of Kuwait	2,222	2,546
The Bank	2,900	2,496

Source: 2016 annual financial statements for each bank.

Note:

(1) Customer deposits are based on consolidated figures and include international customer deposits.

As at 31 December 2016, the Group's customer deposits represented 11.7 per cent. of the total customer deposits of the Kuwaiti conventional commercial banking sector.

	At 31 December	
	2016	2015
	(KD million)	
Ranking by customer loans and advances[1]		
National Bank of Kuwait	13,611	13,551
Kuwait Finance House	8,176	8,127

	At 31 December	
	2016	2015
	(KD million)	
Burgan Bank	4,276	4,012
Gulf Bank	3,446	3,714
The Bank	3,029	3,047
Commercial Bank of Kuwait	2,250	2,297

Source: 2016 annual financial statements for each bank.

Note:

(1) Customer loans and advances are based on consolidated figures and include international customer loans and advances. Figures for National Bank of Kuwait include Islamic financing.

As at 31 December 2016, the Group's customer loans and advances represented approximately 1.4 per cent. of the total customer loans and advances of the Kuwaiti conventional commercial banking sector.

The Islamic banking sector in Kuwait is attracting a growing customer base, particularly among local cooperative and other similar bodies. A general prohibition on mortgages of private residences in Kuwait was introduced in 2008. However, in 2011 an exception was created in respect of Islamic banks only, allowing them to finance purchases of residential properties using a mortgage over the property as security. Accordingly, the principal competitive advantage enjoyed by Islamic banks is their ability to offer residential mortgage financing, which conventional banks are not permitted to do. Regulatory restrictions relating to interest rates and ratios for personal lending typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are capped, given there is no concept of interest in Islamic banking, the Islamic banks in Kuwait are able to earn better margins than conventional banks on their loan portfolios.

Information Technology

To meet changing business requirements, the Group's IT strategy is to invest significantly in technology, with a focus on refreshing technology in order to simplify and automate essential processes. See "—*Strategy—Managing other financial and operational aspects of the business*".

The Group has an offsite IT disaster recovery site located in Kuwait that can be activated when required. This is to ensure that all critical systems are fully operational in line with the Group's business continuity plan, in order to provide essential services to its customers. The Group carries out daily and other periodic data back-ups which are stored in the main data centre and replicated online (in real time) to the disaster recovery centre.

Additionally, the Group provides back-ups of all critical systems and data to an international location (which is in the UAE) in compliance with CBK instructions. The Group's information security office carries out various security assessments using external agencies and has adopted the latest technologies to assist in mitigating cyber threats. The controls and incident response procedures in place have minimised any adverse impact from cyber threats on services provided by the Group.

RISK MANAGEMENT

Risk Management Structure and Process

Overview

The Group's risk management operates through an independent enterprise-wide risk management framework. The Group has established comprehensive risk management frameworks for overseeing all material risks in accordance with regulatory instructions and these frameworks are in the process of being applied within ABK Egypt as well. The Group's risk management division consistently and continually monitors risks and processes to identify, assess, measure, manage and report on potential threats that could impact the achievement of the Group's objectives. Risk management policies, models, tools and systems are regularly reviewed to improve the framework and reflect market changes. In addition to credit risk, market risk and operational risk under Pillar I, the Group, in accordance with CBK instructions, also assesses additional risks and their impact on capital under Pillar II. These additional risks mainly comprise credit concentration risk, interest rate risk in the banking book, liquidity risk, remained operational risk, legal risk, strategic risk, reputation risk and others.

Risk management is guided by the Group's risk management framework that includes its risk management policies, governance standards through committee charters, risk appetite, risk measurement, risk reporting, stress testing models and methodology, and capital adequacy assessment matrices, all of which are approved by the Board. Risk is embedded in the decision making process on all risk types to enable the Group to manage the risks assumed within acceptable levels.

Risk appetite statement

The Group has an established risk appetite framework and risk culture designed to ensure that risks are taken and managed within the risk appetite through capital budgeting, established risk limits and other measures. The risk appetite framework sets out qualitative and quantitative thresholds for risk capacity and tolerance and provides the basis for:

- setting the risk-taking capacity;
- maintaining a risk buffer;
- setting risk limits within the Group's business strategy;
- setting risk parameters for overall business objectives; and
- establishing risk indicators for monitoring and reporting.

Accordingly, the objectives of the risk appetite framework include:

- supporting the strategic initiatives;
- embedding risk appetite into the Group's business culture;
- ensuring that the risk appetite is developed in accordance with the availability of capital;
- establishing boundaries for risk taking limits and thresholds;
- monitoring and enabling the measurement of both qualitative and quantitative risk parameters;
- evaluating risks in a consistent manner; and
- supporting stakeholder value maximisation by monitoring and improving expectations.

The Group's risk appetite statement is based on maintaining its capital adequacy ratio, its risk-adjusted return on capital ("**RAROC**"), the quality of assets under non-performing loans and geographic diversification, the external credit rating of the Bank, the earnings volatility and other metrics, such as those related to liquidity risk, operational risk and regulatory compliance. These parameters are then cascaded down to business units by setting a series of risk limits applicable for each business line.

Risk limits and thresholds

The Group sets risk limits through various policies governing different business areas. The risk appetite statements have been embedded within each risk management framework for managing credit, market, liquidity, operational, strategic and reputation risk. These appetite statements have been translated into specific risk limits and thresholds for managing risk levels within appetite levels.

Monitoring, control and reporting of risk appetite and limits

The Group monitors the risk appetite, risk limits and thresholds periodically through its monitoring, control and reporting mechanism with the aim of assessing the level of its risk exposures, so that appropriate corrective measures can be taken to maintain the exposure levels within an acceptable range.

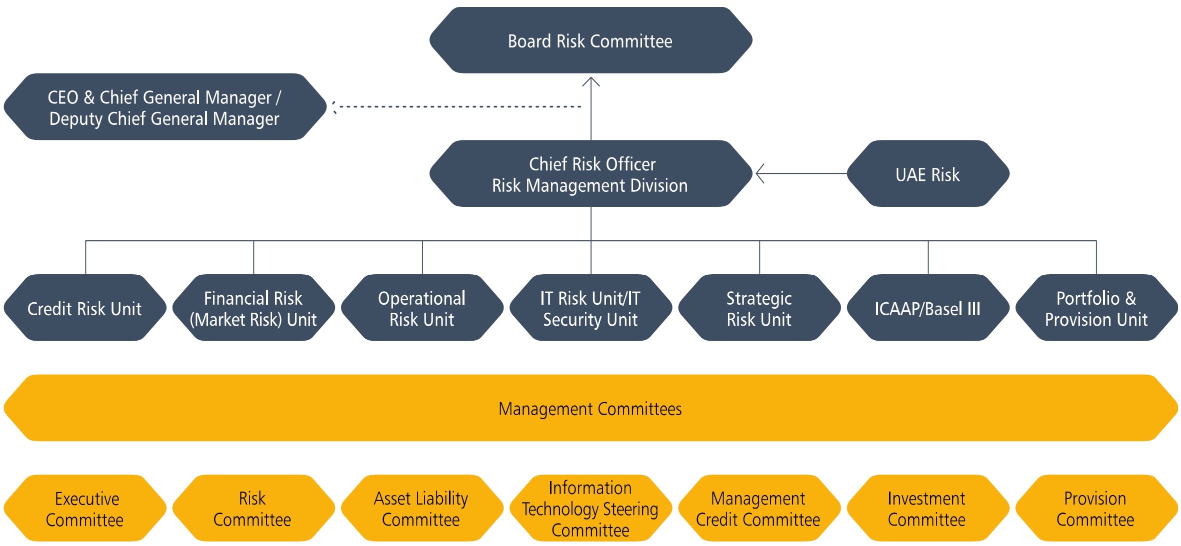
Risk control and governance

One of the goals of risk management is to ensure that the Group's asset and liability profile, its trading positions, and its credit and operational activities do not expose it to undue loss. Risk management assists in ensuring that risk exposures do not become excessive, relative to the Group's capital and financial positions. The Group maintains a limit monitoring system to mitigate all over-the-counter transactions. It also hedges its foreign exchange risk using forward contracts and spot transactions and its interest rate risk using interest rate swaps and cross currency swaps for balance sheet management.

Risk management includes the following four elements:

- Risk identification;
- Risk measurement;
- Risk monitoring; and
- Risk control.

The chart below illustrates the organisational structure of the Group's risk management division.



The risk management division reports directly to the Board Risk Committee and also to the Bank's chief executive officer (the "**CEO**").

The business units, along with the support units, risk management division and internal audit division, comprise the three components that ensure effective compliance with the control processes laid down for risk management in the Group. The risk management division, with the active support of the Board and senior management, is committed to instilling a risk-conscious culture throughout the Group.

Principal Risks

The principal risks faced by the Group are:

- **credit risk**, which is the risk of financial loss arising from the failure of a customer or counterparty to meet its obligations to the Group under a contract. It also includes the risk of loss in portfolio value as a result of credit quality migration from lower risk to higher risk categories;
- **market risk**, which is the risk that movements in market rates, including foreign exchange rates, equity prices, interest rates and credit spreads, will reduce the Group's income or the value of its portfolios;
- **liquidity risk**, which is the risk arising from the inability of the Group to meet its payment obligations on time without incurring unacceptable losses and principally arises in the course of its general funding activities; and
- **operational risk**, which is the risk of loss arising out of policy or procedure breach or a process breakdown and includes fraud, unauthorised activities, error, omission, inefficiency, systems failure and external events.

Credit Risk

Credit risk management

Credit risk is the most significant risk to which the Group is exposed, and proactive management of credit risk is key to ensuring the Group's long-term success.

Corporate credit risk management

The Group has a comprehensive due diligence system to assess and approve corporate credit facilities and well-defined policies for controlling and managing credit risk at the counter-party, group, economic sector and country levels.

It also has a robust system of borrowers' risk ratings to assess the default risk of corporate borrowers. Credit borrowers are graded from 1 to 10, with one being excellent and 10 being bad. Changes in the ratings of the Group's borrowers are monitored annually. The Group follows Standard & Poor's rating methodology to measure counterparty credit risk. The risk rating process generates both obligor risk ratings ("**ORRs**") and facility risk ratings ("**FRRs**"). An ORR is a mix of quantitative and qualitative factors. Financial risk of the corporate borrower is captured through indicators on revenues, earnings, profits, equity cash flows and leverage ratios. Qualitative factors include competitiveness, industry and management. A FRR considers the loss protection afforded by assigned collateral, loan structure and other support. The computation of loss given default ("**LGD**") is based on Basel principles.

The Group manages credit concentration in compliance with the CBK directives on single obligor ceilings. Additionally, concentration risk in the Group's credit portfolio is managed by fixing internal limits for customer, sector and collateral concentrations. The Group has internally developed models to assess concentration risk in

these areas. The Group's exposure against its concentration limits (including any breaches) is assessed and reported to senior management at quarterly intervals as part of the internal capital adequacy assessment process.

Credit committees

The Group commits new credit lines only after obtaining necessary written approval from the appropriate level of authority. In order to ensure smooth day-to-day functioning of the credit approval and granting process, the Board has delegated credit approval authority to the following committees:

- Board Credit and Investment Committee (the "**BCIC**");
- Management Credit Committee (the "**MCC**"); and
- Corporate Credit Committee (the "**CCC**").

All new credit proposals along with reviews of and material changes to existing credit facilities are evaluated and approved by the appropriate credit committee. The credit committees exercise the authorities vested in them in accordance with the approved charter and/or approval authority matrix. The Group's international offices have their own hierarchy of credit committees.

The administration of credit facilities, compliance with approved terms and conditions, completion of facility and security documentation and regular post credit granting functions are carried out by an independent unit to ensure continuous monitoring and control of credit in accordance with the Group's policies.

Consumer credit risk management

The Group's consumer credit risks are managed through an independent risk management unit, which works closely with the retail banking division. Consumer credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers.

Within this framework, all credit exposure limits are approved within a defined credit approval authority structure. Policies and procedures specific to each business/product lines are approved by Board. The Group 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.

Classification of the loan portfolio

The Group rates its corporate borrowers from 1 to 10.

With international borrowers and foreign financial institutions, the Group relies on credit rating agencies for credit grading assessments, including political risk assessment, and deals mainly with investment grade borrowers and countries. The Group uses Standard & Poor's, Moody's and Fitch Ratings for claims on sovereign and bank exposures, choosing the higher of the lowest two ratings for assigning risk weight to an exposure.

The Group adopts the following mapping notations to link public issue ratings with comparable assets in the Group's book. It uses the long-term rating for this mapping.

S&P Rating	ABK Revised Risk Grade
AAA/AA/A	1/2/3
BBB/BB/B	4/5/6
CCC/CC/C	7/8/9
D	10

All corporate and sovereign credit requires an independent credit risk review. Borrower exposures are controlled through exposure limits and whenever the Group's exposure exceeds a stipulated limit, the BCIC's approval is required from appropriate approving authorities. Credits extended to members of the Board are approved strictly in accordance with CBK requirements and executed on an arm's length basis.

The table below shows a classification of the Group's loan portfolio by credit quality as at 31 December in each of 2016 and 2015.

	Neither past due nor impaired				
	High[(1)]	**Standard[(2)]**	**Acceptable[(3)]**	**Past due including individually impaired[(4)]**	**Gross maximum exposure**
			(KD million)		
31 December 2016	2,667	91	114	157	3,029
31 December 2015	2,680	106	144	117	3,047

Notes:

(1) Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and repayment capacity which are considered to be good to excellent.

(2) Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired.

(3) Credit exposures classified as "Acceptable" are facilities that are rescheduled or included in the Group's internal watchlist.

(4) This category includes KD 124 million (KD 84 million at 31 December 2015) which was past due for less than 90 days. All loans which are past due for more than 90 days are impaired.

Credit monitoring

Credit monitoring is an integral part of the Group's lending activity and is carried out by an independent unit to ensure that there is no conflict of interest with the business divisions. Credit monitoring is a continuous process that provides regular feedback about the account performance to identify early warning signals and take timely corrective actions, if any are required. Effective credit monitoring ensures proper usage of loan funds and reduces loan losses which in turn maximises returns to the Group.

Credit monitoring comprises the monitoring of:

- the adherence of the borrower to the approved terms and conditions of a loan;
- account performance to ensure regular conduct of account operations and the sustained financial position of the borrower;
- adherence to the CBK and other statutory rules and regulations;
- adherence to the Group's policies, guidelines and procedures; and
- completion of facility and security documentation.

The total portfolio credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in credit quality and portfolio performance as well as changing external factors such as economic and business cycles.

A specialised problem loan workout team handles the management and collection of problem credit facilities.

Credit risk mitigation strategy

Portfolio diversification is the cornerstone of the Group's credit risk mitigation strategy, which is implemented through customer, industry and geographical limit structures. Group limits for the Bank are capped at 15.0 per cent. in line with CBK regulations. This does not apply to government and quasi-government entities, agencies and departments in the GCC countries that do not work on a commercial basis or to banks.

The Group also measures its concentration levels across sectors, geographies and products to ensure and enhance the portfolio oversight and diversification.

Credit risk mitigants, such as collateral and guarantees from third parties, are effective mitigating factors within the Group's portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of syndications, risk participation arrangements with other banks and the sale of loans are additional practices used to manage the Group's exposures.

The main types of collateral accepted by the Group are:

- cash collateral;
- quoted shares;
- bank guarantees; and
- commercial and investment category real estate.

In accordance with the Group's credit policies, banks, creditworthy companies and individuals with a high net worth are accepted as guarantors, subject to credit risk assessment. Further, in accordance with the CBK Basel III framework, only cash collateral, quoted shares, eligible debt instruments and units in collective investment schemes are recognised as risk mitigants for capital adequacy purposes. The eligibility of commercial real estate for capital adequacy purposes is being gradually phased-out as part of the CBK Basel III framework.

The custody and daily mark-to-market of financial collateral are performed independently of the business units. Real estate collateral is valued on an annual basis.

The Group is authorised to liquidate the portfolio of collateral at its discretion in the event of any default in the payment of the underlying loan. The most liquid collateral (such as cash and listed shares) can be liquidated within a matter of days and the proceeds applied to discharge the amounts outstanding on the relevant loan.

The collateral enforcement process in Kuwait in respect of real estate involves a number of steps. Given the fact that the relevant debtor and/or guarantor may raise objections at each stage, if enforcement is contested the typical time taken to finalise enforcement proceedings in relation to real estate is between 36 and 48 months and, in difficult cases, up to 60 months.

Consumer loans are generally not secured. However, before granting consumer loans, the Group requires that the customer's employer makes the customer's salary payments direct to the customer's account held with the Group.

Loan provisioning and write-off

Impairment of financial assets

The Group assesses, at each reporting date, if there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

In relation to the Group's customer loans and advances, which are typically carried at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be connected objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income.

Provisioning for liabilities are made in accordance with the rules and regulations issued by the CBK from time to time. In particular, in accordance with CBK instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not specifically provided for.

Past-due and impairment provisions

Credit facilities are classified as past-due when:

- an overdraft account exceeds 10 per cent. over the limit continuously;
- a current account is in debit balance without any authorised limit;
- a credit facility is not renewed/extended on expiry;
- an instalment due on the loan has not been repaid on its due date and/or
- interest accrued on a loan has not been settled on its maturity date, a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

Past-due and impaired facilities are managed and monitored as "irregular" facilities and are classified into the following four categories, which are then used to guide the provisioning process under both CBK guidelines and IAS 39 requirements:

- **Watchlist**, irregular for a period up to and including 90 days;
- **Substandard**, irregular for a period from and including 91 days and up to and including 180 days;
- **Doubtful**, irregular for a period from and including 181 days and up to and including 365 days; and
- **Bad**, irregular for a period exceeding 365 days.

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances. Reports on watch list accounts and irregular credits are monitored on an ongoing basis by the Provision Committee that meets on a fortnightly basis. Reports on irregular credits are also presented to the BCIC on a quarterly basis.

In relation to credit facilities which have been rescheduled by agreement between the Group and the customer, any previously-made provision is required to be maintained to meet the rescheduled credit facilities. When 25 per cent. of the rescheduled debt balance has been repaid, the Provision Committee may reduce the provision to an amount not less than 20 per cent. of the debt balance.

The general provision has to be maintained at minimum levels of 1 per cent. for cash facilities and 0.5 per cent. for non-cash facilities (net of certain categories of collateral) for all facilities in respect of which no specific provision has been made.

For a discussion of movements in the Group's specific and general provisions at 31 December in each of 2016 and 2015, see note 11 to the Financial Statements.

Market Risk

Market risk is the risk of adverse impact on the value of assets, liabilities or revenue from market conditions or movements in market rates and prices.

Market-sensitive assets and liabilities are generated through loans, investments and customer and proprietary trading operations. For measuring market risk in the trading book, all positions are marked to market daily and limits are approved and independently monitored. All exposures are independently monitored by the risk management division and appropriate limits are approved by the ALCO.

Market risk capital is also assessed under Pillar II for any concentration in trading positions, illiquidity in the markets and positions marked to model. The Group adopts a standardised approach to measuring its market risk.

Foreign exchange risk

Foreign exchange risk represents the Group's exposure to fluctuations in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include foreign currency-denominated loans and liabilities, future cash flows in foreign currencies arising from foreign exchange transactions, the Group's proprietary positions and customers' foreign exchange transactions.

The Group uses foreign exchange spot transactions, forward contracts and swaps to help insulate it against losses that may arise due to significant movements in foreign exchange rates. All foreign exchange exposures are managed by the Group's treasury and are marked to market on a daily basis. Limits have also been assigned with respect to overnight open exposures, stop loss and authorised currencies to monitor and help control foreign exchange exposures. The Group also uses Value at Risk ("**VaR**") on a daily basis, as well as other tools such as stress tests and scenario analysis to measure and monitor its foreign exchange risk.

See note 5C2 to the 2016 Financial Statements for an exchange rate sensitivity analysis based on a 5 per cent. change in the rate of exchange of certain currencies against the dinar.

Interest rate risk

The interest rate risk which the Group faces arises on account of a mismatch in re-pricing loans and deposits. The majority of the Bank's loans are re-priced in line with changes in the CBK's discount rate. However, the pricing of deposits is not linked to the CBK discount rate and so the interest rates on deposits do not necessarily get re-priced along with the re-pricing of loans. The mismatch that arises as a result gives rise to interest rate risk (basis risk).

The Group's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect its net interest income. Interest rate risk is measured as the potential volatility in net interest income caused by changes in market interest rates.

Exposures are quantified using interest rate re-pricing gaps. Earnings at risk limits are monitored and simulations used to estimate the impact of various interest rate scenarios on net interest income. These simulations incorporate assumptions of asset and liability re-pricing and maturity characteristics. Exposures against limits and simulation analysis are regularly monitored by the ALCO.

See note 5C1 to the 2016 Financial Statements for an interest rate sensitivity analysis based on a 25 basis point change in interest rates.

Under Pillar II, the Group carries out an internal assessment of capital for interest rate risk in the banking book and allocates specific capital for this risk.

Liquidity Risk

Liquidity risk is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations and meet contractual obligations through unconstrained access to funding at reasonable market rates.

The Group's projected liquidity needs are analysed and optimum alternatives to manage the liquidity risk are recommended. The risk management division identifies liquidity at risk, which is monitored and reported daily. Liquidity management policies and a contingency liquidity plan have been established by the Bank.

A liquidity stress test is conducted quarterly to assess the impact of the withdrawal of deposits and crystallisation of contingent liabilities in mild, medium and severe scenarios, under both Bank-specific and systemic scenarios. The concentration in deposits is monitored on a regular basis and reviewed by ALCO.

Liquidity risk appetite has been put in place with the following parameters – liquid assets, total assets, loans to deposits; cumulative negative maturity mismatch; funding source diversification; stress testing under a severe scenario; and capital consumption. These appetite parameters are used for driving liquidity risk and the exposure the Bank would be willing to take, and to manage risk levels within appetite levels.

Liquidity risk is further reduced by the Bank's adherence to the CBK's liquidity requirements, which comprise:

- maturity ladder mismatch limits for specific time periods: 10 per cent. for seven days or less; 20 per cent. for one month or less; 30 per cent. for three months or less; and 40 per cent. for six months or less;
- a requirement to hold 18 per cent. of KD customer deposits booked in the Bank, in Kuwaiti government treasury bills and bonds, current account/deposit balances with the CBK and/or any other financial instruments issued by CBK; and
- a requirement to keep sufficient funding against loan generation, as required by the CBK under its maximum available lending limit requirements.

Under Pillar II, liquidity risk is assessed for Bank-specific and general market scenarios, and capital provided to manage the risk.

The Group has also adopted the new liquidity coverage ratio requirements as well as the net stable funding ratio as advised by the regulator of the relevant entity, which are in line with Basel III recommendations.

Note 5B to the 2016 Financial Statements contains maturity profiles of assets and liabilities based on contractual cash flows and maturity dates and on contractual undiscounted repayment arrangements.

Asset Liability Management Risk

The risk management division plays a critical role in assessing the risk embedded in the Group's assets and liabilities. It recommends measures to manage the risks efficiently within the agreed risk appetite. The risk management division's role includes assessing the volatility and concentration of revenues; effectiveness in pricing to cover costs and risk; and facilitating and setting risk-adjusted return on capital hurdle rates.

The variability of net interest income in different scenarios is monitored, aiming to maximise net interest income within acceptable risk levels. The risk management division seeks to optimise its balance sheet management by conducting balance sheet reviews for managing yields through the optimal deployment of surplus liquidity and to manage costs by focusing on low-cost deposits and making recommendations to prudently manage cost of funds. Also, recommendations are made for the appropriate funding mix between local currency and foreign currency, thereby optimising the balance sheet returns within acceptable risk limits.

Operational Risk

Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Managing this risk relies on identifying risks that exist within the organisation; educating the employees on the operational risks they encounter in the course of their duties; and ensuring that the control framework works effectively.

The Group identifies and assesses the operational risk in products, activities, processes and systems. It also ensures that the associated operational risks are properly assessed and mitigated, before any new products or services, activities, processes or systems are introduced.

Risk identification is vital to the development of viable operational risk monitoring and control systems. Risk identification considers internal factors such as the Group's structure, the nature of its activities, the quality of its human resources, organisational changes and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

Operational risk models

The Group has developed operational risk models ("**ORMs**") that cover key risks identified in the Group's business and support areas through a self-assessment exercise and/or other risk assessment methods. The risks highlighted in the ORMs are discussed with the respective business units and are reviewed by the Risk Committee.

The Group has an operational risk VaR model to quantify its exposure by systematically tracking and recording the frequency and severity of individual error and loss events, and other relevant information, and also measures the losses through the operational risk VaR model.

Under Pillar II, remaining operational risk is assessed, using the VaR model, to internally assess all material operational risks.

Legal risks are assessed as part of the operational risk VaR model, and capital is assessed based on the impact and likelihood of material legal risk issues.

The Group's internal error/loss database captures material activities and exposures. It also tracks individual internal error/loss data (actual loss, potential loss, near misses and attempted frauds), mapping these into the relevant business lines. The Group also collects information about the date of events and recoveries, as well as

descriptive information about the causes and drivers of the loss events. The loss data events collected are analysed and any deficiencies in the Group's processes are remedied.

Control and mitigation of operational risk

The Group has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk exposures and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile. These include:

- ensuring that there is appropriate segregation of duties, and that personnel are not assigned responsibilities that may create a conflict of interest, or enable them to conceal losses, errors or inappropriate actions;
- implementing policies for managing risks associated with outsourcing activities. Outsourcing arrangements are based on robust contracts and service level agreements that ensure a clear allocation of responsibilities between external service providers and the Bank taking into consideration compliance and regulatory guidelines;
- ensuring adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively;
- ensuring IT risk and IT security controls provide adequate IT processes for mitigating risks in IT systems and information security;
- reviewing insurance cover to mitigate operational risk; and
- implementing a disaster recovery plan and a business continuity plan. The disaster recovery plans are regularly tested for processing transactions from the disaster recovery site.

Strategic Risk

The Group defines strategic risk as the current or prospective impact on the Group's earnings, capital and risks arising from changes in its operating environment, from adverse strategic decisions, improper implementation of decisions, or a lack of responsiveness to industry strength, economic direction or technological changes. The Group has a strategic risk framework to identify, measure, monitor and report strategic risk exposures. The principal strategic risks arise from:

- an inadequate strategic governance framework;
- an inadequate identification of factors that impact the strategy and/or business plans;
- insufficient planning and resource allocation process;
- failure in the execution of plans, projects and initiatives; and
- issues related to environment dynamics – internal and external including products, services and Group practices.

Strategic risk is primarily assessed in terms of the controls available to mitigate such risks and the Group's ability to successfully implement its goals under its long-term strategic plan. Matrices have been developed to monitor and measure risk, using a scorecard process to assess strategic risks to the strategic plan, and to consider whether the Group has adequate capacity to withstand those risks against the stated/approved risk appetite. Capital is assessed based on a metric score, taking into account all strategic initiatives that impact the business and earnings through a self-assessment exercise.

Reputational Risk

Reputational risk is defined as the risk of a current or prospective negative impact on the Group's earnings or capital arising from damage to the Group's reputation in the perception of major stakeholders. The Group seeks to manage reputational risk through a reputational risk management framework that focuses on:

- identifying key reputational risk indicators under each driver;
- establishing the roles and responsibilities of different entities in the reputational risk assessment and management process; and
- developing a formalised and structured approach for managing risks to the Group's reputation.

The Group has identified various reputational risk indicators and has classified these under 12 drivers: customer satisfaction; financial soundness; corporate governance; management integrity; business practice; risk management and control environment; regulatory compliance; transparency; media and rumours; corporate culture; staff competence; and crisis management. These parameters are used for assessing and managing reputational risk.

Under Pillar II, the Group assesses reputational risk based on reputational risk scorecards to assess risk through key drivers that influence the Group's reputation in the perception of its significant stakeholders.

Derivatives

The Group utilises derivative financial instruments in the ordinary course of its business to manage its exposure to fluctuations in interest and foreign exchange rates. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instruments, reference rates or indices. Derivative transactions result, to varying degrees, in credit as well as market risks. The Group transacts in derivative instruments both as principal, solely to manage its own financial risk, and on behalf of its clients. In the latter case, the Group covers the exposure which it assumes on a back-to-back basis with market counterparties to avoid taking any market risk. The Group is currently party to interest rate swaps for its own account and forward foreign exchange contracts for its own account and on behalf of clients. The fair values and contractual amounts of its positions in these instruments are listed in note 24 to the 2016 Financial Statements.

Compliance

Overview

The Group's compliance function is responsible for overseeing and managing compliance aspects across the Group through a robust compliance framework. It also ensures the Group's compliance with applicable laws and regulations and CBK and CMA guidelines and internal instructions. The compliance function is headed by the General Manager Board Affairs.

The compliance framework consists of compliance policies and procedures and compliance is monitored through timely reports.

The Group's compliance programme is built on a foundation of a sound understanding of the appropriate regulatory requirements, communicating internally compliance requirements and advising deviations through effective monitoring and review mechanisms, and escalating breaches for remedial action.

Anti-money laundering (“AML”) and counter-terrorism financing (“CTF”)

The Group AML and CTF measures take account of the Financial Action Task Force recommendations, international sanctions lists (such as those of the United Nations, the European Union and the US Office for Foreign Assets Control), applicable AML-related laws and regulations and the guidelines of the central banks of the countries in which it operates.

The Group’s AML/CTF policies apply customer due diligence principles for applicants and customers which include the following:

- all new customers being identified and verified;
- all customers being screened against all prohibited lists to ensure full compliance with international sanctions lists; and
- all outward and inward transfers being screened to comply with all sanctions lists.

Customer transactions are monitored on a daily basis under a risk-based approach to ensure that no money laundering transactions are conducted. In addition, the Group conducts enhanced due diligence in relation to high-risk customers.

Internal Audit

The Group’s internal audit division is an independent function that reports to the Board Audit Committee. The Board Audit Committee has three non-executive members including its Chairman and meets at least quarterly.

The Board Audit Committee’s main responsibilities are to:

- review the scope, findings and adequacy of the Group’s internal and external audit;
- consider accounting issues having a material impact on the financial statements;
- review the Group’s internal control systems and ensure that resources provided for control functions are sufficient; and
- review the Group’s financial statements before they are presented to the Board and ensure that all provisions made are adequate.

The internal audit division is headed by the Chief Internal Auditor. Its primary role is to evaluate and improve the effectiveness of the Group’s risk management, control, and governance processes through independent and objective reviews of the Group’s operations, risk management framework, processes, policies and governance arrangements. The division undertakes its activities through an approved risk based audit plan.

Internal audit results are discussed with the Group’s management and reported to the Board Audit Committee. All internal audit findings are discussed with management and tracked through an electronic issue tracking system. Updates on the status of audit findings are presented to the Board Audit Committee.

A continuous auditing process has been implemented with the objectives of raising control-related issues outside the routine audit cycle and laying the foundations, with other assurance providers, to introduce synergies in the overall efforts of the second and third lines of defence, whilst maintaining internal audit’s objectivity and independence.

MANAGEMENT AND EMPLOYEES

Management

Corporate governance framework

The Group's corporate governance framework is based on principles and standards defined by leading professional bodies and regulatory authorities and is embedded into the day-to-day business and practices of the Group. The framework is designed to secure effective oversight of the Group's strategy and business operations with a robust risk management approach, transparency and accountability.

The Board reviews and updates the corporate governance framework on an annual basis, senior management ensures that it is implemented through policies and procedures, and employees follow the corporate governance requirements in their day-to-day business.

The Group is committed to providing timely, consistent and accurate information to its stakeholders and has adopted a disclosure and transparency policy to ensure that this is achieved. This policy covers a wide range of areas, including the key quantitative and qualitative information related to financial performance and financial stability, risk management factors, remuneration, corporate governance, related-party transactions, conflicts of interest and substantial changes in business.

Board

The Group operates under the direction of the Board, which comprises nine non-executive members. Each member of the Board is elected during a shareholders' general assembly meeting for a period of three years and each member can be re-elected for an unlimited number of additional three-year terms. In line with CBK requirements, the Board convenes at least once each quarter. The Board convened 10 times in 2016 and nine times in 2015.

The Board has overall responsibility for the Group, including overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values. The Board also appoints the CEO and certain other members of the executive management team. It also monitors and oversees the actions of the executive management team, including their performance against the performance targets set by the Board.

The roles of the Board Chairman and the CEO are separate and independent of one another and there is a clear segregation of duties and responsibilities. The Chairman's responsibilities include ensuring that Board decisions are taken on a sound and well-informed basis, building a constructive relationship between the Board and executive management and ensuring high levels of corporate governance within the Group.

The table below shows the names of the members of the Board as at the date of this Prospectus.

Name	Position
Talal Mohamed Reda Yousuf Behbehani	Chairman
Salah Ahmed Al Serhan	Deputy Chairman
Khalid Othman Abdul Wahhab Al Othman	Director

Name	Position
Ali Ibrahim Hejji Hussain Marafi	Director
Adel Ibrahim Yali Ahmed Behbehani	Director
Prasanna Dattatray Hardikar	Director
Khaled Abdullah Mohamed Al Mishari	Director
Ali Mohammed Abdullah Al Shuraidah	Director
Sulaiman Abdallah Sulaiman Al Muraikhi	Director

Detailed below is brief biographical information about each member of the Board.

Talal Mohamed Reda Yousuf Behbehani

Mr. Talal Behbehani has been a Board member since April 2007. He was appointed as Chairman of the Board in December 2014 (having served as Vice-Chairman of the Board since March 2014). He is also Chairman of the Board Corporate Governance Committee.

Mr. Talal Behbehani has also been a board member of Kuwait Insurance Co. since 2004 and A'ayan Leasing & Investment Co. since 1999 and was a board member of the Industrial Bank of Kuwait between 1996 and 1999 and again between 2003 and 2007.

Mr. Talal Behbehani gained a Bachelor of Arts degree in English Language from Kuwait University in 1992.

Salah Ahmed Al Serhan

Mr. Al Serhan has been a Board member since March 1987. He was appointed as Deputy Chairman of the Board in December 2014. He is also Chairman of the Board Audit Committee and Deputy Chairman of the Board Risk Committee.

Mr. Al Serhan was also a board member of Kuwait Clearing Co. from 1988 to 2015.

Mr. Al Serhan gained a Diploma in Electronic Engineering in the United States in 1965.

Khalid Othman Abdul Wahhab Al Othman

Mr. Al Othman has been a Board member since March 2004. He is also Deputy Chairman of the Board Nomination & Remuneration Committee and a member of the Board Credit & Investment Committee.

Mr. Al Othman was a board member of Gulf Bank between 1992 and 1999, deputy chairman of Kuwait National Cinema between 1984 and 2004, deputy chairman and chief executive officer of Al-Hamra Real Estate Co.

between 2004 and 2014 and chairman and managing director of Ajial Real Estate and Entertainment Co. between 1996 and 2014.

Mr. Al Othman gained a Bachelor's degree in Statistics and Economics from Kuwait University in 1978.

Ali Ibrahim Hejji Hussain Marafi

Mr. Marafi has been a Board member since March 2004. He is also Chairman of the Board Credit & Investment Committee, Deputy Chairman of the Board Corporate Governance Committee and a member of the Board Nomination & Remuneration Committee.

Mr. Marafi has been the deputy chairman of United Real Estate Co. since 1995 and a board member of Commercial Facilities Co. since 1992. He was also the Chairman of American Services Co. between 1995 and 1998.

Mr. Marafi gained a Bachelor's degree in Economics and Political Sciences from Kuwait University in 1973.

Adel Ibrahim Yali Ahmad Behbehani

Mr. Adel Behbehani was appointed to the Board of Al Ahli Bank of Kuwait in March 2016. Prior to this he was the Credit Manager at Gulf Bank between 1987 and 1999, and a Senior Executive Manager at Commercial Bank of Kuwait between 1999 and 2013.

He obtained a Bachelor of Commerce and Accounting from Kuwait University in 1987.

Prasanna Dattatray Hardikar

Mr. Hardikar has been a Board member since August 2013. He is also Chairman of the Board Risk Committee and Deputy Chairman of the Board Audit Committee.

Mr. Hardikar holds no other board memberships.

Mr. Hardikar gained a Bachelor of Commerce in Accounting from the University of Poona, India, in 1983 and is an Associate of the Institute of Chartered Accountants in India.

Khaled Abdullah Mohamed Al Mishari

Mr. Al Mishari has been a Board member since August 2013. He is also a member of both the Board Credit & Investment Committee and the Board Corporate Governance Committee.

Mr. Al Mishari was the chairman of Al Mabani Co. between 2000 and 2005 and a board member of Gulf Bank between 1978 and 1989, Kuwait Commercial Facilities Co. between 1977 and 1983, Kuwait Cement Co between 1976 and 2005 and Kuwait United Bank, London between 1981 and 1989. He was also a board member of the Kuwait Higher Council of Planning between 1984 and 1989.

Mr. Al Mishari gained a Bachelor's degree in Economics from Kuwait University in 1971.

Ali Mohammad Abdullah Al Shuraidah

Mr. Ali Al Shuraidah was appointed to the Board of Ahli Bank of Kuwait in March 2016. He has held the position of General Manager at Cyberspace Consulting and Information Technology since 2010. Prior to this he was the Managing Director and General Manager of International Integrated Computer Systems Co. between 1982 to 1987, General Manager of the Information Centre at Dallah Group Co. in Jeddah, Kingdom of Saudi Arabia between 1990 to 1991, Assistant Secretary General at the General Secretarial of the Council of Ministries between 1992 to 2006, and the Under-Secretary at Information Technology Centre, Council of Ministries between 2006 to 2010.

He obtained a Master's Degree in Electronic Engineering & Computer Science from Ohio University in 1978.

Sulaiman Abdallah Sulaiman Al Muraikhi

Mr. Al Muraikhi has been a Board member since March 2015. He is also a member of the Board Credit & Investment Committee.

Mr. Al Muraikhi was a board member of Kuwait Finance & Investment Co. from 2004 to 2009, Wafra International Investment Co. from 1994 to 2014, Real Estate Company from 2007 to 2009 and the Bank from 2009 to 2013.

Mr. Al Muraikhi gained a Bachelor's degree in Business Administration from Egypt in 1977.

Board committees

The Board has established five Board committees which are described below. The roles and authority of the Board committees are defined and delegated by the Board and are described in each committee's charter. The Board committees submit reports to the Board depending on the nature of the tasks assigned to them. They also submit reports to the Board's Chairman each quarter regarding their respective duties.

Board Audit Committee

The Board Audit Committee (the "**BAC**") is responsible for overseeing the Group's internal control framework. The BAC is responsible for assessing the effectiveness of the Group's internal control framework on a periodic basis through the evaluations carried out by the Group's internal audit function. The BAC reports the results of its assessment on the adequacy of existing controls and processes to the Board. The committee makes recommendations to the Board regarding the appointment, termination and remuneration of the external auditors and the contractual terms of their appointment. The BAC is also responsible for monitoring the performance of the Group's external auditors and co-ordinating with them on subjects related to audit and financial statements. The BAC reviews the Group's financial results. The BAC met seven times in 2016 and seven times in 2015.

The members of the BAC are Mr. Al Serhan (Chairman), Mr. Hardikar (Deputy Chairman) and Mr. Al Fulaij.

Board Credit & Investment Committee

The BCIC is responsible for reviewing and approving credit and investment proposals where the limits exceed the management committee's approval authority, managing the Group's credit and investment exposures and administering its credit and investment related policies. Membership of the BCIC does not overlap with membership in the BAC.

The members of the BCIC are Mr. Marafi (Chairman), Mr. Abdulghani Behbehani (Deputy Chairman), Mr. Al Mishari, Mr. Al Othman and Mr. Al Muraikhi.

Board Corporate Governance Committee

The Board Corporate Governance Committee (the "**BCGC**") assesses the Group's corporate governance framework, reviews and updates the corporate governance manual and develops new corporate governance policies, reviews the structure and composition of the Board and its committees as well as their respective charters and reviews and recommends the Group's corporate governance disclosures to the Board.

The members of the BCGC are Mr. Talal Behbehani (Chairman), Mr. Marafi (Deputy Chairman) and Mr. Al Mishari.

Board Nomination and Remuneration Committee

The Board Nomination and Remuneration Committee (the "**BNRC**") is responsible for overseeing the Group's succession planning process, the review of the Group's remuneration framework and making recommendations with respect to executive management remuneration. In addition, the BNRC is responsible for nominating

potential Board members and ensuring that Board members are continuously updated on relevant banking issues. The committee also undertakes an annual appraisal of the Board's performance and that of its members.

Board Risk Committee

The Board Risk Committee (the "**BRC**") is responsible for reviewing and monitoring the Group's risk profile, risk strategy, risk appetite and risk controls and oversees the manner in which executive management implements the risk strategy, the risk framework and the risk policies of the Group. The BRC also reviews the assumptions and methodologies used in the computation of the Group's internal capital adequacy assessment process and the stress testing of various risks, to assess the impact on capital adequacy.

The members of the BRC are Mr. Hardikar (Chairman), Mr. Al Serhan (Deputy Chairman).

Executive management

The Group's executive management team is responsible for day-to-day supervision and control of the Group's business, particularly with respect to ensuring functionality of compliance and risk control, independence of functions, and separation of duties. Business policies, accounting policies and operations procedures and controls are documented and communicated through policies and standard operating procedures manuals which cover all areas and activities of the Group. All significant policies are reviewed and approved by the Board.

The Bank's executive management team comprises:

Name and position	Brief CV
Michel Accad *Chief General Manager and Chief Executive Officer*	Michel Accad joined the Bank as Chief Executive Officer during 2014. From 2009 to 2014 he served as chief executive officer for Gulf Bank of Kuwait, and oversaw its turnaround following the 2008 crisis. Between 2006 and 2009, he was the assistant chief executive officer for Arab Bank PLC, responsible for all banking businesses globally. He spent 27 years with Citigroup, which he joined in 1979. His last post at Citigroup was as managing director and chief executive officer for the Middle East and North Africa division; before that, he was the country head for Egypt and regional head for North & West Africa; and from the mid-1980s to 2000, he held various chief executive officer and country head positions, including for Nigeria, which was then the largest Citibank operation in Africa. He holds a Master's degree in Business Administration from the University of Texas at Austin.
Abdulla M. Al Sumait *Deputy Chief General Manager*	Abdulla Al Sumait joined the Bank in 2000 and is Deputy Chief General Manager, as well as a member of several management committees. During a career in banking spanning nearly 39 years he held various senior positions including general manager of corporate banking at Gulf Bank and the Bank. He was the chairman of Ahli Capital and a board member (and audit committee member) of Bank of Bahrain and Kuwait from 2001 to 2008. He also spent part of his career working for National Bank of Milwaukee, Wisconsin.

He has a Bachelor's degree in Economics from Kuwait University and a Diploma from the Institute of Banking Studies.

Somnath Menon
Chief Operating Officer

Somnath Menon joined the Bank in 2015 as Chief Operating Officer and has more than 35 years' experience in banking across multiple disciplines.

He started his career as a management trainee with a public sector bank in India and then joined Citibank where he remained for around 20 years working in India, Nigeria, Poland, the United Kingdom, Asia, the Middle East and the United States. He then worked for nine years with Mashreq Bank in the United Arab Emirates, as group head of operations and technology.

He holds a Master's degree in Change Management from Brighton Business School in the UK and has completed the Advanced Management Programme from Oxford University, UK.

Emad Roushdy Zaki
Executive General Manager, Corporate Banking

Emad Roushdy Zaki joined the Bank in 2000 and has more than 35 years' experience in corporate lending. Prior to that, he worked at Egyptian American Bank (a joint venture between American Express Bank and an Egyptian public sector bank) from 1980 to 1987, Gulf Bank of Kuwait from 1987 to 1990, Mashreq Bank from 1991 to 1993 and Gulf Bank of Kuwait from 1993 to 2000, where he held various management and senior management corporate banking positions.

He holds a Bachelor of Commerce degree from Cairo University and has various other financial qualifications from the American University of Cairo, as well as from Manchester and Harvard Business Schools.

Shiamak Soonawalla
Chief Financial Officer

Shiamak Soonawalla joined the Bank in 2004 and has more than 25 years' experience in the financial services industry, covering financial management, auditing and consulting practices in the Middle East. Before joining the Bank, he was the senior manager for audit, treasury and investment at National Commercial Bank in Saudi Arabia and spent nine years with Ernst & Young where he held finance positions in Saudi Arabia and Kuwait including, most recently, senior manager financial services.

He holds a Bachelor of Commerce degree from the University of Bombay and is a qualified Chartered Accountant (India).

Jamal Ahmad
Chief Risk Officer

Jamal Ahmad joined the Bank in 2000 and has headed the risk management division for more than 10 years. Before joining the Bank, he worked with Burgan Bank in Kuwait holding various positions in international banking and risk management. Earlier, he worked with India's largest public sector bank, State Bank Group, in various managerial roles covering corporate credit, trade finance and branch operations. His last position with State

Bank Group was at SBI Capital Market Ltd, a subsidiary of State Bank of India, where he was manager, corporate finance group handling merchant banking activities.

He holds a Master's degree in Economics, with a specialisation on Monetary Economics, from the University of Kolkata, India.

Karl Stumke

General Manager, International Banking

Karl Stumke joined the Bank in 2010 and has more than 30 years' banking experience from a number of retail and corporate entities, where he held various executive and Board positions, in London, Africa and the Middle East. These positions included a seven year tenure at Barclays Bank (from 2000 to 2007) where he held various positions, including regional managing director for Mauritius and Indian Ocean territory. He was also head of wholesale banking at Bank Muscat from 2007 to 2010.

He graduated with a Bachelor of Accountancy degree from the University of South Africa, and is a Certified Associate of the Institute of Bankers in South Africa (CAIB(SA)), and holds various postgraduate banking diplomas.

Stewart Lockie

General Manager, Retail Banking

Stewart Lockie joined the Bank in 2009, having previously worked in retail banking in Egypt and the United Kingdom. Before joining the Bank, he previously worked for Barclays Bank for over 18 years, where he held several senior roles such as area retail director and head of sales, ending as retail director for Egypt. He then joined Ahli United Bank in 2006, where he established the retail banking operation for the newly acquired Delta International Bank as the head of retail and private banking.

He holds a Master's degree in Management from the University of South Wales. He is a Chartered Manager through the Chartered Management Institute in the UK, and is also qualified in leadership and strategic management.

Grant Jackson

General Manager, Treasury and Investments

Grant Jackson joined the Bank in 2015 and has more than 30 years banking experience across the Middle East, Asia and Australia.

He started his career in the treasury function working in local and regional Australian banks. He then joined NM Rothschild & Sons (Australia), where he was director treasury. He subsequently held similar roles with banks in Qatar, the United Arab Emirates and Kuwait.

He holds a Masters degree in Applied Finance from Macquarie University (Australia). He has additional qualifications from Harvard University, the Australian Institute of Company Directors and Minhaj Shari'a Advisory.

Fawzy Al-Thunayan

General Manager, Board Affairs

Fawzy Al-Thunayan joined the Bank in January 2014 and has 35 years' of banking experience. He started work as a bond dealer in 1980 before being promoted to deputy general

manager of Arab Company Trading Securities where he spent five years. He then became deputy general manager at International Financial Advisors, a position that he held until 1990. He then joined the Central Bank of Kuwait as head of the foreign operations department until 2006 when he moved to Gulf Bank as the general manager for board affairs.

He holds a Bachelor's degree in Business Management from the Catholic University of America, Washington DC.

Mohammed Sallam
General Manager, Legal

Mohammed Sallam joined the Bank in 2003 and has more than 36 years' experience in litigation, contracting and consultancy. He previously worked at Commercial Bank of Kuwait from 1999 to 2003 as a legal counsel and at the Bank of Kuwait and the Middle East from 1997 to 1998 as a legal counsel. Before this, he worked in a number of well-known law firms in Kuwait from 1982 to 1997. From 1979 to 1982 he practiced law in the Egypt courts.

He holds a Bachelor's of Law degree from the University of Ain Shams, Cairo.

Hamza Enki
General Manager, Human Resources

Hamza Enki joined the Bank in 2002, with responsibility for Human Resources. He has more than 34 years' experience in the areas of manpower development, compensation, recruitment and training in the financial services industry. Before joining the Bank, he worked in the National Bank of Kuwait in the human resources division for 22 years.

He has a Bachelor's degree in Personnel Affairs from Kuwait University and an MBA from University of Scranton, USA.

Balwant Bains
Chief Internal Auditor

Balwant Bains joined the Bank in 2008 and has more than 25 years' experience in the financial services industry. He has worked in both banks and consulting firms in the UK and Kuwait, including from 2002 to 2004 at Ernst & Young as senior vice president for risk and compliance. Before joining the Bank, he was head of market and operational risk at National Bank of Kuwait.

He has a Bachelor's degree in Business Studies from graduated from London Guildhall University and is a Certified Internal Auditor and Certified Information System Auditor.

Management Committees

The Group's principal management committees are:

Management Credit Committee

The MCC approves and recommends credit proposals and other credit-related matters delegated to it by the Board. There are two management credit committees: one for corporate and the other for international, including the UAE. Both are headed by the CEO as Chairman, with the Deputy Chief General Manger as Deputy Chairman and the Chief Risk Officer as a non-voting member. The final member is the Executive General Manager, Corporate Banking for the corporate MCC and the General Manager, International Banking for the

international MCC. Other functions of the MCC include overseeing the implementation of credit risk frameworks, review of portfolios and devising strategies for improving asset quality reviews.

Provision Committee

The Provision Committee comprises the CEO as Chairman, the Deputy Chief General Manager, the Chief Risk Officer and the Chief Financial Officer. The Committee reviews financial and other related information on provision estimates, makes recommendations to the BRC and the Board on provision requirements and instructs business units to implement remedial and recovery actions.

Management Risk Committee

The Management Risk Committee comprises the CEO as Chairman, the Deputy Chief General Manager as Deputy Chairman, the Chief Risk Officer, the Chief Operating Officer and the Chief Financial Officer. The Committee reviews the Group's risk profile, initiates corrective action to address urgent or critical risk issues, gives instructions to enhance processes to mitigate risks and implement Board approved risk management frameworks, and approves settlement of funds for fraud and operational errors with customers, banks and other legal entities. It updates the BRC on risks and corrective action.

IT Steering Committee

The IT Steering Committee comprises the CEO as Chairman, the Deputy Chief General Manager as Deputy Chairman, the Chief Risk Officer, the Chief Operating Officer, the Chief Information Officer and the Head of Operations. The Chief Internal Auditor and heads of business lines are non-voting members. The Committee reviews and recommends the acquisition of technology infrastructure, business solutions and consultancy services.

ALCO

The ALCO comprises the CEO as Chairman, the Deputy Chief General Manager, the Chief Risk Officer, the General Manager, Treasury and Investments, the Chief Financial Officer, the Executive General Manager, Corporate Banking, the General Manager, International Banking and the General Manager, Retail Banking. The ALCO reviews and recommends to the BRC limits for market, interest and liquidity risks, reviews regulatory and internal ratio requirements, determines the composition of the Group's assets and liabilities considering business and environmental factors, reviews risks in the asset and liability profile of the Group and participates in the Group's capital adequacy assessment, stress testing and capital planning processes.

Investment Committee

The Investment Committee comprises the CEO as Chairman, the Deputy Chief General Manager, the General Manager, Treasury and Investments, the General Manager, International Banking and the Chief Risk Officer as a non-voting member. The Committee oversees and ensures that investment activities are aligned to strategic objectives and operate within the policy and governance rules of the Group. It recommends annual investment limits, including investment plans, to the BCIC. It sets investment limits and grants approvals, reviews and makes recommendations on policy matters relating to investments and ensures that proper controls are in place relating to investments.

Business addresses and conflicts

The business address of each member of the Board and each member of executive management is Al Ahli Bank of Kuwait K.S.C.P., Head Office, Al Ahli Bank of Kuwait K.S.C.P. Building, Ahmad Al Jaber Street, Safat Square, Al Sharq Area, P.O. Box 1387, Safat, 13014 Kuwait. No member of the Board or executive management has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties.

Employees

The Group's human resources policies are designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Group protects and abides by the rights provided to employees which include, but are not limited to: a transparent working environment; employee talent-management schemes; a transparent remuneration and compensation structure and access to a whistle blowing policy (which enables employees to raise concerns in good faith and confidence directly up to the level of the Chairman).

As at 31 December 2016, the Group employed 1,788 full-time staff compared to 1,792 full-time staff at 31 December 2015.

The Group is committed to identifying, attracting and developing Kuwaiti nationals in its workforce. The Kuwaiti government's recommended policy is that 64 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2016 was 64.91 per cent. and it is currently in compliance with all other applicable employment regulations.

OVERVIEW OF KUWAIT

Unless indicated otherwise, information in this section has been derived from Kuwaiti government publications.

Country Profile

Kuwait is a sovereign state on the coast of the Arabian Gulf, enclosed by Saudi Arabia to the south and south west and Iraq to the north and west. Kuwait has proven conventional crude oil reserves of 101,500 million barrels, the fifth largest in the world (according to OPEC's Annual Statistical Bulletin 2015). The total area of Kuwait is 17,818 square kilometres. Kuwait is a constitutional monarchy with a parliamentary system of government and Kuwait City serves as the state's political and economic capital. Kuwait has an open economy which is primarily dependent on its oil industry and is dominated by the government sector. Based on information from the Public Authority for Civil Information, Kuwait's population was approximately 4.3 million as of June 2016 (of which Kuwaiti nationals accounted for 30.5 per cent.).

Political Overview

Kuwait is a constitutional monarchy. The head of state, the Amir, appoints the prime minister, who leads a collective majority of elected members of parliament ("**National Assembly**") to form the government of Kuwait. The prime minister selects a cabinet of a maximum of 16 members and at least one cabinet minister must be drawn from the elected parliament. The membership of the cabinet is subject to the approval of the Amir. The current National Assembly was elected in November 2016.

The current Amir is His Highness Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, with the current Crown Prince being His Highness Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah and the current Prime Minister being His Highness Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah.

In terms of foreign relations and membership of international organisations, Kuwait, together with Bahrain, Oman, Qatar, Saudi Arabia and the UAE, form the GCC. Kuwait is also a member of OPEC and the United Nations. It is also a member of numerous international and multilateral organisations, including the IMF, the International Bank for Reconstruction and Development, the World Trade Organisation, the League of Arab States, the Organisation of the Islamic Conference, the Multilateral Investment Guarantee Agency and the United Nations Educational, Scientific and Cultural Organisation ("**UNESCO**").

Economic Overview

According to data from the IMF's World Economic Outlook Database October 2016, Kuwait's real GDP increased by 7.9 per cent. in 2012, 0.4 per cent. in 2013, 0.6 per cent. in 2014 and 1.1 per cent in 2015. The IMF estimates that Kuwait's real GDP will have increased by 2.5 per cent. in 2016. Kuwait has posted a budget surplus for each of the last 15 fiscal years through to 31 March 2017.

The IMF's data indicates that inflation, on an average consumer price measure, was 3.2 per cent. in 2012, 2.7 per cent. in 2013, 2.9 per cent. in 2014 and 3.2 per cent in 2015. The IMF estimates that inflation will remain stable at 3.4 per cent. in 2016 and projects that inflation will increase to 3.8 per cent. in 2017.

The oil and oil products sector is the most significant contributor to Kuwait's GDP and accounted for 58.3 per cent. of Kuwait's nominal GDP in 2013, 54.6 per cent. in 2014 and 40.5 per cent. in 2015 on a provisional basis, according to CSB data. The sector is also the main contributor to Kuwait's annual revenues. On average, Kuwait produced 2.9 million barrels of crude oil each day in 2015 (source: OPEC Annual Statistical Bulletin 2016).

The IMF, in its December 2016 staff report on its Article IV consultation with Kuwait, estimates that non-oil GDP growth will be between 3.5 to 4.0 per cent. in the medium term, supported by consumption and government investments in infrastructure and the oil sector.

Kuwait is estimated to have held reserves of foreign exchange and gold worth U.S.$28.7 billion as at 31 December 2016 (source: the CIA). In addition, Kuwait's sovereign wealth fund, the Kuwait Investment Authority, which was launched in 1953 and is the oldest sovereign wealth fund in the GCC region, has approximately U.S.$592 billion of assets under management as at June 2016 according to data from the Sovereign Wealth Fund Institute.

In February 2015, the National Assembly approved a new five-year development plan (the "**Kuwait Development Plan**") that envisages spending of approximately KD 34 billion to implement over 500 projects. The Kuwait Development Plan commenced in April 2015 and is scheduled to end in March 2020. The Kuwait Development Plan is the second of a series of plans based on a strategic vision for 2035 that emphasises investment in infrastructure, health and education, and envisages significant co-participation of the private sector through the establishment of public shareholding companies. The primary objectives of the plan are to boost GDP, increase the private sector share of the economy and raise the number of Kuwaitis in the private sector.

BANKING INDUSTRY AND BANKING REGULATION IN KUWAIT

Unless otherwise indicated, information in this section has been derived from Law No. 32/1968 as amended and the instructions issued by the CBK to conventional banks operating in Kuwait ("Instructions").

Central Bank of Kuwait

The CBK was established by Law No. 32/1968 and is managed by a board which is chaired by the Governor of the CBK. The membership of the board, in addition to the Governor, comprises the Deputy Governor, a representative from each of the Ministry of Finance and the Ministry of Commerce and Industry (the "**MOCI**") and four additional members, each of whom must be a Kuwaiti national and must be nominated by the Minister of Finance (after obtaining the approval of the Council of Ministers). Each of the four additional board members is drawn from expert practitioners in economics, finance or banking and is appointed by an Amiri Decree for three years. The Governor of the CBK and the Deputy Governor are each appointed by decree for a five-year renewable term. The CBK's objectives are:

- to issue currency on behalf of Kuwait;
- to secure the stability of the Kuwaiti dinar and its free convertibility into other currencies;
- to direct credit policy in order to contribute to Kuwait's social and economic progress and the growth of national income;
- to supervise the banking system in Kuwait;
- to serve as banker to the Kuwaiti government; and
- to render financial advice to the Kuwaiti government.

The CBK, either directly or through other financial institutions, undertakes operations relating to the sale and management of securities issued or guaranteed by the Kuwaiti government, or issued in dinar by any public organisation or institution. The CBK may purchase, sell, discount and rediscount Kuwaiti government treasury bills and purchase and sell public debt securities issued and offered for sale by the Kuwaiti government.

In its supervisory capacity, the CBK may at any time inspect banks, investment companies and other institutions subject to the CBK's supervision, including branches, companies and banks that operate abroad that are subsidiaries of Kuwaiti banks. The CBK may issue such Instructions to banks as it deems necessary to realise its credit or monetary policy or to ensure the sound progress of the banking business. The CBK is entitled to inspect any accounts, books, records, instruments and any other documents that it deems necessary for performing its supervisory role and may also request any other relevant data and information to be provided by any board member of any CBK-regulated institution. On completion of each inspection, the CBK issues a comprehensive report incorporating its recommendations of actions to be taken to address any issues identified during the inspection.

The CBK Instructions cover a wide range of matters, including the liquidity system, maximum limits for credit concentration, credit facilities classification, interest rate ceilings, the organisation of banks' credit policy, the extension of consumer loans and other instalment loans, the extension of banking services, foreign exchange translation and portfolio management (see "*—Certain Banking Regulations*" below). The CBK may impose penalties on any institution that fails to comply with an Instruction.

The CBK has established the Financial Stability Office (the "**FSO**"), which aims to contribute to a sound financial system in Kuwait capable of withstanding financial and economic shocks by utilising financial stress testing and macro-economic models to identify key vulnerabilities in CBK-regulated institutions and suggesting

appropriate corrective measures. The FSO also assists in maintaining an effective internal supervisory system and promoting sound risk management and governance practices.

Certain Banking Regulations

All banks operating within Kuwait are subject to the supervision of the CBK, which is the primary regulator of banks and financial institutions in Kuwait whilst the CMA exercises supervisory authority over all Kuwaiti entities (including banks and financial institutions) which are listed on the KSE or engage in securities activities as discussed further below. The CBK imposes the following regulations upon banks:

Liquidity regulations

The CBK requires banks to maintain 18 per cent. of their KD customer deposits in the form of balances with the CBK.

Bank liquidity in Kuwait is monitored using the Maturity Ladder Approach under which future cash inflows are compared with future cash outflows. The resulting liquidity mismatches are then examined in time bands against approved limits for each band. The relevant Instruction relating to liquidity establishes the elements to be included when calculating assets and liabilities for the purpose of determining liquidity.

Credit risk regulations

Loans to deposit ratio

Kuwaiti banks are restricted by the CBK from lending amounts in excess of a prescribed percentage of qualifying deposits. With effect from May 2012, the prescribed percentages are 75 per cent. for deposits with a maturity of less than three months, 90 per cent. for deposits with maturities from three months to one year and 100 per cent. for deposits with a maturity in excess of one year.

Investment limits

The total ratio of the securities portfolio held by a Kuwaiti bank should not exceed 50 per cent. of the bank's capital in its comprehensive concept, as defined under the CBK's Instructions to the local banks in respect of the Capital Adequacy Ratio and the CBK Instruction no. BS/101/1995 in respect of the credit concentration limits. Further, the ratio of the investment in the securities of any one issuer should be the lower of 10 per cent. of the bank's capital in its comprehensive concept or 10 per cent. of the issuer's capital.

Credit facility classifications

The CBK requires banks operating in Kuwait to evaluate and classify their credit facilities into two categories (regular and irregular) on a periodic basis. The relevant Instructions specify the cases when a credit facility must be classified as 'irregular' and include where payment of an instalment is not made, interest is not paid on the maturity date or the debit balance exceeds the drawing limits determined for the customer.

Foreign exchange transactions

Local banks may deal with foreign banks for foreign exchange transactions, may deposit Kuwaiti dinar with foreign banks and may enter into foreign exchange swap and other derivative transactions, including options, futures and forward contracts.

Concentration risk regulations

Maximum limit for credit concentration

Subject to certain exceptions or where prior CBK approval has been obtained, the total credit liabilities of any single customer (including its legally or economically associated entities) to a bank may not exceed 15 per cent. of the bank's capital base.

Clustering limit – total limit for large concentrations

The aggregate of large credit concentrations (being concentrations which exceed 10 per cent. of a bank's capital base), including any exceptions approved by the CBK, may not exceed four times a bank's capital base.

Consumer loans

The CBK's circular on Buy Out and Top Up issued in July 2015 provides that consumer and instalment loans granted to a bank's customers can be utilised for the purpose of repaying an existing loan with another bank in Kuwait.

Extension of facilities for non-residents

Local banks are permitted to extend credit facilities in KD to non-residents without the need for prior consent from the CBK only in connection with financing contracts awarded by government bodies in Kuwait whose value does not exceed KD 40 million and where the loan does not exceed 70 per cent. of the total value of the contract. In all other cases, CBK consent is required for loans to non-residents.

Interest rate cap regulations

The CBK's instruction on interest rates provides that the maximum limits for interest rates on KD loans to corporates should not exceed:

- 2.5 per cent. over the CBK's discount rate in the case of commercial loans with a maturity of one year or less; and
- 4 per cent. over the CBK's discount rate in the case of commercial loans exceeding one year.

Interest rates for consumer and instalment loans denominated in Kuwaiti dinar are currently capped at the CBK discount rate plus 3 per cent. for each block of five years. Such interest rates may be adjusted by no more than plus or minus 2 per cent. for each subsequent block of five years.

Interest rates for loans in currencies other than the Kuwaiti dinar are not regulated by the CBK.

Third party portfolio management

Portfolios managed by banks and investment companies for the account of third parties and invested in foreign securities and other financial instruments are currently subject to instructions issued pursuant to the Law No.7 of 2010 and its Executive Regulations (as amended) issued pursuant thereto (the "**CMA Regulations**").

Notable CBK instructions

The CBK has also issued Instructions containing guidelines relating to, among other matters: (i) post-dated cheques; (ii) banks' credit policy ratios; (iii) the verification of the purpose of credit facilities granted to customers; (iv) collateral to be granted by customers against credit facilities; (v) the provision of facilities for trading in shares listed on the KSE; (vi) the protection of customers; (vii) special needs of customers and (viii) anti-money laundering and the combat of the financing of terrorism.

Corporate Governance

During June 2012, the CBK issued the "Instructions for the Governance of Kuwaiti Banks" (the "**Governance Instructions**") which apply to all banks in Kuwait and were required to be implemented by 1 July 2013. The Governance Instructions provide principles that should be followed and applied by Kuwaiti banks in order to ensure proper governance. These include the independence of the board while conducting its work, the setting of a strategy for the bank, putting in place a clear risk policy, protecting the interests of depositors and conducting its business in a safe manner. The Governance Instructions require each bank to produce a

governance manual (which must be approved by the bank's board) and establish a governance committee to ensure the execution of the governance manual.

The Governance Instructions define the role of a bank's board, the executive committee (which is to include the chief executive officer), the risk committee, the internal and external audit committee, and any other committees that have an active role in the business of the bank. The Governance Instructions also require each bank to adopt a disclosure and transparency policy (covering topics including material information that may affect the relevant bank's financial position, changes to its management, board or shareholding structure).

The Board of Directors of the Bank adopts and implements internationally accepted as well as local corporate governance practices, including the Governance Instructions.

Application of CBK Regulations to the Bank

The Bank is incorporated as a public shareholding company in Kuwait, is registered as a bank with the CBK and is listed on the KSE. As a Kuwaiti shareholding company, the Bank is licensed by the MOCI and as a bank is primarily supervised by the CBK. The MOCI issued the Bank with a commercial licence, renewable according to Kuwaiti law, to carry on banking activities. The Bank's commercial licence was last renewed on 21 September 2015 for the period until 20 September 2019. The Bank has no reason to believe that its commercial licence will not be renewed by the MOCI.

The CBK acts as lender of last resort to all of the Kuwaiti banks. As a financial institution, the Bank is required to submit various periodic and one-off reports to the CBK in a format prescribed by it. The CBK also conducts inspections of banking and financial institutions (banks, investment companies, money exchange companies and mutual funds) which are subject to its supervision in order to ascertain their financial sustainability and their adherence to their constitutional by-laws. These inspections may be in the form of a specific inspection or a full audit of all activities. The CBK periodically inspects all financial institutions which are subject to its supervision. The CBK conducted an inspection of the Bank's financial statements as at 17 November 2016 and gave its final report on 17 January 2017. The final report contained no observations.

In addition to the CBK, the CMA also exercises supervisory authority over the Bank as a company listed on the KSE and as an institution that engages in investment activities in accordance with article 124 of the CMA Regulations.

Banking System

The Kuwaiti banking sector currently comprises five indigenous conventional commercial banks, one specialised bank, six banks operating according to the provisions of Islamic Sharia, branches of 11 non-Kuwaiti conventional banks and a non-Kuwaiti bank operating according to the provisions of Islamic Sharia.

The Kuwait banking sector has experienced increased competition and diversification from the entry of international banks establishing branches in Kuwait, following the promulgation of Law No. 28 of 2004 amending certain provisions of Law No. 32 of 1968 concerning Currency, CBK and the Organisation of Banking Business. As at 31 December 2016, total local bank assets in the Kuwaiti banking sector amounted to KD 60.4 billion and total loans to Kuwaiti residents amounted to KD 34.3 billion (source: CBK).

The key performance indicators of the conventional Kuwaiti banks as at 31 December 2016 are set out below (source: annual reports published on the company website of each bank listed below).

	Cost to income ratio	Return on assets	Return on equity	Earnings per share
		(%)		(fils*)
National Bank of Kuwait	33.81	1.31	9.47	52
Burgan Bank	48.47	0.95	8.48	28
Gulf Bank	37.46	0.79	7.73	15
Commercial Bank of Kuwait	27.87	1.23	8.55	34
Al-Ahli Bank of Kuwait	39.38	0.75	5.85	20

Note:

* 1000 fils equals one Kuwaiti dinar.

Financial Stability Law and Deposit Guarantee Law

In response to the global financial crisis which began in 2008, the Kuwaiti government took a number of measures, including the passing of Decree No. 2 of 2009 (the "**Financial Stability Law**"). The Financial Stability Law sought to stabilise the financial sector in Kuwait and other economic sectors so as to encourage the financing of such sectors by local banks.

As a further measure, the Kuwaiti government passed Law No. 30 of 2008 regarding the guarantee of deposits held with local banks (the "**Deposit Guarantee Law**"). Under the Deposit Guarantee Law, the Kuwaiti government has undertaken to guarantee the principal (but not interest) of all deposits held with local banks in Kuwait, including saving accounts and current accounts.

The Family Support Fund

In 2013, the Kuwaiti government enacted Law No. 14 of 2013 (the "**Family Support Fund Law**") and its executive regulations. The Family Support Fund Law established a debt relief fund (the "**Family Support Fund**") which, subject to certain conditions, was authorised to purchase the remaining outstanding balances under consumer and instalment loans granted by conventional banks and investment companies to Kuwaiti citizens prior to 30 March 2008 and which remained active as of 12 June 2013 (the "**Loans**"). The Family Support Fund Law provides for a waiver by the Family Support Fund of all future interest payable under the Loans together with the rescheduling of payments in the form of equal instalments amortised over a period not exceeding 15 years. Applications by Kuwaiti citizens wanting to take advantage of the debt relief under the Family Support Fund Law were required to be submitted within four months from the date of effect of the Family Support Fund Law.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Kuwait

*This summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955 (the Decree), as amended by Law No. 2 of 2008 "Amending Certain Provisions of Kuwait Income Tax Decree No. 3 of 1955" (the "**Amendment**"), the Executive Bylaws of the Amendment (the "**Regulations**"), and various ministerial resolutions and circulars relating thereto issued by the Ministry of Finance, Article 150 (bis) and Ministry of Finance Administrative Order No. 2028 of 2015 (the "**Administrative Resolution**") (together, the "**Taxation Laws**") as interpreted and implemented by the DIT as at the date of this Base Prospectus. Any subsequent changes in either the Taxation Laws or the interpretation or implementation of the same by the DIT may alter and affect this summary.*

Income tax

Under the Taxation Laws, income tax (at a flat rate of 15 per cent.) is levied on, *inter alia*, the net income and capital gains realised by any corporate entity (interpreted by the DIT to mean any form of company or partnership), wherever incorporated, that conducts business in Kuwait. However, the DIT to date has, as a matter of practice, granted a concession to such corporate entities incorporated in Kuwait or in any other GCC country (being referred to in this Base Prospectus as GCC corporate entities) and has only imposed income tax on corporate entities which are not GCC corporate entities (being referred to in this Base Prospectus as non-GCC corporate entities) which, for the avoidance of doubt, includes shareholders of GCC corporate entities which are themselves non-GCC corporate entities, in each case, conducting business in Kuwait.

However, recent legislative amendments exempting returns on securities from Kuwaiti income tax should apply to income generated from the holding of the Notes (see "*Tax Exemptions on Returns*" below) and should also apply to non- GCC corporate entities. Individuals are not subject to any Kuwaiti income tax on their income or capital gains.

Tax Exemptions on Returns

Pursuant to the provisions of Article 150 (bis) and the Administrative Resolution endorsing the provisions thereof, without prejudice to the exemptions prescribed on capital gains tax arising from the disposal of securities issued by companies listed on the Kuwait Stock Exchange, returns from bonds and other similar securities (which would include income generated from the holding of the Notes), regardless of the nature of the issuer, shall be exempt from Kuwaiti tax.

Accordingly, income arising from the holding of the Notes will be exempt from Kuwait income tax assuming that the DIT interprets and applies Article 150 (bis) in accordance with its express terms.

However, see "*Risk Factors – The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Notes which are "non-GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances*".

Retention

Under the Regulations, a Kuwaiti-based party making a payment (being referred to in this section as the payer) to any other party (being referred to in this section as the payee), wherever incorporated, is obliged to deduct five per cent. of the amount of each such payment until such time as the DIT issues a tax clearance certificate approving the release of such amount. The payer is not required to transfer the deducted amount to the DIT immediately, but instead retains such amount and releases it either (i) to the payee upon presentation to the payer by such payee of a tax clearance certificate from the DIT confirming that the payee is not subject to or is exempt from income tax, or has realised a loss, or has paid or guaranteed the payment of its income tax; or (ii) in the absence of such a tax clearance certificate, to the DIT, on demand.

According to a literal interpretation of the Regulations, payments which are subject to a deduction as described above would include principal and interest payments. Accordingly, a payer (such as the Issuer) could be required to deduct five per cent. from every payment made by it to a payee (such as the holders of the Notes), which amount would be released by the payer upon presentation to it by payee of a tax clearance certificate from the DIT.

Neither Article 150 (bis) nor the Administrative Resolution endorsing the provisions thereof, address the issue of whether or not there remains an obligation to make a deduction as specified above. In the event of any such deduction, then the holders of Notes shall be able to rely on the provisions in the Conditions and the Deed of Covenant, which require the Issuer to gross up each payment by an amount equal to any deduction, irrespective of whether a tax clearance certificate is presented or not.

Other taxes

Save as described above, all payments in respect of the Notes may be made without withholding, deduction or retention for, or on account of, present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait.

No stamp, registration or similar duties or taxes will be payable in Kuwait by holders of Notes in connection with the issue or any transfer of the Notes.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Commission Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the proposed FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains uncertain. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Kuwait) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "*Terms and Conditions—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 16 March 2017 (the **Dealer Agreement**") between the Issuer, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act. Notes in bearer form having a maturity of more than one year are subject to U.S. federal tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or its possessions or to, or for the account or benefit of, U.S. persons except to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Bearer Notes, other than Bearer Notes with an initial maturity of one year or less, will be issued in accordance with the provisions of U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**C Rules**"), or in accordance with the provisions of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**D Rules**"), as specified in the Final Terms. Terms used in this paragraph have the meanings given to them by the Code and regulations promulgated thereunder, including the C Rules and the D Rules.

Each of the Dealers has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer or the Fiscal Agent, by the relevant Dealer, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the

offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (i) to (iii) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Kuwait

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold, promoted or advertised by it in Kuwait other than in compliance with Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(i) an "**Exempt Offer**" in accordance with the Markets Rules (MKT) module of the Dubai Financial Services Authority (the "**DFSA**"); and

(ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 11 or Article 12 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 3-151-2016 dated 21 December 2016 (the "**KSA Regulations**"), through a person authorised by the Capital Market Authority (the "**Capital Markets Authority**") under the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "**sophisticated investors**" under Article 11 of the KSA Regulations or by way of a limited offer under Article 12 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes to a Saudi Investor will be made in compliance with the KSA Regulations.

The offer of Notes shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 18 of the KSA Regulations, which are summarised as follows:

(a) a Saudi Investor (referred to as a "**transferor**") who has acquired Notes pursuant to a private placement may not offer or sell Notes to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorised person where one of the following requirements is met:

    (i) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;

(ii) the Notes are offered or sold to a sophisticated investor; or

(iii) the Notes are being offered or sold in such other circumstances as the Capital Markets Authority may prescribe for these purposes;

(b) if the requirement of paragraph (a)(i) above cannot be fulfilled because the price of the Notes being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Notes to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;

(c) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Notes if he/she sells his entire holding of Notes to one transferee; and

(d) the provisions of paragraphs (a), (b) and (c) above shall apply to all subsequent transferees of the Notes.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes, except on a private placement basis, to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Qatar

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Notes in the State of Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of the State of Qatar (including the Qatar Financial Centre); and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar. This Base Prospectus has not been filed with, reviewed or approved by the Qatar Central Bank, the Qatar Financial Markets Authority, Qatar Financial Centre Regulatory Authority or any other relevant Qatar governmental body or securities exchange and is only intended for specific recipients, in compliance with the foregoing.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, a resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act of 1949 (Act No. 228 of 1949, as amended)) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws, regulations and ministerial guidelines of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this Base Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

GENERAL INFORMATION

(1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Main Securities Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or before 16 March 2017. Prior to official listing and admission to trading, however, dealings will be permitted by the Irish Stock Exchange in accordance with its rules. Transactions on the Main Securities Market will normally be effected for delivery on the third working day after the day of the transaction. However, unlisted Notes may be issued pursuant to the Programme.

(2) The Issuer has obtained all necessary consents, approvals and authorisations in Kuwait in connection with the establishment of the Programme. The establishment of the Programme was duly authorised by resolutions of the Board of Directors of the Issuer dated 6 September 2016.

(3) There has been no significant change in the financial position of the Issuer or of the Group since 31 December 2016 and no material adverse change in the prospects of the Issuer or of the Group since 31 December 2016.

(4) Neither the Issuer nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

(5) Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

(6) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

(7) Where information in this Base Prospectus has been sourced from third parties this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

(8) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

(9) For the period of 12 months from the date of this Base Prospectus, the following documents will be available in physical form, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Issuer and at the specified office of the Fiscal Agent:

(i) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);

(ii) the Deed of Covenant;

(iii) the Memorandum and Articles of Association of the Issuer (with an English translation thereof);

(iv) the published audited consolidated financial statements of the Group for the years ended 31 December 2016 and 31 December 2015, in each case, together with the audit reports prepared in connection therewith;

(v) copies of the latest published annual report and the latest interim consolidated statements of the Group;

(vi) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity); and

(vii) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus.

This Base Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Main Securities Market will be published on the website of the Irish Stock Exchange (www.ise.ie).

(10) EY Kuwait of P.O. Box 74, Safat 13001, Kuwait, Baitak Tower, 18-21st Floor, Safat Square, Ahmed Al-Jaber Street and Deloitte Kuwait of Ahmed Al-Jaber Street, Sharq, Dar Al-Awadi Complex, Floors 7 & 9, P.O. Box 20174, Safat 13062, Kuwait have jointly audited, and rendered unqualified audit reports on, the Financial Statements. Each of EY Kuwait and Deloitte Kuwait are regulated in Kuwait by the Kuwait Ministry of Commerce and Industry and the CMA and each of whom is a registered auditor licensed to act as an auditor in Kuwait by the Kuwait Association of Accountants and Auditors.

(11) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, and/or its affiliates in the ordinary course of business.

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AL AHLI BANK OF KUWAIT K.S.C.P. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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 2016, and the related 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Impairment of loans and advances

Impairment of loans and advances is a highly subjective area due to the level of judgement applied by management in determining provisions and is dependent on the credit risk related to that loan. Certain judgements applied by the management in accounting for impairment of loans and advances include the identification of impairment events, the valuation of collateral and assessment of customers that may default, and the future cash flows of loans and advances granted.

Due to the significance of loans and advances and the related estimation uncertainty, this is considered a key audit risk. The basis of the impairment provision policy is presented in the accounting policies and disclosures related to exposure to credit risk are presented in Note 5 and Note 11 of the consolidated financial statements.

Our audit procedures included the assessment of controls over the granting, booking and monitoring processes for loans and advances and the impairment provisioning process, to confirm the operating effectiveness of the key controls in place, which identify the impaired loans and advances and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operating effectively.

In addition to testing the key controls, we selected samples of loans and advances outstanding as at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. For the samples selected, we also verified whether impairment events as identified by us had also been identified by management. Our selected samples included non-performing loans and advances, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For the samples selected of loans and advances classified as performing, we assessed whether any indicators existed of default risk.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Valuation and impairment of investments available for sale

Investment available for sale are primarily comprised of debt and equity investments. Investments available for sale that are measured at fair value are significant for the Group's consolidated financial statements. The valuation is performed by management using a fair value hierarchy:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For level 2 and level 3, the fair value is subject to estimation uncertainty as significant judgment is applied by management to determine the fair value. Examples of key assumptions applied by management include pricing multiples available from comparable companies, forecast of cash flows and related discount rates, and estimated maintainable dividend. Due to the estimation uncertainty, this is considered a key audit matter. The Group's policies on valuation and impairment of investments available for sale are presented in accounting policies and in Note 12 of the consolidated financial statements.

As part of our audit procedures, for Level 2 and Level 3 valuations, we tested the appropriateness of the models used by the management and the reliability of the data that was used as input to these models. We compared the models used for the valuations with the prior years. We also evaluated the management's assessment whether objective evidence of impairment exists for debt investments and where the fair value of equity investments are below cost, whether it represents a significant or prolonged decline in value. We further assessed that the main assumptions and related uncertainties are appropriately reflected in the sensitivity disclosure in Note 12 of the consolidated financial statements.

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

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

c) Impairment of intangible assets

The impairment tests of intangible assets performed by the management are significant to our audit because the assessment of the recoverable amount of intangible assets under the value-in-use basis is complex and requires considerable judgment on the part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the banking sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of intangible assets as a key audit matter.

Our audit procedures included an assessment of the accuracy of management's estimates, evaluation and testing the assumptions, methodologies, cash generating unit (CGU) determination, discount rates and data used by the management. We tested the basis of preparing those forecasts taking into account the accuracy of forecasts and the evidence supporting underlying assumptions. Future cash flow assumptions were challenged through comparison of current performance, seeking corroborative evidence and enquiry with management in respect of key growth and performance assumptions. We further evaluated the reasonableness of other key assumptions such as the discount rate and long term growth rate in the value in use model. We also assessed the adequacy of the Group's disclosures regarding those assumptions, which are disclosed in Note 14 of the consolidated financial statements.

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of our auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/ B.S. 342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016 and its executive regulations, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/B.S. 342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016 and its executive regulations, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

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

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

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

10 January 2017
Kuwait

Al Ahli Bank of Kuwait K.S.C.P. and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	*2016* *KD 000*	*2015* *KD 000*
ASSETS			
Cash and balances with banks	9	**494,678**	432,173
Kuwait Government treasury bonds	10	**223,142**	204,246
Central Bank of Kuwait bonds	10	**173,715**	179,713
Loans and advances	5,11	**3,029,384**	3,047,143
Investment securities	12	**237,905**	343,809
Investment in an associate	13	**18,263**	16,572
Premises and equipment		**46,695**	53,125
Intangible assets	14	**17,698**	41,217
Other assets	15	**43,333**	41,066
TOTAL ASSETS		**4,284,813**	4,359,064
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		**734,771**	1,199,192
Customers' deposits		**2,899,908**	2,496,278
Other liabilities		**94,331**	107,135
TOTAL LIABILITIES		**3,729,010**	3,802,605
EQUITY			
Share capital	17	**161,917**	161,917
Share premium	17	**108,897**	108,897
reasury shares	17	**(4,958)**	(4,528)
Reserves	17	**289,301**	289,314
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK		**555,157**	555,600
Non controlling interests		**646**	859
OTAL EQUITY		**555,803**	556,459
OTAL LIABILITIES AND EQUITY		**4,284,813**	4,359,064

Talal Mohamed Reza Behbehani
Chairman

ichel Accad
Chief Executive Officer

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

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2016

	Notes	**2016** KD 000	2015 KD 000
Interest income	18	**179,408**	127,003
Interest expense	19	**(70,222)**	(32,610)
NET INTEREST INCOME		**109,186**	94,393
Net fees and commission income	20	**30,317**	25,228
Net foreign exchange gain		**3,970**	3,134
Net loss on investment securities		**(2,549)**	(1,008)
Dividend income		**2,162**	3,478
Share of results from an associate		**2,571**	2,506
Other operating income		**1,860**	801
OPERATING INCOME		**147,517**	128,532
Staff expenses		**(34,236)**	(25,608)
Other operating expenses		**(19,435)**	(13,849)
Depreciation and amortisation		**(4,417)**	(1,729)
OPERATING EXPENSES		**(58,088)**	(41,186)
OPERATING PROFIT FOR THE YEAR		**89,429**	87,346
Net gain from business combination	3	**-**	8,005
Provision on credit facilities	11	**(50,813)**	(58,679)
Impairment on investment securities		**(1,626)**	(2,750)
PROFIT FOR THE YEAR BEFORE TAXATION AND DIRECTORS' FEE		**36,990**	33,922
Taxation	21	**(4,103)**	(3,074)
Directors' fees		**(375)**	(480)
NET PROFIT FOR THE YEAR		**32,512**	30,368
Attributable to:			
Shareholders of the Bank		**32,472**	30,360
Non-controlling interests		**40**	8
		32,512	30,368
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	22	**20 fils**	19 fils

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016	*2015*
	KD 000	*KD 000*
Net profit for the year	**32,512**	30,368
Other comprehensive loss		
Items that are or will be reclassified subsequently to consolidated income statement:		
Foreign currency translation:		
Net exchange difference on translation of foreign operations	**(13,154)**	(130)
Investments available for sale:		
Recycling of net loss on sale to income statement	**2,517**	448
Recycling of impairment to income statement	**1,626**	2,750
Effect of changes in fair values of investments available for sale	**(7,093)**	(13,576)
	(2,950)	(10,378)
	(16,104)	(10,508)
Items that will not be reclassified to consolidated income statement:		
Re-measurement of defined benefit obligation	**(63)**	(105)
Revaluation of freehold land	**(436)**	714
	(499)	609
Total other comprehensive loss for the year	**(16,603)**	(9,899)
Total comprehensive income for the year	**15,909**	20,469
Attributable to:		
Shareholders of the Bank	**16,058**	20,460
Non-controlling interests	**(149)**	9
	15,909	20,469

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to shareholders of the Bank												
				Reserves									
	Share capital KD 000	*Share premium KD 000*	*Treasury shares (Note 17) KD 000*	*Statutory reserve KD 000*	*General reserve KD 000*	*Treasury shares reserve (Note 17) 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 2016	**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**
Net profit for the year	-	-	-	-	-	-	-	-	32,472	32,472	32,472	40	32,512
Other comprehensive loss for the year	-	-	-	-	-	-	(13,467)	(2,947)	-	(16,414)	(16,414)	(189)	(16,603)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(13,467)	(2,947)	32,472	16,058	16,058	(149)	15,909
Dividend paid	-	-	-	-	-	-	-	-	(16,077)	(16,077)	(16,077)	-	(16,077)
Treasury shares purchased	-	-	(430)	-	-	-	-	-	-	-	(430)	-	(430)
Transfer to reserves	-	-	-	3,436	3,436	-	-	-	(6,872)	-	-	-	-
Acquisition of non-controlling interests (Note 3)	-	-	-	-	-	-	-	-	6	6	6	(64)	(58)
As at 31 December 2016	**161,917**	**108,897**	**(4,958)**	**71,251**	**70,804**	**8,065**	**(4,692)**	**9,991**	**133,882**	**289,301**	**555,157**	**646**	**555,803**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to shareholders of the Bank												
				Reserves									
	Share capital KD 000	*Share premium KD 000*	*Treasury shares (Note 17) KD 000*	*Statutory reserve KD 000*	*General reserve KD 000*	*Treasury shares reserve (Note 17) 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 (loss) 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)
Transfer 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 CASHFLOWS

Year ended 31 December 2016

	Note	***2016*** ***KD 000***	*2015* *KD 000*
OPERATING ACTIVITIES			
Net profit for the year before directors' fees and taxation		**36,990**	33,922
Adjustments for:			
Net loss on sale of investments available for sale		**2,517**	448
Dividend income		**(2,162)**	(3,478)
Share of results from an associate		**(2,571)**	(2,506)
Net gain from business combination	3	**-**	(8,005)
Depreciation and amortisation		**4,417**	1,729
Provisions on credit facilities		**50,813**	58,679
Impairment on investment securities		**1,626**	2,750
Operating profit before changes in operating assets and liabilities		**91,630**	83,539
Changes in operating assets and liabilities:			
Deposits with banks		**(73,302)**	(26,932)
Kuwait Government treasury bonds		**(18,896)**	75,585
Central Bank of Kuwait bonds		**5,998**	41,515
Loans and advances		**(144,327)**	(525,983)
Investments at fair value through profit or loss		**7,120**	6,693
Other assets		**(6,267)**	7,972
Due to banks and other financial institutions		**(438,886)**	270,527
Customers' deposits		**601,768**	229,484
Other liabilities		**7,623**	(5,264)
Taxes paid		**(3,919)**	(1,787)
Net cash flows from operating activities		**28,542**	155,349
INVESTING ACTIVITIES			
Purchase of investments available for sale		**(142,164)**	(9,671)
Proceeds from sale of investments available for sale		**161,636**	57,945
Dividend received from investment in an associate		**881**	799
Purchase of premises and equipment		**(7,445)**	(3,183)
Dividend income received		**2,162**	3,478
Net cash flow on business combination		**-**	68,000
Acquisition of non-controlling interest		**(58)**	-
Net cash flows from investing activities		**15,012**	117,368
FINANCING ACTIVITIES			
Dividend paid		**(16,077)**	(20,983)
Purchase of treasury shares		**(430)**	(2,225)
Net cash flows used in financing activities		**(16,507)**	(23,208)
Foreign currency translation difference		**(33,988)**	(942)
Net (decrease) increase in cash and cash equivalents		**(6,941)**	248,567
Cash and cash equivalents at 1 January		**343,971**	95,404
Cash and cash equivalents at 31 December		**337,030**	343,971
Cash and cash equivalent comprise:			
Cash in hand and in current account with other banks		**67,256**	51,880
Balances and deposits with Central Banks (original maturity not exceeding thirty days)		**136,955**	149,222
Deposits with banks (original maturity not exceeding thirty days)		**132,819**	142,869
		337,030	343,971

Interest received amounted to KD 180,148 thousand (2015: KD 125,530 thousand) and interest paid amounted to KD 61,708 thousand (2015: KD 29,725 thousand).

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

1 INCORPORATION AND REGISTRATION

Al Ahli Bank of Kuwait K.S.C.P. ("the Bank") is a public shareholding company incorporated in Kuwait on 23 May 1967 and is registered as a Bank with the Central Bank of Kuwait (CBK). Its registered office is at Al Safat Square, Ahmed Al Jaber Street, Kuwait City. It is engaged in banking, primarily in Kuwait, 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 10 January 2017. 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 and disclosures
The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of the amendments to the existing standards relevant to the Group, effective as of 1 January 2016, which did not result in any material impact on the accounting policies, financial position or performance of the Group

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

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has started the process of evaluating the potential impact of this standard and performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and will be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Key area that will have a significant impact will be the impairment of financial instruments other than equity investment securities. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards/amendments issued but not yet effective (continued)

IFRS 15: Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases). Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Group is in the process of evaluating the effect of IFRS 15 on the amounts reported and disclosed in the Group's consolidated financial statements.

IFRS 16: Leases
The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group is in the process of evaluating the effect of IFRS 16 on the amounts reported and disclosed in the Group's consolidated financial statements.

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

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Profit or loss and each component of the other comprehensive income are attributed to the equity holders of the the Bank 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 lose 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:

			Effective interest as at	
Name of company	*Country of incorporation*	*Principal business*	***31 December 2016***	*31 December 2015*
Ahli Capital Investment Company K.S.C. (Closed)	Kuwait	Investment	**99.6%**	99.6%
Al Ahli Bank of Kuwait Egypt S.A.E ("ABKE"), previously Piraeus Bank of Egypt S.A.E (Note 3)	Egypt	Banking	**98.6%**	98.5%
Held through ABKE				
Al Ahli Bank of Kuwait - Egypt Leasing Co.	Egypt	Leasing	**98.5%**	98.4%
Al Ahli Bank of Kuwait - Egypt Investment Co.	Egypt	Investment	**98.6%**	98.5%

Financial Instruments

Classification of financial instruments

The Group classifies financial instruments as "loans and receivables" "investment securities", "financial liabilities other than at fair value through profit or loss" and "derivatives". Investment securities comprise of "investments at fair value through profit or loss", "investments available-for-sale" and "investments held to maturity". 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity.

After initial recognition, held to maturity financial assets are carried at amortised using the effective interest method 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.

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 certain 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, forward foreign exchange contracts and options. 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Subsequent measurement (continued)

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

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

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

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 gain or loss on 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Subsequent measurement (continued)

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

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.

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 instrument
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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial instrument (continued)

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 a significant decline in fair value compared to acquisition cost or if there is a prolonged decline in value. If any of the indicators are met, 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.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 aggregate of 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	5 years to 40 years
Furniture and equipment	3 years to 5 years
Vehicles	5 years to 6 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and equipment (continued)
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 are considered to modify 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 by estimating recoverable amount using Value in Use (VIU) or whenever there is an indication that the intangible asset may be impaired, either individually or at the cash-generating unit level. VIU calculation uses a five-year cash flow projection, unless a longer period can be justified. 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
The overseas subsidiary pays fixed subscriptions and commits to pay contributions to Social Insurance Authority under a defined contribution plan and has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense in the consolidated income statement when they are due.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. 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 consolidated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. investments held to maturity 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 year-end are translated into Kuwaiti Dinars at rates of exchange ruling at the statement of financial position date.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)
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 consolidated 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, investments held to maturity 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgements (continued)

Impairment (continued)
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.

3 BUSINESS COMBINATION

In November 2015, the Group concluded the acquisition of a controlling stake of 98.49 per cent in ABKE, 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 had carried out one time 'Purchase Price Allocation (PPA)' exercise and recorded a net gain from business combination of KD 8,005 thousand. On acquisition the Group acquired non-controlling interest of KD 850 thousand.

During the current year, the Bank acquired additional 0.11 percent non-controlling stake and accordingly the total equity interest in ABKE has increased to 98.6 percent.

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:

Retail and Commercial Banking	- Comprising a full range of credit, deposit and related banking services provided to its commercial and retail customers.
International	- Operations related to overseas subsidiary and branches are classified as International.
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.

4 SEGMENTAL INFORMATION (continued)

	Retail and Commercial banking		*International*		*Treasury and Investments*		*Total*	
	2016 KD 000	*2015 KD 000*	***2016 KD 000***	*2015 KD 000*	***2016 KD 000***	*2015 KD 000*	***2016 KD 000***	*2015 KD 000*
Net interest income	**86,025**	76,601	**25,648**	11,901	**(2,487)**	5,891	**109,186**	94,393
Operating income	**113,170**	101,383	**32,969**	14,780	**1,378**	12,369	**147,517**	128,532
Provisions for credit facilities and investments	**43,268**	55,568	**8,414**	3,533	**757**	2,328	**52,439**	61,429
Segment results	**51,464**	28,823	**4,885**	6,104	**(1,008)**	8,500	**55,341**	43,427
Unallocated expense							**(18,351)**	(17,510)
Net gain from business combination							**-**	8,005
Profit for the year before taxation and directors' fees							**36,990**	33,922
Segment assets	**2,607,195**	2,589,267	**745,625**	835,022	**862,006**	870,806	**4,214,826**	4,295,095
Unallocated assets							**69,987**	63,969
Total assets							**4,284,813**	4,359,064
Segment liabilities	**1,953,210**	1,609,850	**696,633**	788,141	**1,032,102**	1,361,783	**3,681,945**	3,759,774
Unallocated liabilities							**47,065**	42,831
Total liabilities							**3,729,010**	3,802,605

5 RISK MANAGEMENT

INTRODUCTION
Risk is inherent in the Group's activities, but is managed through risk process of ongoing identification, measurement and monitoring, by setting risk limits and 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 area of responsibilities. The Group has established comprehensive risk frameworks for managing all material risks. The frameworks address the risk identification, measurement and monitoring processes of all material risks across the Group. Risk management 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, including 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 branches and subsidiary are also subject to regulatory requirements within the jurisdictions where they operates. Such regulations also prescribe capital adequacy levels of the branches or subsidiary should maintain besides other regulations to minimise the risk of default and insolvency to meet unforeseen liabilities when 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. This also includes credit exposures to a single borrower or group of related borrowers. 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.

5 RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

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:

	2016		2015	
	Assets KD 000	Credit related contingent liabilities KD 000	Assets KD 000	Credit related contingent liabilities KD 000
***Geographic region*:**				
Middle East and North Africa (MENA)	**3,830,644**	**832,569**	3,805,380	589,220
Europe	**125,926**	**66,035**	105,769	106,060
Asia Pacific	**76,406**	**210,562**	152,450	206,185
Rest of the world	**79,357**	**27,979**	67,543	29,162
	4,112,333	**1,137,145**	4,131,142	930,627
Industry sector:				
Trading and manufacturing	**457,245**	**249,029**	440,616	195,324
Banks and other financial institutions	**688,008**	**314,862**	685,071	320,030
Construction and real estate	**810,722**	**447,577**	839,844	310,462
Government and related entities	**787,484**	**-**	765,699	-
Personal	**918,820**	**754**	1,001,474	2,975
Others	**450,054**	**124,923**	398,438	101,836
	4,112,333	**1,137,145**	4,131,142	930,627

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

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

	Neither past due nor impaired			Past due including individually impaired	Gross Maximum exposures
2016	High Grade KD 000	Standard grade KD 000	Acceptable Grade KD 000	KD 000	KD 000
Balances with banks	**461,320**	**5,137**	**-**	**-**	**466,457**
Kuwait Government treasury bonds	**223,142**	**-**	**-**	**-**	**223,142**
Central Bank of Kuwait bonds	**173,715**	**-**	**-**	**-**	**173,715**
Loans and advances					
- Corporate and banks	**2,151,404**	**90,885**	**114,066**	**137,945**	**2,494,300**
- Retail	**516,300**	**-**	**-**	**18,784**	**535,084**
Debt securities available for sale and held to maturity (Note 12)	**181,079**	**-**	**-**	**-**	**181,079**
Other assets	**36,659**	**557**	**662**	**678**	**38,556**
Total	**3,743,619**	**96,579**	**114,728**	**157,407**	**4,112,333**

5 RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

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

	Neither past due nor impaired			*Past due including individually impaired*	*Gross Maximum exposures*
	High Grade KD 000	*Standard grade KD 000*	*Acceptable Grade KD 000*	*KD 000*	*KD 000*
2015					
Balances with banks	405,038	12,337	-	-	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	3,750,124	119,061	144,957	117,000	4,131,142

Past due but not impaired loans as at 31 December 2016 amounting to KD 85,864 thousand (31 December 2015: 56,739 thousand) are past due for a period less than 45 days and KD 38,479 thousand (31 December 2015: 27,390 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 2016 was KD 68,921 thousand (31 December 2015: 25,482 thousand)

The gross maximum credit risk exposure relating to contingencies amounts to KD 1,137,145 thousand (2015: KD 930,627 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 Group's policy to take legal recourse to enforce collaterals where warranted to recover Bank's dues as per the Law.

Of the total outstanding loans and advances, KD 1,275,350 thousand (2015: KD 1,310,710 thousand) were secured with a collateral value of KD 2,082,734 thousand (2015: KD 2,228,986 thousand).

5 RISK MANAGEMENT (continued)

B. LIQUIDITY RISK

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

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

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

Financial liabilities	***Less than one month KD 000***	***One month to one year KD 000***	***Over one year KD 000***	***Total KD 000***
2016				
Due to banks and other financial institutions	**287,442**	**334,328**	**128,186**	**749,956**
Customers' deposits	**817,772**	**1,428,967**	**695,997**	**2,942,736**
Other liabilities	-	**44,739**	**-**	**44,739**
	1,105,214	**1,808,034**	**824,183**	**3,737,431**
Commitment and contingent liabilities	**134,771**	**488,040**	**514,334**	**1,137,145**
Gross settled derivatives	**146,274**	**246,988**	**-**	**393,262**
2015				
Due to banks and other financial institutions	391,340	793,392	25,538	1,210,270
Customers' deposits	687,559	1,091,713	747,922	2,527,194
Other liabilities	-	54,720	-	54,720
	1,078,899	1,939,825	773,460	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

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.

5 RISK MANAGEMENT (continued)

B. LIQUIDITY RISK (continued)

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 2016 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	**398,938**	**95,740**	**-**	**-**	**494,678**
Kuwait Government treasury bonds	**8,696**	**117,485**	**90,961**	**6,000**	**223,142**
Central Bank of Kuwait bonds	**69,715**	**104,000**	**-**	**-**	**173,715**
Loans and advances	**422,436**	**1,309,041**	**831,368**	**466,539**	**3,029,384**
Investment securities	**5,696**	**152,232**	**45,004**	**34,973**	**237,905**
Investment in an associate	**-**	**-**	**18,263**	-	**18,263**
Premises and equipment	**-**	**-**	**-**	**46,695**	**46,695**
Intangible assets	**-**	**-**	**-**	**17,698**	**17,698**
Other assets	**-**	**42,189**	**1,144**	**-**	**43,333**
Total assets	**905,481**	**1,820,687**	**986,740**	**571,905**	**4,284,813**
LIABILITIES					
Due to banks and other financial institutions	**286,675**	**327,113**	**120,983**	**-**	**734,771**
Customers' deposits	**813,810**	**1,401,743**	**684,355**	**-**	**2,899,908**
Other liabilities	**-**	**88,878**	**5,453**	**-**	**94,331**
Total liabilities	**1,100,485**	**1,817,734**	**810,791**	**-**	**3,729,010**

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

5 RISK MANAGEMENT (continued)

C. MARKET RISK

C.1 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the interest rate gaps for stipulated years. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

The sensitivity of interest rate variability on the Group's consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2016 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 2016 for the effects of the assumed changes in interest rates and is analysed by maturity of the asset or swap.

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

	Effect (KD 000)			
	2016		*2015*	
	Net profit	***Equity***	*Net profit*	*Equity*
Kuwaiti Dinar	**1,899**	**87**	1,836	107
US Dollars	**190**	**20**	221	124
Egyptian Pound	**76**	**23**	15	58

C.2 CURRENCY RISK

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. The financial instruments denominated in foreign currencies are 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.

Hedge of net investment in foreign operations
The Bank hedges part of EGP currency risk of its net investment in foreign operations (ABKE) using certain USD monetary assets held by ABKE. Gains or losses on the retranslation of these monetary assets are transferred to consolidated statement of comprehensive income to offset gains or losses on translation of the part of net investment in ABKE.

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

	Effect (KD 000)	
	2016	*2015*
Currency		
US Dollars	**141**	20
Egyptian Pound	**17**	15
Euro	**7**	2
Others	**55**	34

5 RISK MANAGEMENT (continued)

C.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities decrease as a 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 held in its proprietary books. The financial instruments exposed to these risks, the objectives, policies and procedures for managing and measuring these risks are explained in the Risk Management section of the annual report.

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

	Effect (KD 000)			
	2016		*2015*	
	Net profit	***Equity***	*Net profit*	*Equity*
GCC Stock Exchanges	**197**	**179**	651	516
Other Stock Exchanges	**-**	**960**	443	894

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 function, 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 these risks. Controls include effective segregation of duties, access to assets and IT resources, authorisation and reconciliation procedures, staff education and assessment processes, compliance monitoring 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.

6 CAPITAL MANAGEMENT (continued)

The Group's regulatory capital and capital adequacy ratios 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:

	2016	*2015*
	KD 000	*KD 000*
Risk weighted exposure	**3,183,705**	3,169,487
Capital required	**429,801**	412,034
Capital available:		
Tier 1 capital	**523,976**	507,991
Common equity Tier 1	**523,976**	507,991
Additional Tier 1	-	-
Tier 2 capital	**38,473**	38,230
Total Capital	**562,449**	546,221
Common equity Tier 1 capital adequacy ratio	**16.46%**	16.03%
Tier 1 capital adequacy ratio	**16.46%**	16.03%
Total capital adequacy ratio	**17.67%**	17.23%

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

	2016	*2015*
	KD 000	*KD 000*
Tier 1 capital	**523,976**	507,991
Total exposure	**5,071,614**	5,031,543
Financial leverage ratio	**10.33%**	10.10%

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

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, certain other assets and derivatives. 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:

7 FAIR VALUE MEASUREMENT (continued)

Financial Instruments (continued)

Financial instruments carried at fair value

The financial instruments carried at fair value comprise of investment securities and derivatives. The fair value along with the valuation techniques for investment securities and derivatives are disclosed in Note 12 and Note 24 respectively.

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 2016 would be KD 17,285 thousand (31 December 2015: KD 18,091 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***	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*
					KD 000	*KD 000*
Directors						
Loans and advances	**5**	6	**2**	6	**46,581**	70,872
Customers' deposits	**13**	12	**16**	25	**30,196**	21,591
Investment securities	-	-	**1**	1	**2,612**	2,709
Portfolio managed by Group	-	-	**1**	1	**19**	20
Commitments and contingent liabilities	-	-	**3**	6	**21,551**	20,655

Loans and advances to related parties are fully collateralised.

8 RELATED PARTY TRANSACTIONS (continued)

	Number		*Number of related parties*		*Amount*	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*
					KD 000	*KD 000*
Key management						
Loans and advances	**17**	16	**-**	-	**363**	393
Customers' deposits	**23**	17	**6**	5	**583**	1,026
Portfolio managed by Group	**1**	-	**1**	1	**77**	57
Commitments and contingent liabilities	**1**	1	-	-	**1**	1
Associate						
Customers' deposits	**1**	1	**1**	1	**245**	306

Interest income and interest expense includes KD 1,759 thousand (2015: KD 2,526 thousand) and KD 788 thousand (2015: KD 358 thousand) respectively, on transactions with related parties.

Key management compensation
Compensation for key management is as follows:

	2016	*2015*
	KD 000	*KD 000*
Salaries and other benefits	**3,348**	2,370
Post-employment benefits	**219**	173
	3,567	2,543

9 CASH AND BALANCES WITH BANKS

	2016	*2015*
	KD 000	*KD 000*
Cash in hand and in current account with other banks	**67,256**	51,880
Balances and deposits with Central Banks	**147,102**	156,294
Deposits with banks	**280,320**	223,999
	494,678	432,173

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

2016	MENA KD 000	Europe KD 000	Asia Pacific KD 000	Rest of the world KD 000	Total KD 000
Corporate and banks	**2,302,318**	**80,267**	**54,762**	**56,233**	**2,493,580**
Retail	**535,804**	-	-	-	**535,804**
					3,029,384
2015					
Corporate and banks	2,293,571	65,032	115,604	63,588	2,537,795
Retail	509,348	-	-	-	509,348
					3,047,143

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

	2016 KD 000	2015 KD 000
Gross loans and advances	**83,283**	74,391
Specific provision for credit losses	**42,321**	35,718
Fair value of collateral held	**29,460**	40,758

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

	2016 KD 000	2015 KD 000
At 1 January	**212,232**	153,101
On acquisition of a subsidiary (Note 3)	-	6,369
Exchange difference	**(2,847)**	375
Net amounts written off during the year	**(28,450)**	(5,850)
Charge for the year	**50,255**	58,237
At 31 December	**231,190**	212,232
General Provision	**188,869**	176,514
Specific Provision	**42,321**	35,718

Charge for the year above includes general provision charge of KD 21,488 thousand (2015: KD 43,993 thousand).

The charge for the year on non-cash facilities is KD 558 thousand (2015: KD 442 thousand) and total available provision of KD 17,470 thousand (2015: KD 18,384 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

	2016	*2015*
	KD 000	*KD 000*
Fair value through profit or loss	-	7,120
Available for sale	**214,821**	336,689
Held to maturity	**23,084**	-
At 31 December	**237,905**	343,809

Valuation of Investments carried at fair value is determined as follows

	Valuation techniques and key inputs	*Investments at fair value through profit or loss*		*Investments available for sale*	
		2016	*2015*	***2016***	*2015*
		KD 000	*KD 000*	***KD 000***	*KD 000*
Level 1:					
Equity	Quoted bid price	-	1,213	**4,860**	13,409
Debt securities					
- Government	Quoted bid price	-	-	**20,232**	63,947
- Non Government	Quoted bid price	-	-	**62,974**	101,304
Level 2:					
Equity	Market multiples	-	-	**8,352**	10,041
Debt securities					
- Government	External quote	-	-	**33,904**	39,662
- Non Government	External quote	-	-	**40,885**	42,485
Managed funds	Net asset value basis	-	5,907	**20,511**	33,405
Level 3:					
Equity	Discounted cash flows/ Dividend discount model	-	-	**23,103**	32,436
		-	7,120	**214,821**	336,689

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:

12 INVESTMENT SECURITIES (continued)

	2016	*2015*
	KD 000	*KD 000*
Opening Balance	**32,436**	33,941
On acquisition of a subsidiary	**-**	895
Purchases	**-**	942
Disposal	**(6,690)**	(195)
Transfer between levels	**383**	-
Change in fair value	**(1,976)**	(2,527)
Impairment	**(1,050)**	(620)
	23,103	32,436

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:

	2016	*2015*
	KD 000	*KD 000*
Current assets	**50,537**	38,389
Non-current assets	**59,683**	56,818
Current liabilities	**62,907**	52,306
Non-current liabilities	**899**	714
Equity	**46,414**	42,187
Revenue	**14,123**	11,677
Net profit	**6,428**	6,265

14 INTANGIBLE ASSETS

	Banking license KD 000	***Core deposits KD 000***	***Total KD 000***
At 1 January 2016	**31,315**	**9,902**	**41,217**
Amortisation charge for the year	**-**	**(722)**	**(722)**
Exchange adjustment	**(17,592)**	**(5,205)**	**(22,797)**
Net carrying amount as at 31 December 2016	**13,723**	**3,975**	**17,698**
On acquisition of a subsidiary	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

14 INTANGIBLE ASSETS (continued)

Intangible assets of the group are allocated to ABKE. Banking license represents intangible asset with indefinite useful life and is annually tested for impairment by estimating the recoverable amount of ABKE using value-in-use (VIU) calculations. Group's VIU calculations are based on approved cash flow projections considering market conditions in Egypt and market position of ABKE. The pre-tax cash flow projections have been discounted at 25 per cent (2015: 18.32 per cent) with a terminal growth rate of 4.9 per cent (2015: 3 per cent). The Group has also performed a sensitivity analysis by varying these input factors by 3%. Based on such analysis, there are no indications that intangible assets are impaired.

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

	2016	*2015*
	KD 000	*KD 000*
Interest receivable	**23,397**	24,130
Others	**19,936**	16,936
	43,333	41,066

16 OTHER LIABILITIES

	2016	*2015*
	KD 000	*KD 000*
Interest payable	**23,008**	14,462
Staff related accruals	**14,271**	17,338
Accrued expenses and payables	**15,263**	19,319
Provisions on non cash facilities (Note 11)	**17,470**	18,384
Others	**24,319**	37,632
	94,331	107,135

17 EQUITY

a) The authorised, issued and fully paid share capital comprises of 1,619,166,234 shares (2015: 1,619,166,234 shares) of 100 fils each.

The shareholders at the Annual General Meeting held on 26 March 2016 approved the distribution of cash dividend of 10 per cent amounting to KD 16,077 thousand for the year ended 31 December 2015 which was paid subsequently (31 December 2014: cash dividend of 13 per cent amounting to KD 20,989). Treasury shares are not entitled to any cash dividends.

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 attributable to the shareholders of the bank 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.

17 EQUITY (continued)

d) The articles of association of the Bank require that an amount of not less than 10 per cent of the profit attributable to the shareholders of the bank 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:

	2016	*2015*
Number of shares held	**12,643,580**	11,325,473
Percentage of shares held	**0.78%**	0.70%
Market value (KD 000)	**3,730**	4,247
Weighted average market value per share (fils)	**319**	365

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 11 fils per share for the year ended 31 December 2016, (31 December 2015: 10 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 2015	8,250	49	-	8,299
Other comprehensive income (loss) for the year	706	(127)	(103)	476
As at 31 December 2015	8,956	(78)	(103)	8,775
Other comprehensive loss for the year	**(437)**	**(12,969)**	**(61)**	**(13,467)**
As at 31 December 2016	**8,519**	**(13,047)**	**(164)**	**(4,692)**

18 INTEREST INCOME

	2016 KD 000	*2015 KD 000*
Balances with banks	**6,091**	1,905
Debt securities	**20,232**	12,441
Loans and advances	**153,085**	112,657
	179,408	127,003

19 INTEREST EXPENSE

	2016 KD 000	2015 KD 000
Due to banks and other financial institutions	**15,233**	12,340
Customers' deposits:		
- Sight deposits	**6,262**	2,146
- Time deposits	**48,727**	18,124
	70,222	32,610

20 NET FEES AND COMMISSION INCOME

	2016 KD 000	2015 KD 000
Fees and commission income	**33,983**	27,986
Fees and commission expense	**(3,666)**	(2,758)
	30,317	25,228

Fees and commission income includes KD 1,085 thousand (2015: KD 1,190 thousand) from fiduciary activities in which the Group holds or invests assets on behalf of its customers.

21 TAXATION

	2016 KD 000	2015 KD 000
Kuwait Foundation for the Advancement of Sciences	**310**	290
National Labour Support Tax	**860**	807
Zakat	**344**	323
Tax on overseas locations	**2,589**	1,654
	4,103	3,074

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.

	2016	2015
Net profit for the year attributable to shareholders of the Bank (KD '000)	**32,472**	30,360
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	**(12,117,112)**	(8,047,787)
Weighted average number of shares outstanding during the year	**1,607,049,122**	1,611,118,447
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	**20**	19

23 COMMITMENTS AND CONTINGENT LIABILITIES

	2016	*2015*
	KD 000	*KD 000*
Acceptances	**29,036**	22,489
Letters of credit	**147,918**	153,087
Guarantees	**960,191**	755,051
	1,137,145	930,627

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 426,814 thousand (2015: KD 491,291 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.

	2016 KD 000			*2015 KD 000*		
	Assets	***Liabilities***	***Contractual amounts***	*Assets*	*Liabilities*	*Contractual amounts*
Held for hedging:						
Fair value hedges						
Interest rate swaps	**241**	**1**	**73,966**	85	289	87,007
Held for trading:						
Forward foreign exchange contracts	**332**	**1,313**	**365,971**	70	341	157,683
Interest rate swaps	**-**	**1,453**	**13,883**	-	7,019	88,883
Currency Options	**619**	**619**	**13,408**	-	-	-
	1,192	**3,386**	**467,228**	155	7,649	333,573

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

24 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forward foreign exchange contracts
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.

Swaps
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.

Options
Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

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 AhIi 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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Deloitte.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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
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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.

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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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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
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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.

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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

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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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2015

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.
Established in the State of Kuwait
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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