National Bank of Kuwait

Annual Report and Financial Statements 2016

Our Achievements and Vision

HH Sheikh

Sabah Al-Ahmad Al-Jaber Al-Sabah

Emir of the State of Kuwait

HH Sheikh

Nawaf Al-Ahmad Al-Jaber Al-Sabah

Crown Prince of the State of Kuwait

Vision and Mission Statement

Our Vision

"The trusted bank of Choice, building on our core values, people and expertise"

Our Mission

To deliver world class products and highest service quality to our customers

To attract, develop and retain the best banking talent in the region

To support the communities in which we operate

To adhere to our core values of passion, integrity, conservatism and knowledge

By doing so, we believe that we will be able to achieve consistently superior returns to our shareholders

Financial Highlights

(In USD million)	2016	2015	2014	2013	2012
Net interest income & net income from Islamic financing	1,862	1,732	1,534	1,475	1,300
Non-interest income	574	649	626	571	824
Operating expenses	823	767	703	677	600
Net profit	964	922	855	778	997
Total assets	79,085	77,104	71,178	60,775	53,888
Assets under management	11,809	11,005	10,449	10,021	9,204
Shareholders' equity excluding proposed dividend	8,882	8,520	8,208	7,758	7,510
Market capitalization	11,765	12,934	14,009	13,044	13,403
Return on beginning equity excluding proposed dividends (%)	10.8	11.0	11.0	10.4	14.1
Year-end price per share (US$)	2.1	2.6	3.0	2.9	3.1
Basic earnings per share (Cents)	17	17	16	15	19
Proposed cash dividends (Cents)	10	10	10	10	10
Proposed bonus shares (%)	5	5	5	5	5

NBK at a Glance

NBK was established in 1952 as the first local bank and the first shareholding company in Kuwait and the Gulf region. Over the years, NBK has remained the leading financial institution in Kuwait and has successfully extended its well-established franchise throughout the Middle East. NBK currently operates through a large international network covering the world's leading financial and business centers across 15 countries.

NBK has long been recognized for its excellent and stable management team and its clear and focused strategy. NBK's strength rests on its consistent profitability, high asset quality, and strong capitalization. NBK offers a full spectrum of innovative and unrivalled financial and investment services and solutions for individuals, corporate and institutional clients. NBK currently enjoys a dominant market share with a large and ever expanding local and regional client base.

NBK has consistently been awarded the highest ratings among regional banks by the major international ratings agencies; Moody's, Standard and Poor's and Fitch Ratings, and has continuously ranked among the list of the world's 50 safest banks.

Highest Credit Ratings in the Middle East

Moody's	FitchRatings	Standard & Poor's
Aa3	AA-	A+

Amongst the World's 50 Safest Banks

Global Finance

NBK Across the Globe

NBK maintained its lead in the domestic market where it has a dominant position. The bank strengthened its position in the region, where its expansion is part of a strategy to diversify revenue streams and to achieve growth. NBK made further consolidation of its regional operations, bringing the full benefits of its unrivalled core management and treasury function to extract synergies and enable closer integration. NBK's network now comprises 153 branches, subsidiaries and representative offices in 15 countries on four continents, of which 8 are in the Middle East.

1 KUWAIT (No. of branches 68)
Tel: +965 2242 2011
Fax: +965 2259 5804

WATANI FINANCIAL BROKERAGE COMPANY
Tel: +965 2259 4948
Fax: +965 2241 6922

NBK CAPITAL
Tel: +965 2224 6901
Fax: +965 2224 6905

2 IRAQ (No. of branches 5)
Credit Bank of Iraq
Tel: +964 1 7182198 / 7191944
Tel: +964 1 7188406 / 7171673
Fax: +964 1 7170156

3 JORDAN (No. of branches 3)
Tel: +962 6 580 0400
Fax: +962 6 580 0441

4 LEBANON (No. of branches 3)
Tel: +961 1 759 700
Fax: +961 1 747 866

5 SAUDI ARABIA
Jeddah Branch
Tel:+966 2 603 6300
Fax: +966 2 603 6318

6 BAHRAIN (No. of branches 2)
Tel: +973 17 155 555
Fax: +973 17 104 860

7 UAE (No. of branches 2)
Tel: +971 4 3161600
Fax:+971 4 388 8588

NBK Capital - UAE
Tel: +971 4 3652800
Fax: +971 4 3652805

8 EGYPT (No. of branches 41)
NBK Egypt
Tel: +202 261 49300
Fax:+202 261 33978

NBK Capital - Egypt
Tel: +202 279 85900
Fax:+202 279 85904 / 05

9 TURKEY (No. of branches 18)
Turkish Bank
Tel: +90 212373 6373
Fax: +90 212225 0353

10 SWITZERLAND
Tel: +41229064343
Fax: +41229064399

11 FRANCE
Paris Branch
Tel: +33 1 5659 8600
Fax: +33 1 5959 8623

12 UNITED KINGDOM
(No. of branches 2)
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

13 UNITED STATES OF AMERICA
New York Branch
Tel: +1 212 303 9800
Fax: +1 212 319 8269

14 CHINA
Shanghai Branch
Tel: +86 21 8036 0800
Fax: +86 21 8036 0801

15 SINGAPORE
Singapore Branch
Tel: +65 6222 5348
Fax: +65 6224 5348

Board of Directors

Nasser Musaed Abdullah Al-Sayer
Chairman

Ghassan Ahmed Saoud Al-Khaled
Vice Chairman

Hamad Abdul Aziz Al-Sager
Board Member

Yacoub Yousef Al-Fulaij
Board Member

Hamad Mohamed Al-Bahar
Board Member

Muthana Mohamed Ahmed Al-Hamad
Board Member

Haitham Sulaiman Al-Khaled
Board Member

Loay Jassim Al-Kharafi
Board Member

Emad Mohamed Al-Bahar
Board Member

Group's Board of Directors:

Mr. Nasser Musaed Abdullah Al-Sayer (Chairman)

Mr. Nasser Musaed Al-Sayer has been a Board Member of NBK since 1980 and was appointed as the Board Vice-Chairman in 1993 and Chairman since August 2014. He is the Chairman of the Board Corporate Governance Committee.

Mr. Al-Sayer is also a Board member of the Kuwait Banking Association since 1999 where he was also the Chairman from 1999 to 2006. He was also a member of the Supreme Council for Planning & Development (Chaired by H.E. The Prime Minister of Kuwait), and the Finance and Investment Committee of the Kuwait Chamber of Commerce and Industry since 2003. Mr. Al Sayer was the Deputy Director-General (1971-1978) and a Board member of the Kuwait Fund for Arab Economic Development from 1994 to 2000.

Mr. Al-Sayer brings to the Board considerable experience in banking, investment, strategic planning and governance from both private and public sectors.

Mr. Al-Sayer holds Bachelor of Arts degree in Economics from Oklahoma State University, USA.

Mr. Ghassan Ahmed Saoud Al-Khaled (Vice Chairman)

Mr. Ghassan Ahmed Al Khaled has been a board member of NBK since 1987 and Vice-Chairman since August 2014. He is the Chairman of the Board Risk Committee and the Chairman of the Board Remuneration & Nomination Committee.

Mr. Al-Khaled is the Vice-Chairman and Managing Director at ACICO Industries Co. He has rich background in Corporate Banking, Trade Finance, Credit and the Retail sector.

Mr. Al-Khalid holds a Bachelor of Science degree in Civil Engineering from West Virginia University, USA.

Mr. Hamad Abdul Aziz Al-Sager (Board Member)

Mr. Hamad Abdul Aziz Al-Sager was a Board Member of NBK from 1975 to 1976 and, also, since 1983 to date. He is also a member of the Board Credit Committee and Board Corporate Governance Committee.

Mr. Al-Sager is a Board member at Al Kout Industrial Projects Co., Kuwait. He has extensive experience in banking industry especially in Corporate Credit.

Mr. Al-Sager holds a Bachelor of Arts degree in Economics from Ireland.

Mr. Yacoub Yousef Al-Fulaij (Board Member)

Mr. Yacoub Yousef Al-Fulaij has been a Board Member since 1998 and was a General Manager in NBK during 1983 to 1998. Mr. Al-Fulaij is a member of the Board Credit Committee and Board Corporate Governance Committee.

Having been previously a General Manager at the Bank, Mr. Al-Fulaij has broad experience in banking activities, including risk management and internal controls.

Mr. Al-Fulaij holds a Bachelor of Arts degree in Business Administration from the University of Miami, USA.

Mr. Hamad Mohamed Al-Bahar (Board Member)

Mr. Hamad Mohamed Al-Bahar has been a Board Member of NBK since 2005. He is also the Chairman of the Board Audit Committee and a member of Board Nomination and Remuneration Committee.

Mr. Al-Bahar was on the Board of the Kuwait Investment Company from 1981 to 1991 where he served as the Chairman and Managing Director. He was also the Managing Director of Bank of Bahrain and Kuwait. He has extensive experience in Investment Banking and Assets Management, in addition to internal controls.

Mr. Al-Bahar holds a Bachelor of Arts degree in Economics from Alexandria University, Egypt.

Mr. Muthana Mohamed Ahmed Al-Hamad (Board Member)

Mr. Al-Hamad has been a Board member since 2007. He is a member of the Board Credit Committee, Board Corporate Governance Committee and the Board Nomination & Remuneration Committee.

Mr. Al-Hamad is a Board member of Alwatyah United Real Estate Company and has been the Chairman of Future Communication Company International from 2005 till 2014. He was previously a Board member of Arab European Company for Financial Management (AREF) from 1987 till 1993 and served on the Board of The Commercial Bank of Kuwait from 1993 till 1997 and the United Bank of Kuwait from 1996 till 1997. He has considerable experience in Finance and Business Economics.

Mr. Al-Hamad holds a Bachelor of Arts degree in Economic & Political Science from Kuwait University, Kuwait.

Mr. Haitham Sulaiman Al-Khaled (Board Member)

Mr. Al-Khaled has been a Board member since 2010. He is a member of the Board Audit Committee, Board Risk Committee and the Board Corporate Governance Committee.

Mr. Al-Khaled is a Board Member of Al Shall Consulting & Investment Co. since 2006 and Al Arjan International Real Estate Company since 2010 and has been the Chairman since 2014. Mr. Al Khaled previously held the following positions at the leading telecom operator Zain; Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer amongst other responsibilities.

He has a rich experience in strategic planning, investments, mergers and acquisitions, corporate governance and internal controls.

Mr. Al-Khaled holds a Bachelor of Science degree in Electronic Engineering from Kuwait University, Kuwait.

Mr. Loay Jassim Al-Kharafi (Board Member)

Mr. Loay Jassim Al-Kharafi has been a Board Member of NBK since 2011. He is a member of the Board Audit Committee and Board Risk Committee.

Mr. Al-Kharafi has served as the Vice Chairman of the Industrial Bank of Kuwait from 1999 till 2003 and from 2005 till 2008 and was the Chairman of the Board Audit in the Industrial Bank during the same period.

He has assumed many advisory and commercial positions in Al-Kharafi Group of companies.

He also assumes the management of Al-Kharafi law office and legal consulting.

Mr. Al-Kharafi has substantial experience in regulatory compliance and legal matters.

Mr. Al-Kharafi holds a Bachelor of Law Degree from Kuwait University, Kuwait.

Mr. Emad Mohamed Al-Bahar (Board Member)

In August 2014 Mr. Emad Mohamed Al-Bahar joined National Bank of Kuwait as a Board Member following the death of the late Chairman Mr. Mohamed AbdulRahman Al Bahar. He is also a member of the Board Nomination and Remuneration Committee and the Board Credit Committee.

Mr. Al-Bahar is a member of the Executive Board of the late Chairman Mr. Mohamed AbdulRahman Al Bahar Group, which is one of the oldest trading conglomerates in Kuwait and the Middle East.

In addition to being a member of the Executive Board and its strategic decision making team at Al-Bahar, he is also a member of the Board of Al Ahlia Insurance Company Kuwait and in other Companies abroad.

Mr. Emad Mohamed Al-Bahar holds a Management Degree from the American University of Washington, USA.

Chairman's Message

Dear Shareholders,

I am honored to deliver, on behalf of the board and myself, the National Bank of Kuwait's 64th Annual Report. 2016 proved a strong, profitable year for the NBK Group with the Bank maintaining its solid core business income streams, high asset quality trends, leadership position in our core markets and solid cost controls across the Group.

Kuwait remains a key market for our operations as we continue to lead the business activities resulting from mega infrastructure projects of Kuwait's development plan. In the meantime, our strategy focuses on diversification of income streams and thus we strive to strengthen our market position regionally and internationally seizing growth opportunities that emerge in the markets we operate in.

NBK continued approaching regional markets as an integrated financial services provider, allowing the bank to achieve further revenue synergies within the Group and reflect the strength of the Bank's brand and reputation in the region and across the globe.

Strong Financial Performance

National Bank of Kuwait Group continued its strong performance during 2016 reporting a net profit of KD 295.2 million with a growth of 4.6% year-on-year. The net profit in 2015 also included a net accounting gain of KD 16.7 million derived from the Group's exit from its investment in the International Bank of Qatar (IBQ) in 2014.

Thus when compared to the appropriately adjusted net profit for 2015, the net profits for 2016 represent an 11.2% increase year-on-year; once again confirming the success of the Bank's conservative strategy, prudent risk management and commitment to the highest standards across all business lines.

On a similarly adjusted basis, the Group's net operating income increased by 5.4%, to KD 745.3 million in 2016. The growth in operating income was primarily driven by higher net interest income.

2016 results reflect the strong growth that NBK achieved across all business lines. Customer loans and advances reached KD 13.6 billion as of December-end 2016 with a marginal increase than previous year resulting from extraordinary loan settlements; in addition to the flotation of the Egyptian pound. In turn, customer deposits grew by 4.6% to KD 12.6 billion, reaffirming NBK's long-established reputation as one of the world's safest banks.

NBK's strength and efficiency are reflected in all financial indicators. The Bank achieved strong returns on its assets and shareholder equity in 2016. Return on average assets reached 1.22% and return on equity reached 10.8% in 2016. Capitalization remained very strong with Basel III Capital Adequacy Ratio reaching 17.7% at the end of December 2016, comfortably higher than the regulatory requirements.

NBK continued to improve its asset quality trends with NPL/Gross Loans ratio dropping to 1.28% as of year-end 2016 down from 1.34% a year earlier, and NPL coverage ratio increasing to 365%, up from 322% at year-end 2015.

Total Group assets reached KD 24.2 billion, recording a growth of 2.6% year-on-year while total shareholders' equity reached KD 2.7 billion, growing at 4.3% year-on-year.

NBK Board of Directors has recommended the distribution of 30 fils cash dividend per share, representing 30% of the nominal share value. The board has also recommended the distribution of a 5% bonus share (5 shares for every 100 shares owned) for the year 2016.

Highest Rated and Safest

NBK continues to enjoy outstanding credit ratings from Fitch Ratings, Moody's and Standard & Poor's which are amongst the highest internationally and in the MENA region.

NBK maintained its ratings from Standard & Poor's and Fitch Ratings carrying a stable outlook. Earlier in 2016, Moody's affirmed its ratings for Kuwait's Government but revised the outlook to negative from stable which reflected accordingly on NBK as the largest Kuwaiti bank, triggering an outlook revision to negative despite the affirmation of the ratings.

NBK is acknowledged by its prominent standing as the only Kuwaiti bank listed among the World's 50 Safest Banks list for the 11th consecutive time; a distinction that the Bank treasures.

Mega Projects Gain Momentum

NBK leveraged its leadership position and established reputation to play a key role in supporting Kuwait's booming projects market. Challenges including pressure on state oil earnings due to lower global oil prices remain. However, government commitment to financing mega projects continued to buoy infrastructure development and stimulate growth.

During 2016, NBK took a leading role in financing and arranging two key landmark projects: The estimated KD 1.3 billion New Airport Terminal II project and the estimated KD 888 million KNPC's LNG Import Facilities.

National Bank of Kuwait has successfully closed a KD 1.2 billion finance facility to fund the Clean Fuels Project. This comprises the first credit tranche of the syndicated loan to the project, in which NBK's share was KD 400 million. Acting as the lead arranger for the consortium to finance the project is a testament and reaffirmation of the Bank's continued leadership position and solid reputation as a world-class institution, as well as a standing proof of its outstanding capabilities and extended expertise in financing mega projects.

NBK is the proven choice for both domestic and foreign markets doing business in Kuwait thanks to its depth of knowledge of regional markets, prudent capital and well-established and solid reputation.

Stability and Solidity Despite Turmoil

The International Banking Group (IBG) proved over the years the success of NBK's strategic regional expansion by creating new streams of income and asset growth. In 2016, IBG achieved strong growth and high levels of asset quality despite slow and disturbed regional and global economic conditions.

IBG increased its contribution to the Group's profit to account for 32% of total group profits in 2016 compared to 27% a year earlier, in spite of the continuing operational challenges in several regional markets and the effect of lower oil prices in the Gulf Cooperation Council (GCC) states. NBK operations in the GCC markets have proven their ability to withstand the challenges and show promising selective growth prospects especially in Saudi Arabia and United Arab Emirates.

In London, New York, Paris and Singapore, NBK continued to see a strong inflow of capital and deposits from HNWIs, financial institutions, oil companies, correspondent banks and government agencies, all seeking the safety and stability found with NBK.

Following the transformation strategy implemented in Egypt since the beginning of 2015, NBK- Egypt (NBKE) achieved strong growth in 2016. The growth helped offset the drop in the Egyptian currency post the free float. We believe that NBK-Egypt will continue to deliver strong performance as the political environment stabilizes and the impact of the current economic reform program materializes. We view Egypt as a long-term growth market for the Group.

Islamic Banking

A competitive advantage that NBK embraces is having access to conventional banking in addition to Islamic banking since turning Boubyan Bank into a fully-consolidated subsidiary of NBK Group in 2012 with a 58.4% ownership. Boubyan Bank signifies key elements of the Group's strategy for diversifying income and expanding market share. Boubyan continues to grow its contribution to Group profits and the acquisition proves to be lucrative as Boubyan remains the fastest growing bank among all Kuwaiti banks.

Boubyan Bank will continue to focus on implementing NBK's culture reflecting a conservative strategy with a customer-centric focus whereas NBK commits to fully support Boubyan to expand and strengthen its market position while preserving the independence of both banks.

Risk Management and Governance

NBK proceeded in recording strong results through its solid, conservative execution strategy and growing at a steady pace in spite of critical challenges posed by political, economic and social disturbances on both the domestic and global fronts which confirms the successful risk management strategy the Bank adopts.

Through a demonstrated reputation that extends for over six decades of strength, unwavering quality and a stable management; NBK has weathered regional and worldwide monetary crises with versatility. The Bank remains committed to insuring the rights of shareholders as a principle of its culture and philosophy in addition to its transparency and responsibility in its management which exceeds the standards of the regulatory requirements.

Capital Issuance

In line with the Bank's plans to maintain healthy capitalization ratios following the implementation of Basel III and the regulations of the Central Bank of Kuwait, in second quarter of 2016 NBK board of directors agreed to increase the Bank's capital through a 6.5% rights issue. The Bank issued 343.96 million shares. NBK's issued and paid-in capital reached KD 563.6 million distributed over 5,636 million shares.

The capital increase will allow the Bank to continue to capture growth opportunities as the Kuwaiti government capital spending plan remains intact and as NBK continues to be the market leader in the project finance segment.

It is worth mentioning that in 2015, NBK issued USD $700 million in additional Tier 1 securities and KD 125 million in Tier 2 subordinated bonds. The Bank's capital adequacy ratio (CAR) stands at 17.7% as of end-December 2016, comfortably above regulatory requirements.

Human Wealth

Our employees remain NBK's most valuable assets. NBK draws its strength and reputation from the professionalism, dedication and stability of our human talent. NBK's year-to-date Kuwaitization rate reached 66.4% employees, affirming NBK's leadership among the largest employers of nationals in the private sector. In 2016, NBK employed 311 employees 279 of which were nationals.

Several important training and skills development initiatives were launched in 2016 to provide our employees with the professional standards required for their jobs. Moreover, talent management programs were implemented in partnership with several academic institutions aiming to develop the potential and leadership skills of NBK employees.

Absolute Commitment to CSR

Confirming its commitment to corporate social responsibility, NBK didn't spare any effort in supporting charitable, educational, humanitarian and social activities. The NBK Children's Hospital remains an icon of the Bank's social contributions. The Bank continued with its commitments by establishing the first specialized center for marrow transplantation in Kuwait in the Children's Hospital. The move comes to complement the ongoing development of the hospital which was inaugurated in 2000 as the first specialized hospital for the treatment of children with cancer. Moreover, the Bank continued to support various charities, humanitarian and social organizations including Bayt Abdullah for Children in Hospice, the Red Crescent Society and LOYAC.

For more than two decades, NBK continues its Ramadan iftar campaign as well as the continuous commitment and support for activities aimed at protecting and preserving the environment, developing education and encouraging sports with events such as NBK's annual Walkathon.

Thanks and appreciation

Finally, on behalf of the board and executive management of the Bank, I would like to profoundly thank the authorities for their continued support of Kuwait's economic stability and growth. We are also deeply indebted to the Central Bank of Kuwait for its continued leadership, support and guidance.

We would like to thank our shareholders and customers for their continued support of and belief in NBK as the leading Kuwaiti bank and a top financial institution in the region.

We also very much appreciate the dedication of our executive management team and their continued leadership. We would also like to thank our dedicated employees for their hard work and professionalism. NBK deeply believes that our human capital is the greatest source of our wealth and success and we will continue to develop it to ensure a bright and profitable future.

Nasser Musaed Abdulla Al-Sayer

Chairman of the Board of Directors

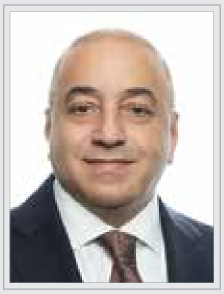
Executive Management

Isam J. Al-Sager
Group Chief Executive Officer

Shaikha K. Al-Bahar
Deputy Group Chief Executive Officer

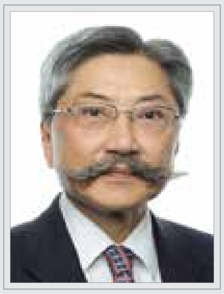
Salah Y. Al-Fulaij
Chief Executive Officer – Kuwait

Sulaiman Barrak Al-Marzouq
General Manager-
Group Treasury

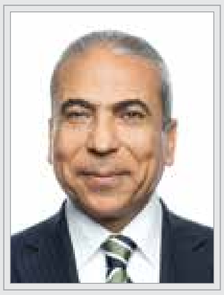


Georges Richani
General Manager
International Banking Group

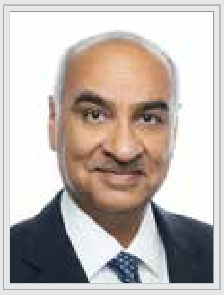
Jim Murphy
Group Chief Financial Officer



Parkson Cheong
Group Chief Risk Officer



Mustafa El-Gendi
General Manager -
Corporate Banking Group

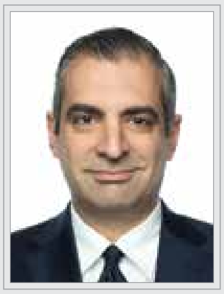


Pradeep Handa
General Manager Foreign
Corporate, Oil & Trade
Finance Group

Mr. Suresh Bajpai
General Manager
Consumer Banking Group

Malek Khalife
General Manager -
Private Banking Group

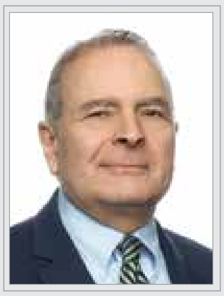
Emad Al-Ablani
General Manager -
Human Resources



Dimitrios Kokosioulis
General Manager -
IT & Operations Group

Carl Ainger
Group Chief Internal Auditor

Dr. Soliman Abdel-Meguid
General Councel
Head Legal Affairs Group



Dr. Elias Bikhazi
Group Chief Economist

Group's Senior Management

Mr. Isam J. Al-Sager

(Group Chief Executive Officer)

Mr. Issam Al-Sager joined NBK in 1978, and has been the Group Chief Executive Officer since March 2014. He is a member of various Management Committees.

Mr. Al-Sager is Chairman of National Bank of Kuwait – Egypt. He serves on the Board of Directors of NBK (International) PLC, United Kingdom; NBK Properties (Jersey) Limited; NBK Trustees (Jersey) Limited and NIG Asian Investment Co.

Mr. Al-Sager holds a Bachelor of Science degree in Business Administration from California State Polytechnic University in USA.

Ms. Shaikha K. Al-Bahar

(Deputy Group Chief Executive Officer)

Ms. Shaikha K. Al-Bahar joined NBK in 1977 and has been the Deputy Group Chief Executive Officer since March 2014. She is a member of various Management Committees.

Ms. Al Bahar is the Chairperson of National Bank of Kuwait (Lebanon) and NBK Capital and serves on the Board of NBK Global Asset Management Limited; The Turkish Bank, Turkey. She is also a Board Member of Zain Group, Kuwait. She has extensive experience in privatization, project finance, advisory services, bond issues, Build/Operate/Transfer financing, Initial Public Offerings, Global Deposit Receipts programs and private placements.

Ms. Al-Bahar holds a Bachelor of Science degree in International Marketing from Kuwait University. She attended specialized programs at Harvard Business School, Stanford University and Duke University.

Mr. Salah Y. Al-Fulaij

(Chief Executive Officer – Kuwait)

Mr. Salah Al Fulaij joined NBK in 1985 and is now the Chief Executive Officer – Kuwait. He is a member of various Management Committees. Mr. Al-Fulaij serves on the board of NBK Capital and Watani Financial Brokerage Company. Mr. Salah Al Fulaij was the Chief Executive Officer of NBK Capital for the years (2007-2014) and held before this the position of Group General Manager of Treasury and Investments Services.

Mr. Al Fulaij is a graduate of the University of Miami where he received his bachelor degree in Industrial Engineering and his MBA in Business Management. He has participated in a number of Executive Programs at Harvard Business School, Stanford Graduate School of Business, and Duke University.

Mr. Sulaiman Barrak Al-Marzouq

General Manager-Group Treasury

Mr. Sulaiman Al-Marzouq joined NBK Treasury Group in 2002 where he held several positions. He then moved to the Central Bank of Kuwait where he headed The Department of Foreign Operations during the years 2012 to 2015 before moving back to NBK as The General Manager of Group Treasury.

Mr. Al-Marzouq has an extensive experience in investment and wealth management in addition to his experience in treasury and banking operations. Furthermore Mr. Al-Marzouq was a board member in several banks and companies in Kuwait.

Mr. Al-Marzouq holds a bachelor degree in Economics from Portland State University, USA.

Mr. Georges Richani

(General Manager, International Banking Group)

Mr. Georges Richani joined NBK in 1987 and has been the Head of International Banking Group since 2012. He is also a member of various Management Committees.

Former NBK appointments include Head of Group Treasury and Asset Liability Management function. He has extensive experience in Treasury, Funding and Liquidity Management, Balance Sheet management and Market Risk management (foreign exchange and interest rate risks) in addition to investment management and capital markets including global fixed-income markets.

Mr. Richani holds a Bachelor of Science degree from the American University of Beirut, Lebanon and a Masters degree in Business Administration in Finance with distinction from the City of London Business School. He has participated in a number of Executive Programs at Harvard Business School, Stanford Graduate School of Business, and Duke University.

Mr. Jim Murphy

(Group Chief Financial Officer)

Mr. Jim Murphy joined NBK in 1999 and has been the Group Chief Financial Officer since 2010. He is also a member of various Management Committees.

Prior to joining NBK, Mr. Murphy was Head of Management Accounting for Ireland and UK at a leading Irish bank. He has extensive experience in finance and banking.

Mr. Murphy is a Chartered Management Accountant (UK) and Chartered Secretary (UK), and holds a Graduateship in Marketing (Ireland).

Mr. Parkson Cheong

(Group Chief Risk Officer)

Mr. Parkson Cheong joined NBK in 1993 and has been the Group Chief Risk Officer since 2008. He is Chairman or a Member of several Management-level Supervisory Committees at the Bank.

Mr. Cheong has rich experience in Commercial banking, Syndication Lending, Investment banking and Corporate Finance.

Mr. Cheong holds Bachelor of Science degree in Economics from the University of Wales, United Kingdom, and Masters degree in Business Administration (MBA) in Finance from the Wharton School, University of Pennsylvania, U.S.A.

Mr. Mustafa El-Gendi

(General Manager - Corporate Banking Group)

Mr. Mustafa El-Gendi joined NBK in 1979 and has been the General Manager, Domestic Corporate Banking at NBK since 2013. He is also a member of various Management and Credit Committees.

Mr. El-Gendi has extensive experience in all credit aspects and Corporate Banking Management.

Mr. El Gendi holds a Bachelor of Science degree in Accounting from Ain Shams University- Egypt and attended extensive training courses and seminars at London Business School and Harvard University.

Mr. Pradeep Handa

(General Manager - Foreign Corporate, Oil and Trade Finance Group)

Mr. Pradeep Handa joined NBK in 1980 and has been the General Manager, Foreign Corporate, Oil and Trade Finance Group, since 2012. He is also a member of various Management Committees.

Former appointments at NBK include: Assistant General Manager, Executive Manager and Senior Manager at Corporate Banking Group- Kuwait. He has extensive experience of over 30 years in handling Foreign Corporate banking and Oil and Trade Finance matters.

Mr. Handa holds a Masters Degree from the University of Delhi, India.

Mr. Suresh Bajpai

(General Manager – Consumer Banking Group)

Mr. Suresh Bajpai joined NBK in 2016 as the General Manager - Consumer Banking Group. He is also a member of various Management Committees.

Former Appointments include: Head of Retail Banking Group, Managing Director and Global Head Commercial Banking and Enterprise Payments, Regional director Customer management for a regional bank in Qatar and leading global bank in UK and USA. He has extensive experience in Commercial and retail Banking, Banking Payments (Digital and Mobile), Banking Products, (Credit, Debit and Prepaid Cards), Credit and risks.

Mr. Suresh holds a Master of Business Administration (MBA) Degree from Jamnalal Bajaj Institute of Management, India, as well as a Bachelor of Engineering in Electronics from Bangalore University, India.

Mr. Malek Khalife

(General Manager - Private Banking Group)

Mr. Malek Khalife joined NBK in 2005 and has been the General Manager, Private Banking Group- Kuwait at NBK since 2008. He is also a member of various Management Committees.

Mr. Khalife's last tenure prior to his current position was as Director of Private Banking Representative Office at an American bank in Lebanon. He has extensive experience of over 32 years in Private Banking and Financial

Markets in the Middle East and the Gulf Area.

Mr. Khalife holds a Masters degree in Economic Sciences from Saint Joseph University, Lebanon.

Mr. Emad Al-Ablani

(General Manager - Human Resources)

Mr. Emad Ahmad Al Ablani joined NBK March in 2003 and has been recently appointed as the Group General Manager, Human Resources in 2014. He is also a member of various Management Committees.

Former appointments at NBK include: Deputy General Manager, Head of Human Resources- Kuwait and, Recruitment & HR Operations – Assistant General Manager in NBK. He has extensive experience in Human Resources, spanning over 23 years.

Mr. Al Ablani holds an (EMBA) Executive Master degree in Business Administration, from the American University of Beirut (AUB) Lebanon and a Bachelor of Arts degree in Educational Psychology from Kuwait University.

Mr. Dimitrios Kokosioulis

(General Manager - IT & Operations Group)

Mr. Dimitrios Kokosioulis joined NBK in 2013 as the General Manager, Operations Group. He is a member of various Management Committees at NBK.

Former appointments include: Chief Operating Officer, Deputy Chief Operating Officer, Head of International Consumer Finance Operations, Vice President and as the Head of Retail & Cards Operations at various local and international banks in Southeastern and Central Eastern Europe. He has extensive experience in Operations Management, Financial Planning & Analysis, Project Management, "Green Field" operations set up, M&A activities and restructuring.

Mr. Kokosioulis holds a Master of Business Administration Degree in Finance from DePaul University, Chicago, USA, as Well as a Bachelor of Arts degree in Economics from the University of Rochester, Rochester, USA.

Mr. Carl Ainger

(Group Chief Internal Auditor)

Mr. Carl Ainger joined NBK in 2009 and has been the Group Chief Internal Auditor since 2012.

Former appointments include: Deputy Chief Internal Auditor at NBK, and Head of Internal Audit at a regional bank in Bahrain. He has extensive experience in Internal Audit across the international banking industry and External Audit / Consulting in the United Kingdom.

Mr. Ainger holds a Masters Degree in Business Administration from the University of Strathclyde, United Kingdom.

Dr. Soliman Abdel-Meguid

(General Counsel-Head of Legal Affairs Group)

Dr. Soliman AbdelMeguid joined NBK in 2001, as General Counsel, heading the Legal Affairs Group of the Bank.

Upon his graduation, he started his career by joining the Egyptian judiciary system and by teaching at the university. He has extensive work experience of over 35 years in legal affairs at Kuwaiti banks.

He holds a Ph.D. in Law, with distinction, from Cairo University. He has been granted the Award of the Egyptian Society of International Law, and has authored several publications in the legal field.

Dr. Elias Bikhazi

(Group Chief Economist)

Dr. Elias Bikhazi joined NBK in 2008 and has been the Group Chief Economist since early 2013. He is Deputy General Manager and heads the bank's Economic Research Department. He is also a member of various Committees.

Prior to his current position, Dr. Bikhazi was the Head of Economic Research at NBK. He has extensive experience in economic analysis and financial markets, including over 20 years of experience covering US markets.

Dr. Bikhazi holds a Bachelor of Arts degree in Economics from the American University of Beirut, and a Master of Arts and a Philosophy Doctorate, both in Economics from the University of Southern California, USA.

Business Activities and Operating Performance Report

Overall Bank Strategy

NBK's vision is to be "The Trusted Bank of Choice, Building on Our Core Values, People and Expertise." In line with this vision, on the domestic front, NBK continued to defend its leading position in the local market leveraging its solid financial standing, its unrivaled franchise and the profound understanding of its customer needs. In retail banking, we have launched a number of pioneering products and services reinvigorating our brand as the innovative bank of Kuwait. In wholesale banking, we remained at the forefront of supporting the nation's development plan.

Since turning Boubyan into a fully consolidated subsidiary of NBK Group in 2012, the Bank has made substantial progress in establishing a stronger presence in Kuwait's growing Islamic banking segment, and diversifying its income stream, product offering and client base. NBK is committed to support Boubyan Bank to further strengthen its market position in the domestic market and explore international expansion opportunities in Islamic Finance.

On the regional front, we continue to focus on integrating and consolidating our international operations to harness their values. We are organizing periodic forums to bring together corporate bankers from across our network to jointly explore cross-sell opportunities. We are revisiting our retail proposition across our international locations to diversify our income streams. In Egypt, a transformation program is well underway to build a larger and stable franchise with multiple sources of funding and income streams.

Financial and Performance Indicators

The Group reported a net profit of KD 295.2 million for 2016, a 4.6% year-on-year increase. The net profit in 2015 however included a net accounting gain in respect of the Group exiting its investment in International Bank of Qatar (IBQ) in 2014. When compared to the appropriately adjusted net profit for 2015, the net results for 2016 represent a 11.2% increase. The performance achieved is a testimony to the Bank's solid financial position and its leading position in the market and the success of the conservative strategy adopted since its establishment in 1952.

National Bank of Kuwait has consistently maintained its leadership position in the Kuwaiti market across all business sectors. After adjusting the extraordinary profits achieved from the sale of IBQ, the Group's net operating income increased by 5.4% year-on-year to reach KD 745.3 million. The growth in operating income was primarily driven by higher net interest income which confirms the strength of NBK's domestic and regional position and its role as the largest beneficiary of growth opportunities within the project finance sector.

Customer loans and advances reached KD 13.6 billion as of December-end 2016 with a marginal increase than previous year resulting from extraordinary loan settlements; in addition to the flotation of the Egyptian pound and the effect accompanied once converted to Kuwaiti Dinar for the purpose of consolidation. In turn, customer deposits grew by 4.6% to reach KD 12.6 billion.

Total Group assets reached KD 24.2 billion, recording a growth of 2.6% year-on-year while total shareholders' equity reached KD 2.7 billion, growing at 4.3% year-on-year.

NBK's strength and efficiency are reflected in all financial indicators. The Bank achieved strong returns on its assets and shareholders' equity in 2016. Return on average assets reached 1.22% and return on equity reached 10.8% in 2016. Capital Adequacy Ratio reached 17.7% as of end of December 2016, comfortably higher than the regulatory requirements.

Key asset quality indicators remained extremely strong with NPL / Gross loans down from 1.34% as of December-end 2015 to 1.28% as of December-end 2016. On the other hand, coverage ratio increased from 322% as of December-end 2015 to 365% in 2016.

NBK Board of Directors has recommended the distribution of a 30 fils cash dividend per share, representing 30% of the nominal share value. The board has also recommended the distribution of a 5% bonus share (five shares for every 100 shares owned) for the year 2016.

CONSUMER BANKING GROUP

During 2016, Consumer Banking Group (CBG) delivered substantial progress on strategic initiatives which facilitates increased progression across several levels. Consumer Banking streamlined its product suite and sharpened value propositions to drive new customer acquisition through concentrating on NBK's retail presence with the distinctive Smart Banking model and prioritized the digitization of business today to reflect the massive shift in transaction activity to digital channels. CBG also continued to simplify and standardize systems and processes to improve efficiency while accelerating the completion of a uniform technology platform in 2016.

2016 was a pivotal year for Consumer Banking. It was defined by the tangible progress made in a sustained effort to transform and reshape CBG into a simpler, safer and stronger Group — more than it has been at any time previously. Consumer Banking strived to grow the Bank's market share by continuing to focus on sophisticated needs for retail banking products and services. CBG continued to offer an innovative, modern and satisfying physical retail experience for customers with respect to enhancing customer experience and meeting their expectations with the launch of Kuwait's first Smart Banking branch in Khaitan.

CBG continued to expand its presence in Kuwait where it operates the largest network including 68 branches, 274 ATMs (181 ATMs and 93 CDMs), the biggest call center in the financial services industry, as well as maintaining strong merchant relations with presence across all malls and the strongest rewards program in the region.

Consumer Banking also launched new multi-currency ATM machines in the transit area at Kuwait International Airport. The new ATM machines allow NBK customers to withdraw cash amounts in six different currencies: Kuwaiti dinar, US dollar, euro, Sterling pound, Emirati dirham and Saudi riyal. The location of these ATM machines has been carefully selected, covering both land-side and air-side to better serve travelers and allow both NBK and non-NBK customers to withdraw cash in the currency of their choice, depending upon their destination.

An Interactive Teller Machine was launched at the Avenues mall to provide customers with a range of cash and non-cash related transactions. Through the ITM, customers can speak to a dedicated agent in the call center through a video link.

At the digital and technological level, CBG continued to focus on developing its services not only to maintain a leading position in innovation of digital and technological banking options, but also to leverage the rapid digitization, mobilization and seamless connectivity of basic financial transactions. An increased customer preference and demand toward digital channels is foreseen; confirming the market's behavior towards shifting to alternative channels. For that, CBG has also expanded customer reach through social media, maintaining a strong leadership position with the highest numbers of followers on Facebook, Twitter, Instagram and Snapchat to create awareness regarding new initiatives as well as providing ongoing information about existing services and products.

CBG also launched customer service through the popular 'WhatsApp' mobile application, the first bank in Kuwait to launch such an initiative. In addition, we have dedicated 6 branches with its specialized teams to communicate and service special needs customers as well as to ease their banking experience.

Consumer Banking is also investing in the Credit Card business and positioning it for greater and faster growth. Initiatives include providing payment and credit solutions wherever and whenever customers choose to make purchases: in-store, online or on their mobile devices, for a seamless, convenient and fast payment solution. We launched NBK Tap & Pay where NBK credit and debit card holders can easily pay through the point-of-sale machines with a simple tap. Moreover, the NBK cash rewards loyalty scheme was enhanced to include a wider choice of merchants in Kuwait, chosen to match new and popular places where NBK customers spend their money.

Al Jawhara offerings continued to be successful in keeping our market share of liabilities, by increasing customer retention. To encourage customers to maintain their balances in the account, we incentivize them through our weekly, monthly and annual draws. The continued focus on customers has helped NBK achieve a customer experience index of 88% during the year from 85% in 2015 and we expect to continue doing well in terms of customer satisfaction to maintain a high level at 91%. NBK's current customer base accounts for one-third of the total Kuwaiti population.

In record of our outstanding achievements for the year, NBK is the only bank in Kuwait to be awarded the Operational Excellence Award by MasterCard for achieving the highest issuer availability rate. NBK was also awarded by Visa for the best service towards Shabab Prepaid Card in the Middle East.

PRIVATE BANKING

NBK Group's Private Banking Group has remained the preferred wealth management provider for generations of Kuwaiti families. Professional expertise, integrity, confidentiality and trustworthiness are the cornerstones of our relationship with our clients.

NBK has strengthened its position as a leading private bank with distinctive capabilities such as a wide portfolio of innovative private banking products and client-tailored services. Through its long tradition of integrity and discretion with the aim of delivering superior service to its customers, Private Banking Group saw a steady increase in its Assets Under Management (AUMs) and high net worth individuals and families despite challenges in the local and regional markets. In line with the Bank's conservative strategy, Private Banking Group continued to advise clients to maintain safe and secure investments.

The Kuwaiti market remains a key area of focus; and we continue to service clients through NBK's international network in Beirut, Cairo, Dubai, Geneva, London, Manama, New York and Paris with emphasis to implement industry best practices in asset allocation and risk profiling.

During the year, Private Banking was also successful in issuing new Islamic Equipment Leasing Funds, Private Equity and Mezzanine Funds alongside the Bank's product line of regional and international brokerage capabilities and regional (MENA) discretionary portfolio management mandates.

The Group assisted clients in locating and investing in prime properties in the United Kingdom and the United States and actively promoted Trust and other offshore services.

In addition, NBK Private Banking Group received the award "Best Private Bank in Kuwait" from Euromoney for 2016 and for the second consecutive year from Global Finance for 2017, outclassing other local, regional and international institutions.


خدمات ذوي الإحتياجات الخاصة
Special Needs Services
الوطني
NBK


Press Here
To Enter
Priority For Special

CORPORATE BANKING GROUP

Capital spending under Kuwait's five year development plan continued to provide stimuli to the Kuwaiti business environment, bolstering confidence and creating several new opportunities for banking and finance. Spending under the plan this year exceeded USD 10 billion. The biggest awards went for the planned new Airport Terminal II (estimated at KD 1.3 billion) and KNPC's (Kuwait National Petroleum Company) LNG Import Facilities (estimated KD 888 million), in both of which NBK took a leading financing and arranging role.

In the oil and gas sector, NBK was a mandated lead arranger (MLA) for a number of prestigious projects, including the financing of Kuwait National Petroleum Company for the Clean Fuels project (the largest Kuwaiti dinar syndicated financing in the history of Kuwait); around KD 1.5 billion long-term senior financing for EQUATE Petrochemicals for the acquisition of ME Global, to become one of the leading producers of petrochemical products in the world and around KD 90 million senior corporate financing for Kuwait Styrene Production Company. NBK was also one of the largest participants in the first global bond issuance of EQUATE Petrochemicals.

NBK also acted as book runner, coordinator and agent bank for KNPC's Clean Fuels project financing and EQUATE's senior financing. KNPC syndication was successfully placed with local banks, while Equate Petrochemicals facility was placed with a consortium of local, regional and international lenders.

Project Finance Unit

During the year, Az Zour North 1 Integrated Water and Power Plant (AZN IWPP), the first IWPP in the country under the new Public Partnership Program (PPP) achieved project completion on 26 November. NBK was the largest lender under the commercial facility and the only local bank to participate in the global finance syndication for the project. NBK also acted as an account bank and local security agent for AZN 1 IWPP. Additionally, NBK supported bids of developers for the AZN 2 IWPP and Kabd WTE PPP projects. AZN 2 IWPP is the second phase of the AZN IWPP scheme. Under this phase, the project will produce 1800 MW of electricity and 102 MIGD of water desalination capacity. Kabd WTE project on the other hand is one of the largest Waste-to-Energy projects in the region and expects conversion of solid waste into power. Project Finance Unit therefore maintained its central objective of lead-arranging mandates - where yields can be enhanced through subsequent sell-down and there are often opportunities to gain ancillary business - as well as arranging opportunities, where NBK's overseas branch and representative office network gives it a natural advantage and enhanced ability to play a leading role.

In order to meet the needs of and better manage the Bank's project financing activity, a specialized project finance unit was formed as a new strategic business function within the Foreign Corporate Group, ensuring a specialized focus on project financing transactions, the PPP program and syndicated facilities. The increasing role played by the Project Finance team and its unique offerings to clients is evidence of the significance which NBK places on its project and structured finance activities.

NBK's strong loan structuring, underwriting and distribution capabilities coupled with its wide range of products, industry expertise and coverage ensures that the National Bank of Kuwait is one of the leading providers of financing solutions. In-depth knowledge of regional markets, sound capitalization, a solid reputation and long standing history makes the Bank the preferred choice for corporates in the region.

NBK continues to be the number one 'Corporate Bank in Kuwait' and with its prominent market position and unique experience in structuring and underwriting large corporate and capital market deals was very well positioned to capture any attractive business opportunities the market presented.

Corporate Banking proved again successful in meeting corporate customers' needs, both domestic and foreign, and in supporting the private sector's expansionary goals and the country's longer-term development ambitions.

Corporate Banking Group approved substantial amounts of loans for existing customers and captured new clients at a relatively high hit rate. Some of these loans are to be drawn in Kuwait, while others were arranged for local multinational clients through NBK subsidiaries in their respective markets of operation.

Corporate Banking Group continues to dominate market share in most business lines, the outcome of a sophisticated service quality and advanced product offerings. On the Domestic Corporate side, the Bank maintains the highest market share, with more than 25%. On the Foreign Corporate side, NBK's market share is estimated at more than 75%.

NBK is also a leading provider of International Trade Finance solutions, offering fast and superior quality services and controlling the Trade Finance business in the market through a share of export L/C business of around 80%; issuance of almost 100% of the guarantees for major projects in the country and the rest of the trade finance products commanding a share of around 40%. As part of the Bank's pioneering offering, NBK launched in 2016 a new platform, Client Trade, that provides a unique online platform to serve clients needs in trade finance and enables customers to apply and issue all trade finance-related instruments efficiently, accurately and safely.

At the same time, NBK enjoys supremacy as the 'Bank of Choice' in Kuwait's Oil & Gas industry by being the banker to 100% of KPC's group of companies. NBK was selected this year by KPC, to also be the account bank for its newly established subsidiary, Kuwait Integrated Petroleum Industries Company, which will take over the work of Az Zour Refinery and Petrochemical Complex.

TREASURY GROUP

Liquidity management remains a top priority for NBK Group Treasury especially given developments in global financial markets, a slowdown in global growth as well as the recent planned GCC sovereign debt issuances. Group Treasury has actively worked to improve the Bank's funding profile by expanding and diversifying its funding sources across all geographic locations and lengthening the duration of the Bank's liabilities.

The management of interest rate risk for local and foreign currencies remains an important concern for Group Treasury, especially given the monetary policy tightening in the United States. The extension of the duration of the Bank's liabilities to enhance NBK's liquidity profile also contributed to hedging benefits in a rising interest rate environment.

NBK maintained its cost of funding advantage over local and regional peers, supported by the Bank's high credit worthiness. However, the tightening of liquidity conditions and the growth in asset-funding requirements are expected to exert upward pressure on funding costs in the near future.

Group Treasury continued to utilize Kuwait Central Bank's instruments and opportunities in the inter-bank market to deploy excess liquidity whenever applicable.

Volatility in the FX market persisted in 2016 on the back of the divergence in monetary policies between the United States and other major economies. Moreover, the surprise outcome of the EU referendum in the United Kingdom, which would lead to the British exit from the European Union, resulted in around 15% depreciation in the value of the Sterling Pound against the Dollar. The depreciation of the Pound created more demand for the now-cheaper assets in the United Kingdom and resulted in a notable increase in client purchases of the Pound.

NBK retained its position as the 'Bank of Choice' for mega foreign exchange deals, and was named the "Best Foreign Exchange Provider in Kuwait and the Middle East" by Global Finance magazine for the fifth consecutive year.

Group Treasury continued to upgrade its IT systems and infrastructure in order to better serve clients and increase customer satisfaction.

INTERNATIONAL BANKING GROUP

NBK's International Banking Group (IBG) has successfully grown its assets, achieving a significant and steady growth while maintaining a stable asset quality, despite a slow global economy. In 2016, the group delivered a solid and sound financial performance and increased its contribution to NBK Group's total profits. IBG's operations were focused on profitable and stable markets, especially high growth markets in the Gulf Cooperation Council (GCC).

NBK launched its strategic regional expansion in the 1980s, opening full service branches in regional hubs in Bahrain and Lebanon. The Bank also chose key international destinations to add to its international presence – Geneva, London, New York, Paris and Singapore. In 2004, NBK took the strategic decision to expand its presence in the Middle East and North Africa (MENA). The Bank quickly established branches in Jordan, Saudi Arabia (Jeddah) and the United Arab Emirates (Dubai and Abu Dhabi); and through acquisition entered simultaneously Egypt, Iraq, and Turkey. Now, the Bank is consolidating its presence overseas, solidifying its value propositions and reinforcing its services, products and channels in the various markets in which it operates.

Today, NBK has a wide international network of subsidiaries and associates reaching four continents. Its international presence includes many of the world's leading financial centers including Geneva, London, New York, Paris and Singapore, as well as Shanghai. This network is complemented by a mix of alternative and remote distribution channels. All of the Bank's businesses outside Kuwait are successfully integrated. Most of these branches operate under the same brand and use the same IT systems.

NBK repositioned its consumer segment strategy outside Kuwait towards affluent and high net worth individuals (HNWIs) and as a result streamlined its branch networks in Egypt, Iraq, Jordan and Lebanon.

GCC

In the GCC, NBK is well positioned to leverage its presence for future growth. NBK currently operates in Abu Dhabi, Bahrain, Dubai and Jeddah, where it offers corporate clients and HNWIs a range of treasury and wholesale banking credit solutions, in addition to trade finance services and basic retail services.

Other MENA

Outside the GCC, NBK's customer base continued to grow in 2016 despite the challenging geopolitical environment, with customers drawn by the Bank's strong brand and values of quality, confidence, stability and security.

NBK Egypt (NBKE) in 2016 achieved significant growth following the transformation strategy implemented at the beginning of 2015. This growth helped the Bank offset the drop in the value of the Egyptian pound post the free float. NBKE is expected to continue to grow, positively benefiting from the structural reforms program. It improved its customer service and availability by establishing a 24/7 call center and online transactional banking services.

In Iraq, Jordan and Lebanon, NBK's focus was on enhancing IT and network infrastructure to continue to provide customers data protection and a reliable and secure platform for their accounts and transactions. NBK operates in Iraq through its subsidiary, Credit Bank of Iraq (CBI). CBI offers transfers and trade finance to Kuwaiti corporate clients and foreign contractors as well as basic retail products for Iraqi customers. It operates five branches throughout the country.

In Lebanon and Jordan, the Bank operates a small network of branches under the NBK brand strategically located to service niche customers.

International markets

In London, New York, Paris and Singapore, NBK continued to see a strong inflow of capital and deposits from HNWIs, financial institutions, oil companies, correspondent banks and government agencies, all seeking the safety and stability found with NBK.

On the Corporate and Commercial Real Estate front, the coverage in the main global financial hubs (New York, London and Singapore) positions NBK commendably to service its MENA clients in their international expansion endeavors and in their investments abroad, and effectively to bank with foreign corporates such as contractors and suppliers operating in NBK's MENA footprint.

Final approvals have been granted to convert Shanghai's representative office to a full branch by the beginning of next year.

NBK's network outside Kuwait provides clients access to a wide range of markets and investment offerings. The international mortgage program is one example where NBK provides financing to customers wanting to purchase a property in their country of choice (Egypt, France, Jordan, Lebanon, UAE, UK and USA). A dedicated center in Ras Salmiya branch in Kuwait provides the infrastructure needed to service customers fully and to process their mortgage applications.

NBK CAPITAL

In 2016, NBK Capital cemented its position as a leading investment bank and financial services provider in the region across its three major disciplines: Asset Management, Investment Banking and Brokerage.

Through its teams of financial experts and professionals in Kuwait, Cairo, Dubai and Istanbul, NBK Capital continues to provide clients with access to the highest standards of investment products and financial services. NBK Capital strives to be at the forefront of innovation without compromising client interest, which has earned it more than 25 industry awards over its relatively short history.

Asset Management

NBK Capital's Asset Management provides investors with a suite of global investment products and expertise across all the main asset classes through four main lines of business:

Investment Products

The Investment Products team develops and oversees investment solutions for private and institutional clients across most asset classes. The professionals at Investment Products identify and select best-in-class investment managers and partners with ongoing monitoring and periodic evaluation of investments. The team is also responsible for creating structured solutions and advising on transactions in the international real estate space.

Investment Advisory

Investment Advisory is an exclusive part of NBK Capital, tasked with providing sophisticated investment recommendations, portfolio reporting, and investment solutions to Private, Privilege, and Corporate clients. It employs a team of experienced and qualified investment professionals who aim at understanding each client's special circumstances, return targets and risk tolerance levels to be able to provide suitable investment advice which would lead to the achievement of desired objectives.

MENA Asset Management

The MENA Asset Management division offers award-winning, best-in-class regional investment products geared towards creating value for clients with a central focus on transparency and risk management while aiming to outperform in the medium to long-term.

The MENA Asset Management's team of expert professionals combines decades of experience in investment management across the Middle East and North Africa and has received multiple awards including the acclaimed "Regional Equities Manager of the Year 2016" from Global Investor/ISF MENA Awards.

NBK Capital Partners

The NBK Capital Partners team continues to successfully manage its alternative investment mandates in the MENA region and Turkey. The team's key achievements during the year include:

- The successful first close for NBK Capital Partners Mezzanine Fund II at USD $110 million driven by strong demand from institutional investors and family offices. The fund subsequently deployed capital into two deals in the education and technology sectors.
- NBK Capital Partners Fund II completed two investments in the education and food & beverage sectors in Egypt and Saudi Arabia in addition to an investment in the retail sector in Turkey.

Brokerage

The Brokerage team at NBK Capital offers world-class brokerage services and superior execution capabilities with seamless access to Kuwait and other GCC markets, Egypt and major international capital markets.

Investment Banking

Through its fully integrated investment banking platform, the Investment Banking team continues to provide clients with a suite of M&A Advisory, Equity Capital Markets and Debt Capital Markets services. The team's local knowledge and international best practices earned it the recognition of major industry players which culminated in being awarded the "Best Investment Bank in Kuwait" from Euromoney for the second year in a row, and "Deal of the Year 2016- Bonds: Corporate Winner – Middle East" from The Banker Magazine and The Financial Times.

Key achievements in 2016 include:

- Advising Kuwait National Petroleum Company, a subsidiary of Kuwait Petroleum Corporation, on its borrowing requirements for the Clean Fuels project. The largest financing in the history of Kuwait to-date.
- Buy side advisers to Saudi Telecom Company in increasing their stake in VIVA Telecom.
- Advisor on the sale of a food distribution company in Saudi Arabia.
- Advised NBK on its successful rights issue.
- Acting as lead global coordinator for Equate's USD $2.25 billion bond issuance.

OPERATIONS & IT

OPERATIONS

During 2016, NBK Group Operations & IT achieved strong results on multiple levels which proved the effectiveness of the overall Group strategy. This success was confirmed by NBK winning multiple international awards related to its operational and IT activities.

On the awards front, Citibank awarded NBK the CITI Performance Excellence Award for leadership and excellence in global electronic payments 2015. Deutsche Bank awarded NBK with the STP (Straight Through Processing) Awards for dollar and euro payments.

Moreover, MasterCard awarded NBK the Operational Excellence Award for 2015, which is given based on system availability and issuer availability rate. NBK managed to exceed the local and the regional average rate reaching above 99.9% monthly and even 100% uptime during peak times.

In addition to the above awards, Group Operations & IT won two out of three bank-wide awards for Operational Risk Champions displaying the Bank's commitment and dedication to risk-related matters; one of Operations & IT's four strategic pillars.

Projects & Processing

From a projects perspective, multiple strategic projects have been delivered, with a focus on customer service, the optimization of overall work processes and increasing efficiency while maintaining a focus on people.

The Kuwait Clearing Company (KCC) automated dividends project went live successfully in 2016. NBK was the

first Bank to implement the payment of its shares' dividends electronically instead of through the traditional physical deposit of cheques, which ensures convenience and safety for customers. This was the pilot phase of a much larger project that will process all the Bank's dividends payments electronically.

The Payment Engine – Phase 2 went live in July, ensuring that all types of money transfers, incoming and outgoing, are electronically processed, as well as ensuring a higher Straight Through Processing (STP) rate of payments. The project ensures advanced, fast and seamless processing of all types of money transfers.

The Salary Portal project continued to prove successful with an increased number of customers migrating to the new system. The target is to have all companies submitting their salaries electronically either via Watani Online Corporate, or the Salary Portal.

NBK Cheque Process project, which aims at automating and optimizing the processing of NBK cheques was also delivered in 2016. NBK completed all the required activities and communications to customers, in line with the CBK mandate.

As part of the alignment of Operations and IT functions across NBK International branches, the Bank continued to heavily support the international branches from an operational and IT perspective throughout 2016.

Human talent

Human talent is a key pillar of the Bank's strategy and to support this, the Operations & IT continued to focus on motivation and continuous development of its staff. Kuwaitization remains a prime focus for the Bank with a growth rate of 13% reported since 2013. Training programs have run continuously. Operations also continues to implement a yearly internal service survey that measures the group's service performance towards its internal customers. As part of involving staff, partnering with them and motivating them, Operations also held multiple Town Hall meetings, during which open discussions between management and staff took place, reflecting NBK's people-orientated culture. As another motivational activity, Operations organized an annual ceremony attended by top management, during which top performers were recognized and honored.

INFORMATION TECHNOLOGY AND ISO

NBK has proven optimized performance in Information Technology and Information Security throughout 2016. This has been reflected by the multiple awards and certifications received for IT.

Innovation has been a key area of focus in the IT & ISO department with the appointment of a Head of Innovation and the implementation of multiple innovation initiatives including the ITM (Interactive Teller Machine) at the Avenues Mall, Multicurrency ATMs and 3D Secure. NBK was the first bank in Kuwait to implement the 3D Secure for debit cards. NBK was also the first bank to implement eDividends through KCC. The Bank also inked a memorandum of understanding with PACI for eSignatures linked to civil IDs in addition to SMS service enhancement .

NBK was also awarded three Asian Banker Best IT Implementation Awards for AML, HRMS and Instant Issuance Projects through the hard work and dedication of the Group Operations and IT teams.

Information Security is one of the group's main areas of focus. NBK worked hard to achieve PCI-DSS certification; Payment Card Industry's Data Security Standard Certification. This important gold standard certification confirms the Bank's most advanced practices in information security, protecting its customers from electronic fraud as well as safeguarding their personal data.

NBK operates in line with all local and international banking regulations and the highest standards. From a technology perspective, the Bank implemented a range of initiatives and innovations that maintain its 'best in class' security and service for customers. Information Technology and ISO division focused in 2016 on improving automation and upgrading the Bank's different systems to the latest, most secure and effective technologies in the market. The aim remains to automate while guaranteeing high levels of security and reliability of all the Bank's systems.

The group also focused on aligning the IT functions and practices with NBK international branches, providing support to its international subsidiaries and network. This ensured an exceptional customer experience not only locally, but also internationally.

Among the projects and initiatives that were delivered locally in 2016, the SMS Gateway Migration enhanced the SMS service and introduced new features, in addition to improving delivery time and tracking SMS activities. Internationally, NBK delivered multiple projects that would enhance the international customer experience. For NBK Egypt, for example, the One Time Password (OTP) service, as well as the Treasury System and EMV Card printing in Kuwait were implemented.

In addition to delivered projects, the Bank is working on the implementation of multiple projects and initiatives that will enhance IT systems' performance, developed from best practices in the international market as well as introducing continuous upgrades of NBK infrastructure to ensure a distinctive customer experience.

On the human talent side, the same approach adopted for Operations staff has been adopted for IT and ISO staff, including: Town Hall meetings, Kuwaitization, training programs, the Internal Service survey and the annual ceremony.

HUMAN RESOURCES

The development and growth of human talent is at the core of National Bank of Kuwait's long term success. To that end, NBK Group's Human Resources implemented a wide range of initiatives and efforts targeting the professional development of the Bank's staff and ensuring alignment with the Group's overall business goals.

Training and Development

In 2016, NBK provided a total of 2,370 training opportunities for employees, 75% of whom were junior staff. Of this, 57% of courses tackled specialized and technical skills. Soft skills courses represented 11% of HR courses, and in-house workshops represented 26% and IBS courses 6%. Additionally, during the Third quarter of 2016, NBK implemented the Phase 2 Oracle solution system, requiring a significant increase in training compared with the same period the previous year. Around 1,229 junior and senior staff were trained to use the new Oracle system. Three Shabab programs were conducted in addition to two NBK academies with a total of 71 Kuwaiti participants.

Recruitment

311 new employees were hired in 2016, of which 279 were Kuwaitis. Our YTD Kuwaitization has now reached 66.4% compared to 66.1% last year for the same period. Overall 81 Internal Recruitment announcements were carried out in 2016 across different departments.

Talent Management

Another activity that was carried out is the High Fliers program that commenced in October 2015 in collaboration with the American University of Beirut. Fifty two candidates were identified as HIPO using a HIPO psychometric online assessment to assess the current readiness of the candidates to participate in the program. Two groups underwent an 11-month training program and graduated from the High Fliers program in August 2016. This program aims to develop the potential and leadership skills of NBK's young future leaders. Additionally, 29 of our high potential staff were engaged in several executive programs with Harvard Business School and Chicago Booth, among others. The attendees included 24 Kuwaitis and 5 non-Kuwaitis. Additionally, nine Kuwaiti 'high potential' staff underwent executive leadership training programs in November and December 2016 in collaboration with the Kuwait Foundation for the Advancement of Sciences (KFAS).

Another strategic focus for Human Talent in 2016 has been ensuring that robust succession plans remain in place across the organization with special attention to identify Level 1, 2 and 3 critical positions and successor pipelines. The team reviewed the succession plan by offering help and guidance in accessing attrition risk; key successor strengths and development needs as well as ensuring comprehensive development plans and career conversations. A retention strategy was devised targeting the Bank's top talent and focused on development-based retention strategies linked to succession planning as well as compensation-based strategies. Online psychometric assessments and Individual Developmental Plans have been created for the identified critical roles and their successors.

Moreover, NBK Group HR initiated a Middle Management Program delivered by Euromoney Training Solutions. The main objective of this program is to provide participants with the necessary skills to better manage others, while being more productive and effective managers. The program targets middle managers in additional to potential Kuwaiti staff. From our potential staff, a total of 126 employees of which 80 are Kuwaiti and 46 Non-Kuwaiti will undergo the Middle Management Program which extends initially until March 2017.

Furthermore, two NBK academy waves were launched and aimed to introduce young Kuwaiti university graduates to the banking sector and prepare them for careers at NBK.

Organization Design & Development

Throughout 2016 the ODD unit tackled several ongoing and new initiatives. The ODD unit coordinated for the participation of NBK as a sponsor in this year's PIN^{2}challenge held by PwC. The challenge this year took place over six months and included both private and public schools. The challenge targeted high school students in Kuwait and invited them to develop plans that address issues of sustainability, technology, design and governance with mentorship from several sponsoring organizations. We offered an internship to the teams who came in first, second and third place for both private and public schools, thus broadening the rotation plan to include more business areas.

Human Resources also tackled in 2016 another strategic employee recognition initiative whereby we designed and implemented the MVP awards (Most Valuable Team Players). This successful event included the majority of groups at NBK whereby 26 staff were nominated and awarded by top management for being NBK's MVPs. The aim of this strategic initiative is to encourage employee contribution, engagement, loyalty as well as celebrate the achievements of 'winners', reinforcing positive behavior and teamwork. Moreover, the ODD unit is currently working to create a new voting system that will enable all employees to vote for their colleagues for next year's MVP awards.

Human Resources also undertook a full review of current staff policy manuals to reflect process-related changes in relation to the Oracle system implementation and new business requirements. Various ad hoc projects related to policy amendments, restructuring and employee benefits were conducted as well.

NBK's current leadership competency model was also revamped in coordination with the business to reflect best practices and foster the right behaviors for managers.

Employee Engagement and Relations

During 2016, Employee Relations focused on establishing and maintaining good working relationships among all staff. In addition to the frequent branches and departments visits, the department conducted induction sessions to further explain the roles and responsibilities of the department to newly employed staff. Individual follow up meetings were also arranged with NBK Academy graduates to further improve their working experience and address any of their concerns by providing continuous coaching. The department is currently working on introducing a new employee grievance policy that is designed to provide a fair and equitable resolution for concerns related to performance appraisals and promotions.

Oracle Implementation System

The second wave of the implementation of the Oracle R12 system successfully achieved during the first quarter of 2016 including: IRecruitment, Learning Management, Succession Planning, and Business Intelligence. NBK employees are now able to request leaves, update their employee information and request certifications through the system, reducing paperwork and manual work processes significantly. The Performance Management system is scheduled for December 2016 and will be implemented as a pilot project in selected parts of the business.

Compensation

The Compensation team finalized the compensation benchmark recommendations across the NBK Group which was implemented in two phases (in 2015 and 2016). Various ad hoc projects and extensive training related to job descriptions and job titles, organization structures and job grading approaches were conducted early in the year with external vendors, with participation of selected centers within GHR in addition, to the Compensation team. Furthermore, Compensation conducted an annual review analysis of promotions, breaking down relation of the promotions to talent grid scores and performance ranking for the NBK Group. Compensation also commenced a Bank-wide Compensation project with an external vendor in order to review and/or redesign major elements of compensation such as: fixed pay, allowances, bonuses and incentives across the organization and provided executive management with their findings and recommendations.

Strategic HR Business Partners

HR Business Partners continued their role as “HR Relations Managers” with all businesses across NBK. Through the introduction of the “Business planning” process particular time is spent on understanding business strategy to enable Business Partners to align their activities, as well as Human Resources in general, with aspects that are important for business. The business planning process in conjunction with the Business town halls led to the development and implementation of the following initiatives:

1. NBK Credit and Relationship Management Curriculum that is implemented in Corporate Banking, Foreign Corporate Banking, Risk Management, IBG, Private Banking and Business Banking, effective 24 October 2016.
2. Additional curricula was developed in Audit, CBG (Collections, Call Center) and Operations. The development of curricula will continue during 2017 and 2018.
3. Development of peer assessments in Treasury.
4. Aligning recruitment needs and requirements to future business needs.
5. In addition to the focus on business, all the Business Partners play a significant role in the alignment of internal HR processes and initiatives to align to the Bank’s business needs.

Quality Assurance

The Quality Assurance team is committed to maintaining the highest performance standards of various Human Resources departments at NBK Group through routine inspections and follow-up activities, in order to measure the staff’s level of compliance in implementing relevant policies and procedures. Therefore, the Quality Assurance team, in cooperation with the Strategic Partners for Business Support, Recruitment, Training and Development, Human Resources Operations Management and Talent Management; initiated an examination and audit process around the effectiveness of the policies and procedures implemented in each of those departments to improve business quality and ensure both service and output excellence within the Human Resources Group and trickling down to all recipients at any of the Bank’s business centers.

The examination and audit process was achieved through analyzing the relevant data which enables the monitoring of any developmental and improvement opportunities. One of the most current prominent projects in Quality Assurance is drafting and editing the procedures manual for each department within the Human Resources Group to have a reliable reference to facilitate daily tasks with highest standards.

Economic Outlook

The outlook for the global economy continued to disappoint, coming in weaker than previously expected in 2016. This put further pressure on oil prices, which were down 16% compared to the previous year. With deficits on the rise, regional oil exporters made more efforts in 2016 to rationalize spending, which resulted in a slower pace of growth in most countries. Stock markets also suffered, seeing another bad year as growth in the region slowed. Political tensions and instability remained a key concern for the MENA region, though conditions appeared to stabilize on the whole. The Gulf Cooperation Council (GCC) countries have again largely managed to remain insulated from the surrounding insecurity.

Oil supply glut continued to weigh on oil markets in 2016

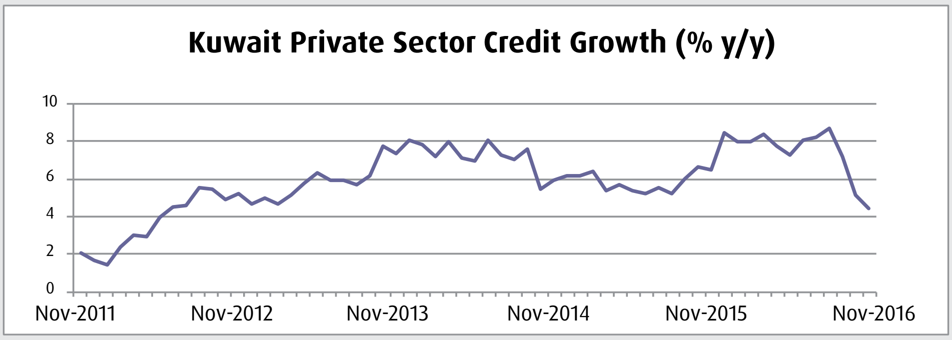
Volatility returned to the oil markets in 2016, as prices fell to new lows in January before rising back gradually towards USD 50 later in the year. Despite this improvement, weak global demand and stronger-than-expected growth in supply continued to weigh on the market. As a result, global crude stocks hit historic highs and the supply glut appeared to unwind at a slower pace than had been expected. Within this environment, OPEC and some non-OPEC producers agreed, toward the end of 2016, to cut production in a bid to accelerate market rebalancing. Producers agreed to reduce output by around 1.8 million barrels a day (mb/d). Despite the near-term weakness, the International Energy Agency (IEA) warned that in the medium-term the market may face a supply crunch that could cause oil prices to spike. This is due to international oil companies scaling back capital expenditures by a quarter in 2015 and by another 15% to 20% in 2016. The price of Brent crude, the international benchmark, averaged USD 45 per barrel in 2016.

GCC growth slowed on tighter fiscal stance

The lower oil price environment since 2014 has weighed on growth across the GCC as most governments sought to shore up budget deficits. Though fiscal buffers remain substantial across the region, some governments began implementing tight fiscal measures early in 2016. Cuts and delays in capital spending have already been felt in some countries, though spending plans remain sizeable in most. As a result, most GCC economies saw a slowdown in non-oil growth during 2016 as fiscal stances were tightened. The extent of tightening has varied in the region, where Saudi Arabia needed to move quickly to shore up limited fiscal space, while Kuwait has greater time thanks to sizeable buffers.

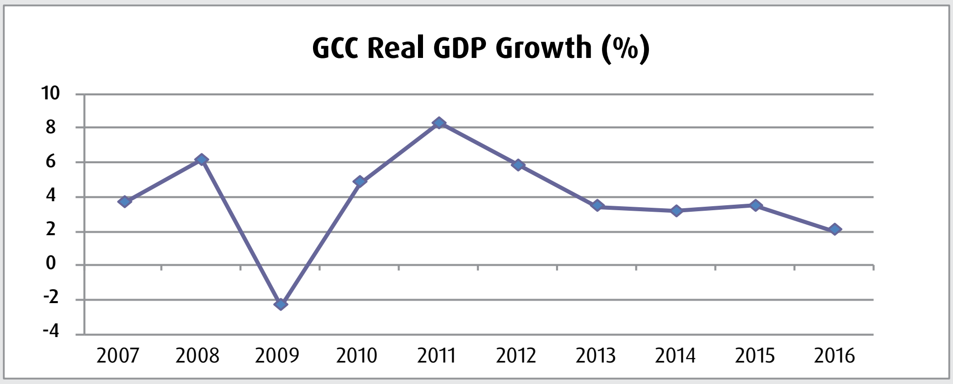
Slower growth pushed the GCC to underperform the broader MENA region in 2016, though conditions are expected to improve somewhat in 2017. Relative political stability continued to differentiate the GCC from most MENA countries. The region also benefited from a more stable macroeconomic environment and healthy banking system. Nonetheless, lower oil prices have refocused attention on the long-term structural challenges facing the region, including limited private sector participation in the economy and job growth. Most governments have put forth ambitious plans for meaningful structural reforms, most notably Saudi Arabia's 2030 vision.

MENA equity markets bounced back in 2016 buoyed by the recovery in oil prices. The S&P Pan Arab Composite advanced 7.9%. Within the GCC, markets outperformed with all closing the year up; the S&P GCC composite rose 8.5%. Dubai outperformed gaining 12.1% while Qatar saw the smallest gain with its general index almost unchanged from the close of the previous year. Meanwhile, Egyptian equities made strong gains following a poor performance in 2015. In Lebanon, the equity market rallied toward the end of the year following the election of a new president, which ended a presidential vacuum which had lasted more than two years.



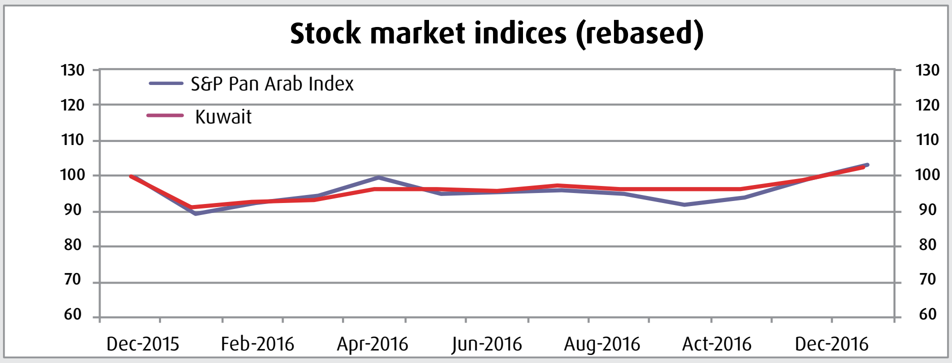
Kuwait outperformed the region as project activity sustained

Economic activity in Kuwait is expected to have maintained healthy growth despite more than two years of lower oil prices. Growth was driven by the government's development plan, which has sustained an improved pace of implementation over the last three years. Ambitious capital spending targets have boosted aggregate investment and should continue to do so in the period ahead. The government has reconfirmed its commitment to investment targets set out in the 2015-2020 plan despite lower oil prices. At the same time,



the government launched a road map for fiscal and structural reforms earlier in 2016 that aims to bolster fiscal sustainability and economic growth in the medium- to long-term.

An average oil price of around USD 45 per barrel during 2016 continued to place pressure on Kuwait's fiscal position, though buffers remain significant. The government budget recorded a deficit of 17% of GDP in FY15/16 (after the transfer to the Future Generations Fund) and is expected to register a similar shortfall in



FY16/17. A sovereign wealth fund estimated at over 450% of GDP (USD 500 billion) should allow the country to comfortably finance deficits without having to make deep cuts in spending. Low indebtedness of the Kuwaiti government contributed to more room to finance its deficit through debt, which it started to do in 2016. The government intends to finance the bulk of the FY16/17 deficit by issuing up to KD 5 billion in domestic and international bonds and sukuk.

Despite substantial buffers, the government is moving ahead with some fiscal measures to bolster sustainability. In March 2016, the government approved a reform plan, which included planned cuts in energy and water subsidies, the introduction of a corporate income tax and a value added tax (VAT). In April, the National Assembly approved increases in electricity and water tariffs to take effect gradually starting May 2017. In another move to reduce the government's subsidy bill, gasoline prices were increased at the start of September 2016 by 42% to 62% for the various octane grades. The annual savings of the state from the two moves is estimated at around 2% of GDP.

Kuwait's non-oil economy has maintained a relatively healthy pace of growth even as oil prices remained more than half their levels of two years ago. Indeed, we see non-oil growth improving in 2016 and 2017, in contrast to cooling activity in some neighboring GCC countries. We also estimate that non-oil GDP growth remains robust at 3.5% in 2016 and expect it to improve a further 3.5% in 2017. Moreover, we estimate the pace of growth to improve as the execution of the government's infrastructure projects accelerate.

The improved pace of economic activity was visible and reflected positively on private credit growth. The 12-month average growth in credit accelerated to 7.2% year-on-year (y/y) as of October 2016. Credit growth has been particularly strong in the productive business sectors, with average growth in lending excluding personal facilities and lending to the financial and real estate sectors reaching 11% y/y, compared to growth of 6.3% y/y a year before. Average credit growth is likely to come in at 7% by the end of 2016, up from 6% in 2015.

Sustained development

The main growth driver is the government-led development plan, which has helped in ramping up both public and private investment. The plan aims to boost the private sector's participation in the economy by addressing capacity constraints in a number of areas. Following some delay in prior years, there has been a clear pickup in the pace of implementation since 2013 and this appears to have been sustained in 2016. From an average of around USD 10 billion per annum of projects awards between 2011 and 2013; project awards rose to USD 26 billion in 2014 and USD 31 billion in 2015. The pace appeared to moderate relatively to a still-healthy USD 18 billion during 2016.

The outlook for economic growth is driven largely by an improving pace of implementation of government-led infrastructure projects. The government's development plan targets investment of KD 34 billion through 2020 and includes significant private investment. Among the projects are a number being implemented as public-private partnership projects (PPP), including the Al-Zour North power and water plants.

The consumer sector has long been a robust and reliable source of growth in Kuwait, though this is expected to weaken as the sector growth is slowing. The consumer sector has remained supported by steady growth in employment and salaries, particularly in the government sector and among Kuwaiti households. Cuts in government wages and salaries are unlikely and subsidy reforms are expected to be gradual and thus to have a relatively limited impact. Nonetheless, the sector has felt the pressures of the changing environment; consumer sentiment has weakened and households appeared to delay durable purchases.

Activity in the real estate market continued to be relatively weak in 2016, with prices seeing a moderate correction. Total sales during 2016 were off by 23% y/y. Most of the weakness was in the residential and investment sectors. Commercial activity, which saw sales down in 2015, did better in 2016. The drop in sales activity has helped precipitate an orderly correction in real estate prices in the last two years.

Inflation eased over the last year or so, as most components saw inflationary pressures diminish. Headline inflation stood at 3.4% y/y in November 2016, compared to 3.1% a year before. Services, excluding housing which has been the main source of reduced inflationary pressures, with inflation in this segment declining to 1.1% y/y in November 2016 compared to 2.8% a year ago. Meanwhile, pressures from housing services appear to have peaked, with prices there, mostly representing housing rents, rising by 7.4% y/y. We expect average inflation to be mostly steady in 2016 at around 3.4% before accelerating slightly in 2017 as a result of steps to cut energy and water subsidies.

The Central Bank of Kuwait (CBK) left its main policy rates unchanged throughout most of 2016 before it hiked rates by 25 basis points in December. The benchmark discount rate was increased to 2.5%. Interbank rates rose early in 2016 as the result of the 25 basis point policy rate hike introduced in December 2015, though they soon retreated to stabilize in the second half of 2016. The three-month interbank rate stood at 1.44%, down around 25 basis points from the beginning of the year. The Kuwaiti dinar saw another year of strength thanks to a rallying US dollar. The dinar rose against most other currencies during 2016, with the currency gaining 2.9% on trade-weighted terms; it fell by 0.7% against the US dollar, as the latter strengthened mostly during the last two months of the year.

Bank profits softened during the first nine months of 2016, as adjusted growth slowed to 3.9% year-on-year (y/y). Net interest income was supported by decent growth in lending and a slight pickup in net interest margins. Fees and commissions, and investment income also supported banks' bottom lines but losses from foreign exchange dealing and a rise in investment provisions weighed on profitability. The average return-on-equity (ROE) slipped slightly to 9.1%. Asset growth slowed to 2.3% y/y in September 2016 as total assets rose to KD 69.5 billion; most of the weakness came from overseas loan portfolios.

Corporate Governance Framework

Corporate Governance Framework

National Bank of Kuwait Group is in line with the best, leading international Corporate Governance practices, risk management, protecting stakeholder's rights. During the year 2016, the group adhered to all the provisions and determinants of CBK instructions regarding the Corporate Governance rules and standards for Kuwaiti banks, issued in June 2012, as well as the regulatory instructions related to governance in Kuwait and those issued by other countries in which the group's entities operate.

Represented by the effective supervisory role of the Board of Directors and the executive management, the Group focused on improving the corporate governance and compliance culture across all of its entities, where the corporate governance framework is constantly developed to establish sound and effective corporate values. This is achieved through a set of policies, procedures and standards adopted by the group, which are periodically updated, to be in line with the best applicable and relevant international practices.

The group recognizes the importance of applying the principles and standards of good governance, as it follows the professional and ethical standards in all kind of deals, disclosure and transparency of the information accurately and in timely manner, these contribute to the development of Group work efficiency and enhancing the confidence of the shareholders, all related parties and stakeholders in the group's performance as well as the banking sector in Kuwait.

During the year 2016, the Group achieved a number of key accomplishments on the effective implementation of corporate governance framework, which are as follows:

- Reviewed and developed the governance policies and charters according to the regulatory instructions in Kuwait and the instructions issued by the regulatory authorities in countries where the Group operates.
- Developed and implemented automated systems for compliance, operational risk, Foreign Account Tax Compliance Act (U.S.A), and Anti Money Laundering / Combating Financing of Terrorism.
- Conducted an independent review and assessed the efficiency of implementing the corporate governance at NBK subsidiaries through monitoring and supporting the governance units at these subsidiaries, that manage the affairs of the Board of Directors and their committees.
- Issued awareness publications on the implementation of Corporate Governance and Regulatory Compliance to all employees of the Group.
- Developed and continually improved the corporate governance reporting systems between entities of the Group.
- Fulfilled the Capital Markets Authority requirements of the corporate governance regulations which led to having NBK Capital and Watani Financial Brokerage Company on the list of the top ten companies compliant to corporate governance requirements.

The Board composition its committees and main duties

NBK Group Board of Directors is composed of nine (9) non-executive members representing the shareholders. The Board members are elected and appointed by the General Assembly of the Bank, for three (3) years. The Board is aiming to strengthen the long term success of the Group and to deliver sustainable value to shareholders.

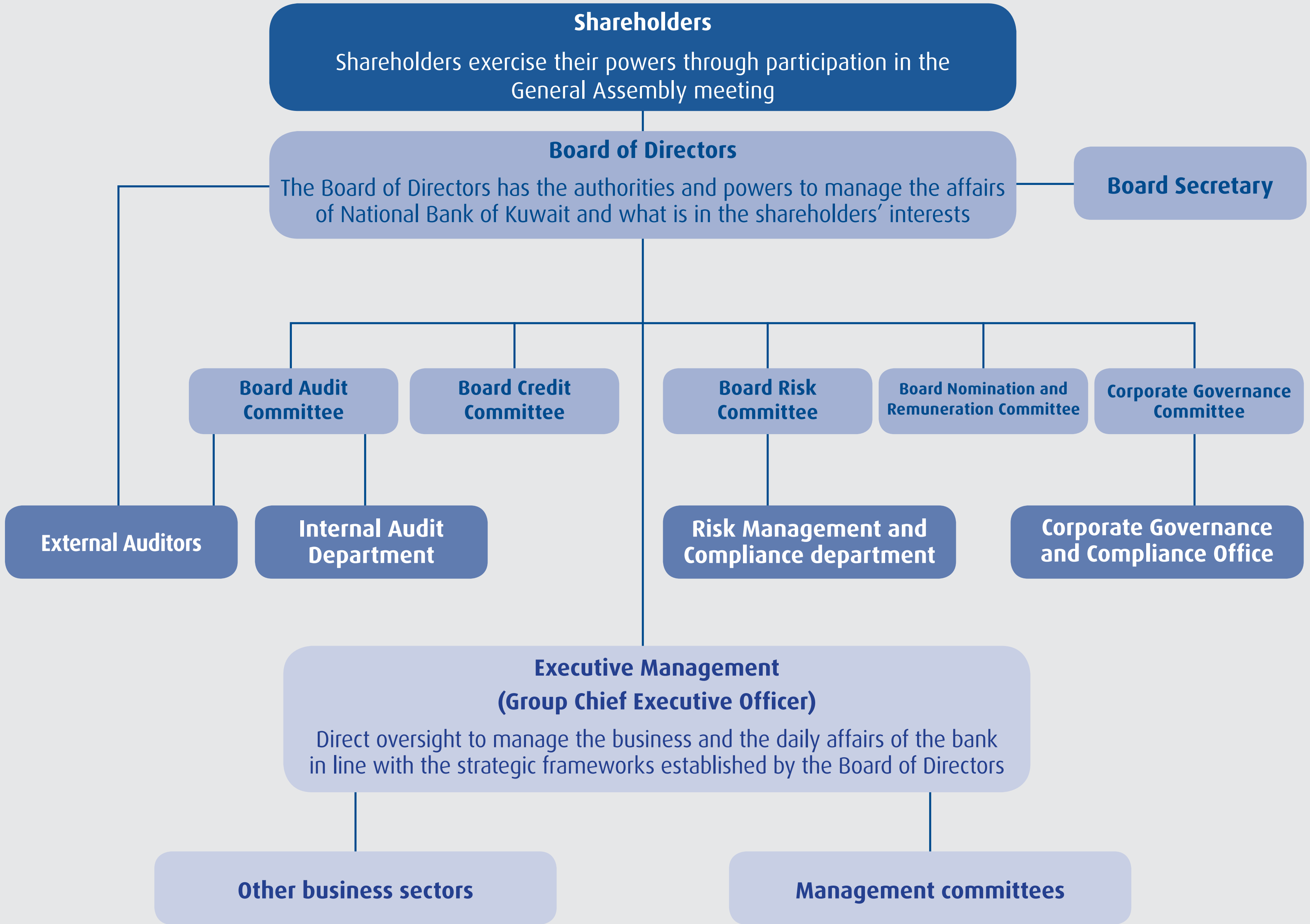
The Board structure is generally characterized of having appropriate number of members, diversity of professional experiences, educational qualifications and broad knowledge of the banking sector and the business sectors. Board members collectively have the experience and knowledge in the areas of accounting, finance, economics, strategic planning, corporate governance, internal control and risk management, in addition to the outstanding experience in the local and regional business environment.

The Group's balanced and non-complex Board structure facilitate the process of exchange of information accurately and timely between different group entities. This was accomplished by establishing a direct communication channels across the group, which promoted the principle of disclosure and transparency about the group operations. Moreover, the structure maintains the supervisory role assigned to the Board, and effectively contributes to fulfilling the Board responsibilities.

To comply with the supervisory regulations issued by CBK in addition to the Group's effort to effectively implement the corporate governance framework, the Group formed an appropriate number of committees that are aligned with the size of the group, the nature and complexity of its activities, and the geographical distribution of the Group's entities. The Board of Directors formed five subcommittees to enhance the Board effectiveness on important Group operations.

Corporate Governance structure of National Bank of Kuwait Group is illustrated as follows:

The overall Governance Framework



The Board and its committees

Corporate Governance Committee	Nomination & Remuneration Committee	Risk Committee	Audit Committee	Credit Committee
Board Members 1. Mr/ Nasser Musaed Al-Sayer (Board and Committee Chairman) 2. Mr/ Hamad Abdul Aziz Al-Sager 3. Mr/ Yacoub Yousef Al-Fulaij 4. Mr/ Muthana Mohamed Al-Hamad 5. Mr/ Haitham Sulaiman Al-Khaled	**Board Members** 1. Mr/ Ghassan Ahmed Al-Khalid (Committee Chairman) 2. Mr/ Hamad Mohammed Al Bahar 3. Mr/ Emad Mohamed Al Bahar 4. Mr/ Muthana Mohamed Al-Hamad	**Board Members** 1. Mr/ Ghassan Ahmed Al Khalid (Committee Chairman) 2. Mr/ Haitham Sulaiman Al-Khaled 3. Mr/ Loay Jassim Al-Kharafi	**Board Members** 1. Mr/ Hamad Mohammed Al-Bahar (Committee Chairman) 2. Mr/ Haitham Sulaiman Al-Khaled 3. Mr/ Loay Jassim Al-Kharafi	**Board Members** 1. Mr/ Hamad Abdul Aziz Al Sager (Committee Chairman) 2. Mr/ Yacoub Yousef Al-Fulaij 3. Mr/ Muthana Mohamed Al-Hamad 4. Mr/ Emad Mohamed Al Bahar
Committee Key Mission: Assist the Board in overseeing the implementation of the Group's corporate governance. The Committee is also responsible for monitoring the implementation progress of the policies and procedures pertaining to governance.	**Committee Key Mission:** Assist the Board in carrying out the Nomination and Remuneration responsibilities pertaining to the Directors and Executive Management. The Committee also supports the Board in reviewing and enhancing the Board Structure and development of the caliber of the Board Members, also assists the Board in setting up the Group's Remuneration Framework and ensures effective implementation in accordance with Group Remuneration Policy.	**Committee Key Mission:** Assists the Board in carrying out the Risk Management responsibilities through evaluating and monitoring the risk governance framework, risk appetite, risk strategy and capital planning. In addition, the supervision of regulatory compliance across the Group.	**Committee Key Mission:** Assists the Board in a supervisory role regarding the efficiency and independence of the internal and external audit operations for the Group, also oversees the preparation of the periodic financial statements and other regulatory reports.	**Committee Key Mission:** Responsible for reviewing the quality and performance of the Group's credit portfolio. The Board has authorized the Committee to approve credit facilities which exceed the authorization granted to Senior Management, in accordance with the Credit Policy of the Group.

Board of Directors meetings and its committees:

The Board of Directors held twelve (12) meetings during the year 2016. Minutes of all meetings have been documented and are included in the Bank's records.

The below table shows in details the names of the National Bank of Kuwait Board of Directors members and their committees and their membership in these committees. The total number of meetings of the Board of Directors and their committees was seventy-six meetings (76), in addition to the number of meetings attended by each member during the year.

Board of Director Members	Committee Membership	Board of Director	Corporate Governance	Nomination & Remuneration	Risk	Audit	Credit
Mr. Nasser Musaed Al-Sayer	Chairman of Board of Directors Chairman of Corporate Governance committee	12	2				
Mr. Ghassan Ahmed Al-Khalid	Chairman of Nomination & Remuneration committee Chairman of Risk committee	10		2	4		
Mr. Hamad Abdul Aziz Al-Sager	Chairman of Credit Committee Member of Corporate Governance Committee	10	2				24
Mr. Yacoub Yousef Al-Fulaij	Member of Corporate Governance committee Member of Credit committee	8	2				38
Mr. Hamad Mohammed Al-Bahar	Chairman of Audit Committee Member of Nomination & Remuneration Committee	10		1		5	
Mr. Muthana Mohamed Al-Hamad	Member of Corporate Governance committee Member of Nomination & Remuneration committee Member of Credit Committee	12	2	1			47
Mr. Haitham Sulaiman Al-Khaled	Member of Corporate Governance committee Member of Risk committee Member of Audit committee	10	1		4	5	
Mr. Loay Jassim Al-Kharafi	Member of Risk committee Member of Audit committee	3			3	1	
Mr. Emad Mohamed Al Bahar	Member of Nomination & Remuneration committee Member of Credit committee	8		2			39
Total number of meetings		12	2	2	4	5	51

Meetings held by the Board of Directors and its committees during the year 2016, were in compliance with Central Bank of Kuwait governance rules and standards and Board and Committees charters in terms of the number of meetings, periodicity, the quorum and the topics reviewed and discussed by the members.

Key achievements of the Board of Directors and its committees in the effective implementation of the corporate governance framework:

General overview:

The Group Board of Directors permanently and continuously strives to achieve the best interest of Bank's shareholders through an effective oversight and monitoring of the work of the executive management, ensuring the implementation of Bank's strategy and objectives, and confirms that performance is going according to plans. During the year, the Board of Directors reviewed and developed the Group's Strategy and the Risk Appetite, including all future plans of the subsidiaries and overseas branches.

The Board of Directors gives excessive prominence to the implementation of governance at the group level, by creating a culture of corporate values among the entire bank's staff. This is achieved through a constant work to achieve Bank's strategic objectives, improve key performance indicators, and the compliance with laws and regulations, especially the rules of corporate governance. In addition, the Board adopted a set of policies, charters, systems, mechanisms, reports and procedures which the group effectively and integrally applied, relying on the philosophy of the group, in the implementation of corporate governance, as a Corporate culture and principles of work, and not only as supervisory instructions and legislative regulations.

The followings are the most important achievements of the Board of Directors and Committees, during 2016:

Board of Directors Key Achievements:

- Discussed and approved the updated strategy of the Group
- Discussed the risk appetite and its impact on the Group's strategy
- Reviewed the reports of the Internal Capital Adequacy Assessment Process ("ICAAP"), financial stress testing as per the regulatory requirement Basel (3)
- Reviewed and developed a set of policies and charters on Corporate Governance framework
- Reviewed the Board of Directors' structures in subsidiaries, on an ongoing basis ensuring their compliance with the regulatory requirements and the general policy of the Group's governance framework
- Followed the progress of Group's operations through regular meetings with Executive Management and discussed the results of the Group's business through periodic reports
- Reviewed and evaluated the effectiveness of the Board and its committees, in addition to conducting individual self-assessments of the Board and committee members
- Reviewed the remuneration framework, the mechanism of linking rewards to performance, the level of risk exposure and updated the remuneration policy at the Group level
- Developed the corporate governance framework at the Group level and ensured the implementation of the local regulations in the countries it operates in, which are in line with the Group corporate governance framework
- Reviewed and developed policies and charters of the corporate governance at the group level, in order to commensurate with the Group organizational structure, and keep up with the applicable international and leading corporate governance practices
- Conducted self-assessment for corporate governance implementation at the Group level, and identified the areas that need to be developed
- Reviewed the results of the annual independent evaluation of the governance framework, conducted by the Internal Audit Department, and highlighted the areas of governance framework that need improvements
- Reviewed the results of the annual independent evaluation of the Internal Control Review, for the governance framework, conducted by the external auditors
- Supervised the Corporate Governance offices and units in the bank's subsidiaries, followed up their progress through periodic reports that presented to the Board Corporate Governance Committee for review and discussion, and subsequently to the Board of Director
- Approved the National Bank of Kuwait Capital increase by 6.5%

Board Committees Key Achievements:

	Achievements
BCGC	The Committee met twice during the year and the following key duties were achieved:
	• Developed the corporate governance framework for the subsidiaries, on ongoing basis and support them with qualified human resources.
	• Reviewed, amended Board and its committees' charters according to supervisory regulations issued in this regard and made recommendations to the Board of Directors
	• Reviewed and discussed the results of the internal audit report on the annual evaluation of the Corporate Governance Framework.
	• Reviewed and discussed the report and the results of the evaluation of internal control systems, and the adequacy of implementing the rules of corporate governance at the group's level.
	• Reviewed and updated the policies of Disclosure and Transparency and Stakeholders rights protection, in line with the latest regulatory instructions, leading practices, and made recommendations to the Board for approval.
	• Discussed related parties transactions, conflict of interest reports and the effectiveness of the existing mechanisms.
	• Supervised the work progress of the corporate governance implementation at the Group level
	• Reviewed and discussed the report prepared on the adequacy of the Corporate Governance implementation at the group level.
	• Reviewed and discussed the policy and procedures for disciplinary action and presented them to the Board.
	Achievements
BNRC	The Committee met twice during the year and the following key duties were achieved:
	• Supervised the process of the Board of Directors performance and the self-assessment of the Board members.
	• Reviewed the requirements of the Board members for training courses and professional skills to assist them performing their supervisory duties. Developed a comprehensive training plan, for the Board members, which covers a number of specialized topics for the year 2017.
	• Conducted a comprehensive assessment of the Board of Directors performance and committees, as well as the performance of each Board member individually.
	• Reviewed and developed the remuneration policy at the group level.
	• Reviewed the rewards and incentives for 2016 based on the key performance and risk indicators and put forward the recommendations to the Board.
	• Reviewed the links between the remunerations and the Group's long-term objectives.
	• Reviewed and discussed the succession plan prepared by Group Human Resources and recommended it to the Board for approval.
	• Reviewed and discussed the phantom shares plan for key personnel employees, and made recommendations to the Board of Directors.
	• Reviewed and discussed the latest developments in the banking industry and related reports in this regard.
	Achievements
BAC	The Committee met five (5) times during the year and the following key duties were achieved:
	• Reviewed and approved the Group's Internal Audit Plan for 2016 based on the Risk Assessment and audit focus areas. Also reviewed the Internal Audit manual and organizational structure and presented to the Board for approval.

BCGC: Board Corporate Governance Committee
BNRC: Board Nomination and Remuneration Committee
BAC: Board Audit Committee

	• Co-ordinated with external auditors, reviewed the interim and annual financial statements of the group, discussed with external auditors the new methodology of preparing the financial statements of the bank which will be applied the coming year, and submitted recommendations to the Board of Directors.
	• Reviewed and discussed internal audit summary and compared what has been achieved of the internal audit plan, in comparison to the performance during the previous year.
	• Discussed the results of the report of the annual Internal Controls Review.
	• Reviewed the committee Charter and the amendments, and submitted recommendations to the Board of Directors.
	• Reviewed the efficiency and independency of the internal audit function, infrastructure and the overall annual assessment of the function's performance with the Group Chief Internal Auditor.
	• Discussed aspects of internal audit that relate to information technology and IT security.
	• Reviewed and discussed the terms of engagement with the External Auditor and provided recommendations related to the Audit fees with respect to the services provided.
	• Discussed external audit results related to the internal audit department.
	• Evaluated the Group Chief Internal Auditor's performance and determined his remuneration.
BRC	**Achievements** The Committee met five (4) times during the year and following key duties were achieved:
	• Reviewed and discussed the strategy and challenges of the Risk Management, the set of periodic risk management reports at the Group level and the key risk indicators.
	• Reviewed and discussed the periodic market risk report, Internal Capital Adequacy Assessment Process ("ICAAP"), liquidity ratios, and the ratios related to stress testing and the methods in which they are dealt at Group level.
	• Reviewed and discussed the risk limits ratios, compared the ratios to the approved Group's risk appetite and the exposure levels of countries in which the Group operates, and discussed those ratios and the changes compared to previous periods.
	• Discussed the Liquidity Crisis Management Committee charter and submit recommendations to the Board of Directors.
	• Reviewed the operational risk report at Group level according to geographical distribution, in addition to concentration according to credit rating and risk sectors.
	• Reviewed and updated the international credit authorities and put forward the recommendations to the Board for approval.
	• Reviewed the periodic report on the Risks of information systems, Operational risks, the results of the internal control systems report on the regulatory compliance, anti-money laundering and financing of terrorism, and the compliance with the regulatory requirements of the Foreign Account Tax Compliance Act-FATCA, at the group level.
	• Reviewed and discussed risk management policies and presented to the Board for approval.
	• Reviewed the regulatory compliance remarks at the Group subsidiaries level through the self-evaluation results as well as the field visits and the review processes.
	• Evaluated the Group Chief Risk Officer's performance and determined his remuneration.
	• Review and update the organizational structure of the group risk and make recommendations to be presented to the Board of Directors.
BCC	**Achievements** The Committee met fifty one (51) times during the year and the following key duties were achieved:
	• Reviewed and approved credit proposals within the authority matrix delegated by the Board of Directors.
	• Coordinated with the Board Risk Committee to discuss credit-risk limits.

BRC: Board Risk Committee
BCC: Board Credit Committee

Board of Directors Self-Assessment

Annually and under the supervision of the Board of Directors, the Nomination and Remuneration committee evaluates the effectiveness of the members, their participation whether individually or collectively. It also includes the assessment of the Board committees through the self-assessment methodology, which has been designed and developed to evaluate the effectiveness of each member of the Board so that to determine the aspects of development required and the necessary training for members.

The following graph illustrates the factors where the evaluation was based and included in the self-evaluation forms:

Based on the evaluation results, the committee presented its report to the Board including the necessary development and training plan for the Board of Directors and its members during 2017. Training plan was developed and designed to fulfil the needs of all members, to be consistent with their professional experiences and educational qualifications, and to cover specialized aspects of corporate governance, risks and regulatory compliance.

Internal Control Adequacy Report

Board Statement on Adequacy of Internal Control Systems:

The Board strives consistently to ensure the adequacy and efficiency of the control systems required to protect the Group's operations, whilst ensuring compliance with such internal controls and establishing that those controls provide the necessary protection for the Group against risks from within or outside the Group. The Board ensures an effective Internal Control System and Risk Management and Compliance functions are in place with sufficient authority, independence, resources and access to the business lines. The Board regards the internal audit function and external audit activities as integral parts of key control tools for independent review of information reported by Executive Management to the Board.

The Board Audit Committee is responsible for the oversight of the Group's internal control framework along with the selection and rotation of External Auditors in compliance with regulatory requirements.

The Board has been provided with the results of assessments on the existing internal control systems from Risk Management and Compliance, Internal Audit and independent external party.

The Board believes the existing internal control systems adopted and used at NBK Group are satisfactory and adequate.

A review of the internal control system by an independent third party

An Internal Control Review (ICR) of NBK is conducted annually by an external audit firm in accordance with CBK requirements. ICR examines accounting and other records, and evaluates the internal control systems with regard, but not limited, to Corporate Governance, Consumer Banking, Corporate and Consumer Credit, Treasury, Financial Control, Information Technology, Risk Management, Human Resources and Administration, Internal Audit, Legal Affairs and Anti-Money Laundering and combating financing terrorism.

A summary of ICR report for the year ended 31 Dec 2015 was presented to the Board of Directors during 2016. The report does not highlight any significant issues.

Internal Control Review Report by the External Party

Private and confidential

The Board of Directors

National Bank of Kuwait S.A.K.P.

30 June 2016

State of Kuwait

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 1 March 2016, we have examined the accounting and other records and internal control systems of National Bank of Kuwait-S.A.K.P.("The Bank") at Kuwait, branches in Bahrain, Jordan, Kingdom of Saudi Arabia and United Arab Emirates ("UAE") and subsidiaries National Bank of Kuwait (Lebanon) SAL and National Bank of Kuwait - Egypt (together referred to as "the Group") which were in existence during the year ended 31 December 2015. We covered all areas of the Group as follows:

• Corporate Governance; • Risk Management; • Anti-Money Laundering; • Consumer Banking; • Treasury; • Corporate and Consumer Credit; • Human Resources; • Funds Control and Operations; • Financial Control; • Administration; • Internal Audit; • Information Technology; • Legal; • Financial Securities (limited to Kuwait only); • Confidentiality of Customer Information; and • Anti-Fraud and Embezzlement

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) letter dated January 17, 2016, considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, instructions relating to corporate governance issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning Anti Money Laundering Operations and combating Financing of Terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities of the Group and instructions regarding Internal Controls with respect to prevention of fraud and embezzlement cases.

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

Because of inherent limitations in any internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

With the exception of the matters set out in the accompanying report, and having regard to the nature and volume of the Group's operations, during the year ended December 31, 2015, and the materiality and risk rating of our findings, in our opinion:

A. The accounting and other records and internal control systems of the Group were established and maintained in accordance with the requirements of the Manual of General Directives issued by the Central Bank of Kuwait on 14 November 1996, and letter issued by CBK on 17 January 2016.

B. The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Group for the year ended December 31, 2015, and

C. The actions taken by the group to address the findings referred in the report, including the previous years, findings are satisfactory.

Your faithfully,

Qais Mohamed Al Nisf
License No 38 "A"
BDO – AL NISF and Partners

Group Risk Management

Risk Management & Compliance Structure

The structure of the Risk Management and Compliance function consists of the following departments:

The Risk Management and Compliance function is headed by the Group Chief Risk Officer supported by his deputies and assistants. Each department mentioned above is headed by its Manager.

The Risk Management Group reports directly to the Board Risk Committee which is part of the Board of Directors. The Board Risk Committee is responsible for identifying and assessing key risks, measuring the levels of risk exposure, monitoring exposure levels in light of the risk appetite, determining capital requirements on a regular basis and following-up and evaluating decisions relating to certain risks.

Risk Management and Compliance works to ensure the Group adheres to the requirements of the Central Bank of Kuwait and the Capital Markets Authority and other regulators.

The Board of Directors is fully responsible for designing the risk appetite and strategy, in addition to approval of the framework of risk management policies and procedures, periodic monitoring of the risks and the application of the annual performance evaluation mechanism which is in accordance with the risk (to achieve a balance between risk and return).

The Risk Management Group maintains a list of aggregated risks at the Group level and includes the major risks at the level of the overseas branches and subsidiaries.

Risk Management Strategy

In setting the Group Strategy for the year, the Risk Management strategy has also been reviewed and developed. Its main points are summarized as follows:

1. Maintaining stability and business continuity during times of crisis
2. Effective and adequate compliance with regulatory capital requirements, internal targets of capital requirements, in line with the business strategy.
3. Develop IT infrastructure and use modern methods for work to raise the professional level and levels of experience of the human resources.
4. Effective risk-planning through an appropriate risk appetite.
5. Performing stress tests consistently to assess the potential impact on capital requirements, capital base and the liquidity position.

Risk Appetite

In order to achieve the optimal balance of risk and return which will enable the achievement of its strategic objectives, the Group has articulated the maximum limit of risk the Group is willing to accept in relevant business categories. Any risk which breaches NBK's stated risk appetite must be mitigated as a matter of priority to within acceptable levels.

NBK's risk appetite is reviewed at least annually and updated as deemed necessary. Changes and updates to the risk appetite are reviewed and approved by the Board of Directors.

The Group Chief Risk Officer in coordination with the Board Risk Committee has played a vital role in raising awareness and understanding in regards to the Risk Structure along with setting up Risk Limits and assisting the Board Nomination and Remuneration Committee in formulating a Risk-Based approach to remuneration, where applicable.

The Group Risk Management & Compliance function has worked on identifying early warnings of breaches to the Risk Limits and Risk Appetite, and raise it to the attention of the Board Risk Committee and consequently to the Board of Directors.

Remuneration Policy and Framework

NBK's remuneration policy is in line with the strategic objectives of the Group, and in particular is designed to attract, retain and motivate high-caliber, professional, skilled and knowledgeable employees, at the same time as promoting sound and sustained profitability and effective risk management.

The Group's financial remuneration framework has been linked with the long-term and short-term performance objectives. The Board-approved Group Strategy is transformed into Key Performance Indicators (KPIs) and remuneration is determined based on the achievement of these KPIs towards the overall Group's strategy; these include financial and non-financial criteria and (where appropriate) Key Risk Indicators (KRIs).

For the purpose of granting remuneration, the Group has differentiated in its staff categories, between "material risk-takers," and financial and risk control functions.

The remuneration for the material risk-takers has been linked with the risk limits which were cascaded as per the approved Risk Appetite. The Key Performance Indicators for the Financial and Risk Control functions are, however, based on the objectives of the control function itself. Any claw-back to be applied is based on the performance standard of the function.

The Group operates a "total reward" philosophy taking into account all components of financial remuneration. The key components being:

- Fixed remuneration (salaries, benefits, etc.)
- Variable Remuneration (performance-based remuneration) which includes cash bonus and equity shares (as per Phantom Shares Plan)

The Group ensures there is a suitable balance between fixed and variable remuneration to allow for the possibility of reducing remuneration in the case of adverse financial performance.

The Group applies a deferment approach up to three years (final vesting of the variable component). Vesting of the variable component is subject to achieving the long-term performance targets and risk materialization.

Claw-back applies on the non-vested portions in case long-term targets are not met or risk materializes. The claw-back mechanism is applicable on the Phantom Shares Plan component of variable compensation. The Phantom Shares Plan is available to a select number of qualified employees to benefit from this system, and the claw-back policy is applied to the element of variable remuneration.

The Group's Remuneration process is governed by the Board Nomination and Remuneration Committee with the ultimate decisions and responsibilities falling to the Board of Directors.

Remuneration Disclosures

The Chairman and the Board of Directors of NBK did not receive any remuneration in the form of fees, salaries or bonuses for their services rendered to the Bank.

The five senior Executives who received the highest remuneration packages, including the Group Chief Financial Officer (CFO) in addition to Group Chief Internal Auditor (CIA) and Group Chief Risk Officer (CRO) received a Group compensation aggregating KWD 7,330 thousand for the year ended in December 2016.

The following table details the Remuneration Paid (in KWD) to Staff Categories:

Values in "KD'000"

Employees Categories	Number of Employees	Fixed Remuneration	Variable Remuneration			Total
			Cash	Phantom shares plan	Other performance incentives	
Senior Management	70	8,147	6,775	1,728	612	17,262
Material Risk Takers	21	3,955	5,836	870	117	10,778
Financial and Risk Control	15	1,479	600	370	7	2,456

For Disclosure purposes

- Senior Management group: includes all staff above and equivalent to the position of Assistant General Manager for all business units excluding regulatory functions.
- Material Risk-Takers group: includes Group Chief Executive Officer and his deputy, Chief Executive officer-Kuwait, the heads of core business functions and their deputies.
- Financial & Control functions group: includes heads of Control functions (Financial Control, Risk Management and Compliance, Internal Audit and Anti-Money Laundering and combating financing terrorism Unit), their deputies and assistances.

Ethics and Professional Conduct

Values and Ethics

NBK Group continues to apply corporate governance values as fundamental principles and an integral part of the culture of the Group. During the year, the Group has worked on a number of initiatives which will strengthen the commitment to the values of corporate governance and raise the level of awareness of those values at all levels of the Group and related bodies.

NBK Group is committed to achieving the highest levels of governance and has established those values within a number of pillars, which emerged through a set of policies and procedures set forth in the following:

Ethics Code

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

This code is subject to periodic review, to keep up to date with all the latest development and enhancements in the areas of governance and control of professional conduct. The Board of Directors also oversees the efficient implementation of the Charter through the audit and internal control functions to identify and remedy any gaps.

Conflict of Interest

The Group ensures in all stages of banking procedures for its customers, to treat all customers fairly, equally and honestly, to achieve the maximum level of transparency and objectivity, through applying a conflict of interest policy. The Group, under the supervision of the Board, has reviewed the procedures policy of related-party transactions which is compatible with the nature of the Group's business regulatory updates in the markets in which it operates. In addition, it has adopted a set of organized procedural models for cases of disclosure of potential conflicts of interest and a mechanism to deal with them.

Cases of potential conflicts of interests and related-party transactions are subjected to independent review by Group Internal Audit.

Confidentiality

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

During the year 2016, the Group continued to apply measures to maintain the confidentiality of information in accordance with policies and procedures and internal control systems, which require the preservation of confidentiality.

Whistleblowing Policy

The Group aims to adopt a whistle-blowing policy which encourages openness and trust amongst its employees, which helps employees report any complaint, whether relating to bad behavior or illegal or unprofessional actions. The complaint is directly made to the Chairman of the Board and the information received remains confidential and, if necessary, saved anonymously, to provide protection to the employee. This mechanism is subject to review by the Group Internal Audit.

Stakeholder's Rights

The Group has continued to implement a well-defined process in managing transparency, communication and open dialogue with its stakeholders. These measures include the protocols which will be followed in communicating with stakeholders and the degree of information which can be disclosed.

Shareholders

NBK Group promotes and maintains an open and transparent channel of communication with its shareholders, which enables them to understand the business, its financial condition, and operating performance and trends. The Group has also developed a section on its website which provides detailed reports to shareholders on Corporate Governance and other important information relating to the disclosure of financial and non-financial information.

Investor Relations

NBK Group promotes open and transparent dialogue with both its institutional and private investors. The Investor Relations function serves as the primary contact with shareholders, investors and financial analysts.

The Group also publishes information for investors and stakeholders on a regular basis through its website as well as other media.

Customers

The Group ensures, since inception, to establish professional and behavioral rules, and to provide qualified staff who can serve customers optimally. In addition, the Group continuously assures to follow regulatory instructions and to pioneer in international practices in customer service and protection. NBK has initiated taking appropriate procedures in implementing what is mentioned in the consumer protection instructions issued recently by the Central Bank of Kuwait and preparing what is required from a policy, before the Board, to enhance the understanding of transparency and disclosure in banking transactions provided by the Bank.

Employees

The Group protects and abides by the rights provided to employees which include, but are not limited to, the following:

- Transparent remuneration and compensation structure
- A transparent working environment
- Contributing to employee talent-management schemes
- Access to the "whistleblowing" policy

Community (Corporate Social Responsibility)

The Group has maintained its progress in projects relating to corporate social responsibility, to foster a sustainable economic and social environment in the community and regards this as a priority for the Group. The Group discloses its relevant social activities on its website and, also, in the form of a separate "Corporate Social Responsibility Report 2016", as an independent report.


NBK NEW
JANGHO

Risk Management

I. Capital Adequacy

Introduction

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2005 Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). The CBK Basel 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 pertains to the Supervisory Review Process and emphasises the importance of Internal Capital Adequacy Assessment Process (ICAAP) performed by banks. As such, and in compliance with the aforementioned instructions, National Bank of Kuwait S.A.K.P. (NBK) has developed an ICAAP and Stress Testing framework along with its underlying models, policies and procedures. NBK continually enhances its ICAAP and Stress Testing framework to maintain its capital commensurate with the overall risks to which the Bank is exposed. 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.

1. Regulatory Scope of Consolidation

The core activities of NBK and its subsidiaries (collectively the "Group") are retail, corporate and private banking, investment banking, and asset management & brokerage services. For further details on the Group's activities, please refer to note 3 of the Group's consolidated financial statements.

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, save as otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2.1 and 2.3 of the Group's consolidated financial statements for the year ended 31st December 2016.

The principal subsidiaries of the Group are presented in note 25 of the Group's consolidated financial statements. All subsidiaries have been fully consolidated under the regulatory scope of consolidation for regulatory capital calculations (refer note 30 of the Group's consolidated financial statements for consolidation treatment for the Islamic Banking subsidiary of the Group).

Significant investments (as defined) in Banking, Financial and Insurance entities which are outside the scope of regulatory consolidation are required to be subject to the threshold treatment prescribed under the CBK Basel III rules and are risk-weighted and/or deducted against equity.

- All the significant investments in Banking and Financial entities classified as Associates listed in note 14 of the Group's consolidated financial statements have been subject to the applicable threshold treatment and risk-weighted as prescribed
- Other significant investments in Banking and Financial entities classified as equities have been subject to the applicable threshold treatment and risk-weighted as prescribed

'Minority' Investments in Banking, Financial and Insurance entities classified as equities have been subject to the applicable threshold treatment and risk-weighted as required.

2. Capital structure

The Group's regulatory capital comprises:

- Common Equity Tier 1 (CET1) capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves, retained earnings and eligible non-controlling interests (net of Regulatory adjustments),
- Additional Tier 1 (AT1) capital which consists of Perpetual Tier 1 Capital Securities classified as Equity (note 21 of the Group's consolidated financial statements) and certain additional eligible portion of non-controlling interests, and
- Tier 2 (T2) capital which consists of Subordinated Tier 2 Bonds classified as Debt (note 17 of the Group's consolidated financial statements), the allowed portions of general provisions and certain additional eligible non-controlling interests.

The Bank's share capital as at 31 December 2016 comprised 5,635,664,303 issued and fully-paid-up equity shares (2015: 5,039,717,687).

The regulatory capital in KD Thousands for the Group is detailed below:

Table 1

Regulatory Capital	**31st December 2016**	31st December 2015
Common Equity Tier 1	2,202,176	1,965,705
Additional Tier 1 Capital	247,904	221,245
Tier 1 Capital	**2,450,080**	**2,186,950**
Tier 2 Capital	323,472	310,531
Total Regulatory Capital	**2,773,552**	**2,497,481**

3. Capital Adequacy Ratio

The Group ensures adherence to CBK's requirements by monitoring its capital adequacy. The Group's capital forecasting process ensures pro-active actions, and plans to ensure a sufficient capital buffer above minimum levels are in place 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. These views then cascade into considerations on what capital level is required.

Each banking subsidiary of the Group is directly regulated by its local banking supervisor which sets and monitors its capital adequacy requirements.

The Minimum Capital requirements (MCR) and associated levels of Regulatory capital expressed as a percentage of Risk-weighted Assets are:

Table 2

Minimum Capital Requirement*	CET1	Tier1	Total
31st December 2016**	**11.5%**	**13.0%**	**15.0%**
31st December 2015	9.0%	10.5%	12.5%
31st December 2014	8.5%	10.0%	12.0%

* includes a CET1 Capital Conservation Buffer of 2.5%

** Includes a CET1 Domestic Systemically-Important Bank (D-SIB) Buffer of 2%

3. Capital Adequacy Ratio (continued)

From Year-end 2016 the minimum for the Kuwait Banking sector as a whole was raised to 13% from 12.5% and NBK, having been designated as a Domestic Systemically-Important Bank (D-SIB), is required to maintain an additional minimum capital of 2%. Countercyclical Capital Buffer has not been required for the period ended 31st December 2016 in the MCR (nor at 2015).

The Capital Adequacy Ratios for the Group at consolidated level are as follows:

Table 3	CET1	Tier1	Total
Group for 31st December 2016	14.09%	15.67%	17.74%
Group for 31st December 2015	13.24%	14.73%	16.83%

The Capital Ratios of the banking subsidiaries based on their latest submissions (filed or approved, as applicable, under their respective jurisdictions and regimes) were as follows:

Table 4	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	19.4%	19.4%	19.4%
NBK (Lebanon) S.A.L. (Lebanon)	38.0%	38.0%	38.0%
NBK Banque Privee (Suisse) S.A. (Switzerland)	21.5%	37.4%	37.4%
Boubyan Bank K.S.C.P. (Kuwait)	16.2%	20.2%	21.4%
			Total
Credit Bank of Iraq S.A. (Iraq)			357.0%
NBK Egypt S.A.E. (Egypt)			14.8%

		31 December 2015	
	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	18.1%	18.1%	18.5%
NBK (Lebanon) S.A.L. (Lebanon)	36.6%	36.6%	36.6%
NBK Banque Privee (Suisse) S.A. (Switzerland)	23.0%	39.9%	39.9%
Boubyan Bank K.S.C.P. (Kuwait)	15.9%	15.9%	17.0%
			Total
Credit Bank of Iraq S.A. (Iraq)			318.0%
NBK Egypt S.A.E. (Egypt)			18.3%

All the banking subsidiaries within the Group are in compliance with the minimum capital requirements as applicable under their respective jurisdictions and have not reported any capital deficiencies. Other than restrictions over transfers to ensure minimum regulatory capital requirements are met, there exist no regulatory restrictions which constitute a material limitation on or impediment to the transfer of funds or regulatory capital within the Group.

4. Profile of risk-weighted assets and capital charge

The Group's risk-weighted capital requirements for credit, market and operational risks are shown below. The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk-weighted, and capital charge is calculated, in accordance with CBK regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to CBK. The Capital charge in section 4.1, 4.2 and 4.3 below represent the minimum requirement for Kuwait Banking sector at 13% for year-end 2016 and 12.5% for year-end 2015.

4.1. Credit risk: The total capital charge in respect of credit risk as at 31 December 2016 was KD 1,833,225 thousand (2015: KD 1,674,856 thousand) as detailed below:

Table 5	KD 000s					
	31 December 2016			31 December 2015		
	Gross credit exposure	**Risk-weighted assets**	**Capital charge**	**Gross credit exposure**	**Risk-weighted assets**	**Capital charge**
Cash	179,453	-	-	189,020	-	-
Claims on sovereigns	4,856,490	228,910	29,758	4,385,234	204,264	25,533
Claims on International Organisations	49,281	-	-	39,513	-	-
Claims on public sector entities	497,215	31,552	4,102	70,200	9,955	1,244
Claims on multilateral development banks	73,779	-	-	6,064	-	-
Claims on banks	5,692,129	1,572,526	204,428	5,870,492	1,600,708	200,088
Claims on corporates	11,768,134	7,551,187	981,654	11,901,021	7,209,774	901,222
Regulatory retail exposure	4,681,819	4,087,273	531,346	4,371,140	3,879,049	484,881
Past due exposures	101,448	71,527	9,299	69,504	46,733	5,842
Other exposures	741,053	558,757*	72,638	666,451	448,361*	56,046
Total	**28,640,801**	**14,101,732**	**1,833,225**	**27,568,639**	**13,398,844**	**1,674,856**

"Other exposures" above includes an amount of KD 415,558 thousand negative (2015: KD 326,690 thousand negative) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk-Weighted Assets, which is allowed in arriving at Tier 2 capital.

The Group's figures relating to exposures and risk-weighted assets have been classified to provide a meaningful representation of the standard portfolio asset class.

4.2. Market risk: The total capital charge in respect of market risk was KD 38,496 thousand (2015: KD 30,265 thousand) as detailed below:

Table 6	KD 000's	
	31st December 2016	31st December 015
Interest rate risk	1,179	2,063
Foreign exchange risk	32,185	28,202
Total	**33,364**	**30,265**

4. Profile of risk-weighted assets and capital charge (continued)

4.3. Operational risk: The total capital charge in respect of operational risk was KD 165,482 thousand (2015: KD 150,146 thousand). This capital charge was computed by categorising the Group's activities into 8 business lines (as defined in the CBK Basel III framework) and multiplying the business line's three-year average gross income by a pre-defined beta factor.

4.4. Domestic-Systemically Important Bank (D-SIB): The additional capital requirement in respect of NBK having been designated as a Domestic-Systemically Important Bank (D-SIB) of 2% as at 31 December 2016 amounts to KD 312,626 thousand (2015: None applicable)

5. Risk management

The complexity in the Group's business operations and diversity of geographical locations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital to derive an optimal risk/return ratio. The Group manages its risks in a structured, systematic and transparent manner through a global risk policy which embeds comprehensive risk management into the organisational structure and risk measurement and monitoring processes.

The Group's Risk Management function is independent of business units; it reports directly to the Board Risk Committee and takes a holistic and objective approach assisting the Board and Executive Management in managing the Group's risks.

The Group augments its overall framework for governance and capital planning and management by undertaking an ICAAP, which includes "scenario testing" at periodic, regular intervals. Amongst the key objectives of the ICAAP is to quantify potential inherent risks which the Group faces not covered under Pillar 1. In line with the guidelines from the Basel Committee and CBK, key principles of the Group's ICAAP include:

- Responsibilities of the Board and Senior Management
- Sound capital management
- Comprehensive assessment of Pillar II risks, e.g., Credit (sector and name concentration), Liquidity, Legal, Reputational and Strategic Risks, etc
- Monitoring and reporting
- Control and review of the process

The key features of the Group's comprehensive risk management policy are:

- The Board of Directors provides overall risk management direction and oversight
- The Group's risk appetite is proposed by the Executive Committee and approved by the Board of Directors
- Risk management is embedded in the Group as an intrinsic process and is a core competency of all its employees
- The Group manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation
- The Group's internal audit function reports to the Board Audit Committee and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Group-wide basis.

The risk management function assists Executive Management in controlling and actively managing the Group's overall risk. The function also ensures that:

- The Group's overall business strategy is consistent with its risk appetite approved by the Board of Directors and allocated by the Executive Committee.
- Risk policies, procedures and methodologies are consistent with the Group's risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.
- Risks and limits of the portfolio are monitored throughout the Group, including at appropriate "regional" levels.

The Group regularly assesses the adequacy and effectiveness of its risk management framework in light of the changing risk environment.

5. Risk management (continued)

5.1. Scope and nature of risk reporting tools

The comprehensive risk management framework enables the Group to identify, assess, limit and monitor risks using a comprehensive range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in commercial and consumer lending and other asset exposures, such as collateral coverage ratio, limit utilisation, past-due alerts, etc.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposure to losses due to extreme movements in market prices or rates.

The Group regularly assesses the adequacy and effectiveness of its reporting tools and metrics in light of the changing risk environment.

5.2. Risk management processes

Through the comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

The key risks assumed by the Group in its daily operations are outlined below:

5.2.1. Credit risk

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations resulting in a default situation and/or financial loss. These risks arise in the Group's normal course of business.

5.2.2. Credit risk management strategy

The approach to credit risk management is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes, combined with clear policies, limits and approval structures which guide the day-to-day initiation and management of the Group's credit risk exposure. This approach comprises credit limits which are established for all customers after a careful assessment of their creditworthiness.

Standing procedures, outlined in the Group's Credit Policies and Manuals, require that all credit proposals be subjected to detailed screening by the domestic or international credit risk management divisions pending submission to the appropriate credit committee. Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Board of Directors defines the Group's credit risk management strategy and approves significant credit risk policies to ensure alignment of the Group's exposure with its risk appetite.

5.2.3. Credit risk management structure

Senior management implements the Board of Directors' credit risk strategy and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The Group's Executive Committee, chaired by the Group CEO and comprising senior executives from the business divisions, meets regularly to review significant credit policies and the Group's corporate and consumer credit portfolios and advises the Board appropriately.

In compliance with CBK regulations, lending to individual Board Members and related parties is fully secured and monitored by the Senior Credit Committee. Furthermore, facilities granted to them are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board of Directors in line with the relative authorities from the Shareholders' General Assembly.

5. Risk management (continued)

5.2.3. Credit risk management structure (continued)

Country limits are determined based on the outlook of economic and political factors, along with the review of reports by recognised and creditable market sources and application of local business and market knowledge. Significant limit exposures are subject to periodic approval by the Board of Directors or the Board Credit Committee.

The Group Risk Management Committee, chaired by the Group CEO and comprising senior executives from business divisions and key operational/support functions, meets regularly to review salient risks throughout the Group, and advises the Board Risk Committee and the Board appropriately. These Committee meetings are led and conducted by Group Risk Management.

5.2.4. Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer-group.
- Internal credit-rating models are regularly reviewed by the Group risk management function in co-ordination with line management and the Executive Committee and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by the appropriate credit committee outlined below:
    1. Board Credit Committee
    2. Senior Credit Committee
    3. International Credit Committees (Senior and Management)
    4. Management Credit Committee (for small- and medium-sized enterprises).
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

5.2.5. Key features of consumer credit risk management

- Credit risk management oversees the "consumer" segment through an independent unit directly reporting to Group Risk Management but working in tandem with the Consumer Banking business.
- Consumer Credit Risk Management functional areas are aligned with key concepts of Risk Management, namely, Governance, Control, Measurement and Reporting.
- Consumer credit risk is managed with three lines of defence. As the first line of defence, the consumer business lending group (i.e., underwriting) is responsible for adherence to the credit policies, controls and processes. As second line of defence, the Consumer Credit Risk Management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline & policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures.
- All significant credit policies and amendments to policies are reviewed and approved annually by the Executive Committee and ratified by the Board. Within this framework, limits and approval authorities are exercised by the officers delegated with defined approval authorities.

5. Risk management (continued)

5.2.5. Key features of consumer credit risk management (continued)

- Credit risk "scorecard" models (such as Instalment Loan "Applicant" models) have been used to facilitate underwriting and monitoring of credit facilities to customers. Applicant "scoring" models are customer-centric models which incorporate CBK regulatory guidelines and Group policies related to consumer credit facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from credit bureaus, particularly Kuwait Credit Bureau statistics, to assist in assessing an applicant's ability to repay and the probability of default. These models are reviewed and refined continually.

5.2.6. Group credit risk monitoring

The Group's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilisation and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the internal rating process.

Credit risk is monitored on an ongoing basis with regular formal monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Cross-border exposures are controlled by senior management in charge of relevant branches or subsidiaries and monitored by the central credit risk management function.

Consumer credit risk reporting also includes a "dashboard" for consumer and small-business lending, classification and delinquency monitoring.

A specialised and focused problem loan "workout" team handles the management and collection of problem credit facilities.

5.2.7. Group 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.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Group limits its credit concentration per entity to 15% of the Bank's regulatory capital.

Credit risk mitigants such as collateral and guarantees 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 sale of loans are common practices to manage the Group's exposures.

5.2.8 Management of credit collateral and valuation

The main types of collateral accepted by the Group include:

1. Cash collateral
2. Quoted shares
3. Bank guarantees
4. Commercial real estate
5. Sovereign debt instruments
6. Bank debt instruments
7. Collective investment schemes
8. Residential real estate.

5. Risk management (continued)

5.2.8 Management of credit collateral and valuation (continued)

In accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel framework, only cash collateral, quoted shares, commercial real estate, debt instruments of sovereigns and banks and collective investment schemes are recognised as risk mitigation for capital adequacy purposes.

The custody and daily "mark to market" (revaluation) of financial collateral, inclusive of shares, are performed independent of the business units. Real estate collateral except private residences is valued on an annual basis.

The Group's credit exposures were covered by the following eligible financial collateral and guarantees:

Table 7	KD 000s					
	31 December 2016			31 December 2015		
	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees
Cash	179,453	-	-	189,020	-	-
Claims on sovereigns	4,856,490	-	-	4,385,234	-	-
Claims on International Organisations	49,281	-	-	39,513	-	-
Claims on public sector entities	497,215	1,587	-	70,200	2,360	-
Claims on multilateral development banks	73,779	-	-	6,064	-	-
Claims on banks	5,692,129	3,753	1,592,890*	5,870,492	7,862	1,366,580*
Claims on corporates	11,768,134	2,529,420	-	11,901,021	3,116,912	-
Regulatory retail exposure	4,681,819	86,526	-	4,371,140	96,158	-
Past due exposures	101,448	12,345	-	69,504	7,887	-
Other exposures	741,053	-	-	666,451	-	-
Total	**28,640,801**	**2,633,631**	**1,592,890***	**27,568,639**	**3,231,179**	**1,366,580***

* "Memorandum" item where banks act as "guarantors"

5. Risk management (continued)

5.2.9. Gross, average and net credit exposures

The Group's gross credit exposures, average credit exposures and the former adjusted for credit conversion and credit risk mitigation factors, respectively, are detailed below:

Table 8	KD 000s					
	31 December 2016			31 December 2015		
	Gross credit exposure	Funded exposure	Unfunded exposure	Gross credit exposure	Funded exposure	Unfunded exposure
Cash	179,453	179,453	-	189,020	189,020	-
Claims on sovereigns	4,856,490	4,854,263	2,226	4,385,234	4,384,227	1,007
Claims on International Organisations	49,281	49,281	-	39,513	39,513	-
Claims on public sector entities	497,215	439,190	58,025	70,200	43,396	26,804
Claims on multilateral development banks	73,779	73,779	-	6,064	6,064	-
Claims on banks	5,692,129	3,747,587	1,944,542	5,870,492	4,198,712	1,671,780
Claims on corporates	11,768,134	9,337,102	2,431,033	11,901,021	9,399,445	2,501,576
Regulatory retail exposure	4,681,819	4,624,177	57,642	4,371,140	4,314,515	56,625
Past due exposures	101,448	101,448	-	69,504	69,504	-
Other exposures	741,053	741,053	-	666,451	666,451	-
Total	**28,640,801**	**24,147,333**	**4,493,468**	**27,568,639**	**23,310,847**	**4,257,792**

Table 9:	KD 000s					
	31 December 2016			31 December 2015		
Average Credit Exposures	*Average credit exposure	Funded exposure	Unfunded exposure	*Average credit exposure	Funded exposure	Unfunded exposure
Cash	177,998	177,998	-	195,812	195,812	-
Claims on sovereigns	5,113,987	5,111,751	2,236	4,818,986	4,815,988	2,998
Claims on International Organisations	41,730	41,730	-	39,655	39,655	-
Claims on public sector entities	305,322	193,870	111,452	65,975	39,812	26,163
Claims on multilateral development banks	32,050	32,046	4	7,089	6,042	1,047
Claims on banks	5,656,183	3,836,087	1,820,096	5,438,878	4,093,886	1,344,992
Claims on corporates	12,019,552	9,497,928	2,521,624	11,393,839	9,017,054	2,376,785
Regulatory retail exposure	4,567,075	4,510,298	56,777	4,176,810	4,122,521	54,289
Past due exposures	78,477	78,477	-	68,264	68,264	-
Other exposures	777,557	777,557	-	668,893	668,893	-
Total	**28,769,931**	**24,257,742**	**4,512,189**	**26,874,201**	**23,067,927**	**3,806,274**

*Based on quarterly average balances

5. Risk management (continued)

5.2.9. Gross, average and net credit exposures (continued)

Table 10:	KD 000's					
	31 December 2016			31 December 2015		
Net Credit Exposures	Net credit exposure	Funded exposure	Unfunded exposure	Net credit exposure	Funded exposure	Unfunded exposure
Cash	179,453	179,453	-	189,020	189,020	-
Claims on sovereigns	4,856,481	4,854,263	2,218	4,385,203	4,384,227	976
Claims on International Organisations	49,281	49,281	-	39,513	39,513	-
Claims on public sector entities	491,312	437,603	53,709	62,268	41,035	21,233
Claims on multilateral development banks	73,779	73,779	-	6,064	6,064	-
Claims on banks	4,730,978	3,743,833	987,145	5,019,998	4,190,860	829,138
Claims on corporates	8,098,022	6,863,129	1,234,893	7,607,931	6,327,942	1,279,989
Regulatory retail exposure	4,564,324	4,537,975	26,349	4,245,407	4,218,696	26,711
Past due exposures	89,103	89,103	-	61,618	61,618	-
Other exposures	741,053	741,053	-	666,451	666,451	-
Total	**23,873,786**	**21,569,472**	**2,304,314**	**22,283,473**	**20,125,426**	**2,158,047**

As at 31 December 2016, 41% (2015: 39%) of the Group's net credit risk exposure was rated by External Credit Assessment Institutions (ECAIs) recognised for the purpose, as detailed below:

Table 11:	KD 000's					
	31 December 2016			31 December 2015		
Net Credit Exposures	Net credit exposure	Rated exposure	Unrated exposure	Net credit exposure	Rated exposure	Unrated exposure
Cash	179,453	-	179,453	189,020	-	189,020
Claims on sovereigns	4,856,481	4,322,673	533,808	4,385,203	3,334,489	1,050,714
Claims on International Organisations	49,281	-	49,281	39,513	-	39,513
Claims on public sector entities	491,312	-	491,312	62,268	-	62,268
Claims on multilateral development banks	73,779	15,777	58,002	6,064	6,064	-
Claims on banks	4,730,978	4,633,195	97,783	5,019,998	4,813,371	206,627
Claims on corporates	8,098,022	837,280	7,260,742	7,607,931	600,159	7,007,772
Regulatory retail exposure	4,564,324	-	4,564,324	4,245,407	-	4,245,407
Past due exposures	89,103	-	89,103	61,618	-	61,618
Other exposures	741,053	-	741,053	666,451	-	666,451
Total	**23,873,786**	**9,808,925**	**14,064,861**	**22,283,473**	**8,754,083**	**13,529,390**

The Group uses external ratings (where available) from recognized and creditable market sources to supplement internal ratings during the process of determining credit limits. Public issue instruments without external ratings are risk-weighted at 100% for capital adequacy purposes.

5. Risk management (continued)

5.2.9. Gross, average and net credit exposures (continued)

The geographical distribution of the gross credit exposure before taking into consideration credit enhancements is as detailed below:

Table 12 — KD 000's

31 December 2016	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	131,178	1,026	47,249	-	-	**179,453**
Claims on sovereigns	3,773,774	904,617	121,064	57,035	-	**4,856,490**
Claims on International Organisations	-	-	-	49,281	-	**49,281**
Claims on public sector Entities	497,215	-	-	-	-	**497,215**
Claims on multilateral development banks	73,779	-	-	-	-	**73,779**
Claims on banks	2,301,295	311,630	1,659,054	1,294,299	125,851	**5,692,129**
Claims on corporates	9,790,330	463,559	690,095	608,096	216,054	**11,768,134**
Regulatory retail exposure	4,676,664	299	4,008	-	848	**4,681,819**
Past due exposures	100,274	-	-	812	362	**101,448**
Other exposures	524,411	19,239	65,606	36,160	95,637	**741,053**
Total	**21,868,920**	**1,700,370**	**2,587,076**	**2,045,683**	**438,752**	**28,640,801**

31 December 2015	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	148,096	1,123	39,801	-	-	**189,020**
Claims on sovereigns	3,131,101	1,116,938	87,874	49,321	-	**4,385,234**
Claims on International Organisations	-	-	-	39,513	-	**39,513**
Claims on public sector Entities	70,200	-	-	-	-	**70,200**
Claims on multilateral development banks	6,064	-	-	-	-	**6,064**
Claims on banks	2,789,424	374,910	1,386,706	1,112,208	207,244	**5,870,492**
Claims on corporates	9,914,219	507,098	640,224	614,636	224,844	**11,901,021**
Regulatory retail exposure	4,366,311	393	4,246	-	190	**4,371,140**
Past due exposures	68,262	-	-	1,242	-	**69,504**
Other exposures	497,786	20,942	71,307	49,431	26,985	**666,451**
Total	**20,991,463**	**2,021,404**	**2,230,158**	**1,866,351**	**459,263**	**27,568,639**

5. Risk management (continued)

5.2.9. Gross, average and net credit exposures (continued)

The Group's gross credit exposure by residual contractual maturity is as detailed below:

Table 13			KD 000's	
31 December 2016	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	179,453	-	-	**179,453**
Claims on sovereigns	2,776,648	781,074	1,298,768	**4,856,490**
Claims on International Organisations	49,281	-	-	**49,281**
Claims on public sector entities	56,979	37,257	402,979	**497,215**
Claims on multilateral development banks	45,613	-	28,166	**73,779**
Claims on banks	3,081,672	738,815	1,871,642	**5,692,129**
Claims on corporates	4,896,727	1,727,441	5,143,966	**11,768,134**
Regulatory retail exposure	219,532	413,262	4,049,025	**4,681,819**
Past due exposures	101,448	-	-	**101,448**
Other exposures	265,467	38,867	436,719	**741,053**
Total	**11,672,820**	**3,736,716**	**13,231,265**	**28,640,801**
31 December 2015	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	189,020	-	-	**189,020**
Claims on sovereigns	2,634,030	956,544	794,660	**4,385,234**
Claims on International Organisations	39,513	-	-	**39,513**
Claims on public sector entities	334	11,558	58,308	**70,200**
Claims on multilateral development banks	6,064	-	-	**6,064**
Claims on banks	3,155,471	758,966	1,956,055	**5,870,492**
Claims on corporates	4,809,089	2,165,070	4,926,862	**11,901,021**
Regulatory retail exposure	254,359	388,759	3,728,022	**4,371,140**
Past due exposures	69,504	-	-	**69,504**
Other exposures	88,025	50,246	528,180	**666,451**
Total	**11,245,409**	**4,331,143**	**11,992,087**	**27,568,639**

5.2.10. "Past-due" and impairment provisions

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

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

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

5.2.10. "Past-due" and impairment provisions (continued)

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

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

The Group's impaired loan portfolio as at 31 December 2016 was KD 183,005 thousand (2015: KD 190,092 thousand) against which a specific provision of KD 95,383 thousand (2015: KD 135,270 thousand) has been made, as detailed below:

Table 14		KD 000's	
31 December 2016	Past due and impaired financing	Related Specific provision	Specific provision written off, net of exchange movement
Claims on sovereigns	5	5	-
Claims on corporates	93,028	34,376	(30,058)
Regulatory retail exposure	89,972	61,002	(41,926)
Total	**183,005**	**95,383**	**(71,984)**

31 December 2015	Past due and impaired financing	Related Specific provision	Specific provision written off, net of exchange movement
Claims on sovereigns	19	19	-
Claims on corporates	75,039	48,151	(26,875)
Regulatory retail exposure	115,034	87,100	(798)
Total	**190,092**	**135,270**	**(27,673)**

The geographical distribution of "past-due and impaired" financing and the related specific provision are as follows:

Table 15			KD000's		
31 December 2016	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	179,289	23	3,325	368	183,005
Specific provision	92,550	23	2,805	5	95,383

31 December 2015	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	186,789	-	3,298	5	190,092
Specific provision	132,953	-	2,312	5	135,270

In accordance with CBK regulations, minimum general provisions of 1% for cash facilities and 0.5% for non-cash facilities, respectively, are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

5. Risk management (continued)

5.2.10. "Past-due" and impairment provisions (continued)

The adequacy of provisions is regularly evaluated and monitored by the Provisions Committee.

The Group's total provision as at 31 December 2016 was KD 697,524 thousand (2015: KD 643,820 thousand) inclusive of a general provision of KD 595,312 thousand (2015: KD 498,259 thousand) as detailed below:

Table 16	KD 000s	
	31 December 2016	31 December 2015
Claims on sovereigns	150	152
Claims on banks	7,724	6,623
Claims on corporates	534,525	440,689
Regulatory retail exposure	52,913	50,795
Total	**595,312**	**498,259**

The total general provision above includes KD 28,444 thousand (2015: KD 28,342 thousand) relating to "non-cash" facilities in accordance with CBK regulations.

The geographical distribution of the general provision on "cash" facilities is as follows:

Table 17	KD 000's					
31 December 2016	Middle East and North Africa	North America	Europe	Asia	Others	Total
31 December 2016	554,778	3,095	4,415	1,705	2,875	566,868
31 December 2015	456,510	2,958	4,472	2,380	3,597	469,917

The analysis of specific and general provisions is further detailed in note 12 of the Group's consolidated financial statements.

5.3 "Market" risk

"Market" risk is defined as the potential volatility in value of financial instruments or volatility in future earnings caused by adverse movements in market variables such as interest rates, foreign exchange rates, commodity and equity prices, etc.

The Group identifies market risk inherent in its financial claims and loans, FX exposure, trading and investment activities, and defines market risk management strategy based on:

- Implemented Market Risk Management Framework
- Well-defined processes and strong and effective controls
- Clear segregation of "front", "back" and 'middle' office duties
- Regular and effective monitoring and reporting of exposures and risk measures
- Regular monitoring of market prices and valuation of financial instruments
- Defined set of internal limits and regular reporting on the adherence to those limits
- Regular independent review of internal controls and limits
- Adequate systems and infrastructure implemented

5.3.1. Market-risk management framework

The market risk management framework governs the Group's trading and non-trading related market risk activities. Market risk stemming from trading activities is managed by the Group Treasurer. The management of market risk inherent within the Group's non-trading activities is the primary responsibility of the Group Asset and Liability Executive Committee (ALEC), supported by the regional Asset and Liability Committees. All activities giving rise to market risk are conducted within a structure of approved credit and position limits. Group Market Risk independently measures, monitors and reports on Bank's market risk exposures.

5. Risk management (continued)

5.3.2. Monitoring of non-trading market risk in the banking book

The Group's key non-trading market risk is the sensitivity of its net interest income to movements in interest rates.

The interest rate risk in the "banking book" is managed through a "gap" limit structure which is supplemented by periodic analysis of scenarios (instantaneous parallel shift of +/-5 bps and +/-10bps to the yield curve) to capture the extreme indicative measure of exposure to interest rate changes.

The analysis of scenarios shows the impact in the banking book as follows:

Table 18	KD 000's			
	+ 5bp	-5bp	+10bp	-10bp
31 December 2016	2,087	(2,087)	4,175	(4,175)
31 December 2015	1,661	(1,661)	3,323	(3,323)

Under the above assumptions the interest rates move by the same percentage across all maturities, all positions are held to maturity and no corrective action by management is taken to mitigate the impact of interest-rate risk.

In addition to interest rate risk, the Group is also exposed to market risk as a result of changes in the "fair value" of its strategic equity and investment positions held without any intention of liquidation.

The analysis of the Group's total equity investment portfolio is as follows:

Table 19	KD 000s	
	31 December 2016	31 December 2015
Total Equity Investment	88,341	98,997
Of which Quoted Investments (%)	42.0%	39.4%
Cumulative realised gains from sale during year	540	1,054
Cumulative net unrealised gains recognised	20,378	17,011
Capital requirement of Equity investment portfolio categorised as:		
Available for sale	13,287	12,435
Fair value through statement of income	448	320

All revaluation gains or losses during the year relating to equity investments were recorded in the consolidated statement of financial position. For additional details of the accounting policies related to the valuation of equity holdings, refer to notes 2.19 and 2.20 of the Group's consolidated financial statements.

5.3.3. Monitoring of "market" risk from "trading" activities

The Group Risk Management function independently monitors Group market risk exposures, arising from Bank's trading activities, using the Value-at-Risk (VaR) methodology and other relevant risk measures.. This enables the Group to apply consistent and uniform risk measures at Group level and facilitates comparisons of market risk estimates, both over time and against daily trading results. The 'historical simulation' VaR is calculated using a 99% "confidence level" and a holding period of ten days in line with Basel Committee guidelines.

The VaR measure is supplemented with a "Stressed VaR" providing a basis for quantifying market risk under the various stress conditions based on observed historical and in-house developed scenarios.

In addition to VaR, the Group uses a structure of FX and Interest Rate limits to manage and control its market risk associated with trading activities.

5. Risk management (continued)

5.3.4. Monitoring of counterparty credit risk

The Group risk management function independently monitors counterparty credit risk exposures arising from its derivatives transactions using the concept of Potential Future Exposure (PFE). The PFE is defined as the maximum exposures over a specified horizon at a particular confidence level. As such, the risk exposure is an upper bound of possible exposures at the selected confidence level and not the maximum risk exposure possible.

5.3.5. Counterparty Credit Risk

Assignment of credit limits for Counterparty Credit Exposures

Counterparty credit risk exposure arises from the risk that counterparties are unable to meet their payment obligations under derivative contracts. The allocation of credit limits for derivatives counterparties is provided by NBK's Institutional Banking Division taking into consideration counterparty credit profile, historical financial performance, geographical location, legal jurisdiction and other relevant factors. The credit limits are reviewed on an annual basis and credit exposure is regularly monitored and reported for all derivatives' counterparties.

Policies for securing collateral and credit reserves

In order to reduce counterparty credit risk, NBK selectively enters into Credit Support Annex (CSA) in line with the International Swaps and Derivatives Association, Inc. ("ISDA"), standards. NBK generally accepts primarily cash as collateral from its derivatives counterparties. The Bank has policies and procedures for reviewing the legal enforceability of credit support documents in accordance with applicable rules. Through the use of a collateral service agent, daily margining is performed with the appropriate counterparties. Daily valuations for qualified derivatives are compared to those reported by the counterparties. Any disagreement over the valuations is resolved directly with the counterparty.

Wrong-Way Risk

NBK does not enter into derivatives whose valuations depend on the credit quality of the counterparty and hence wrong-way risk is not a factor of risk for the Bank.

Additional Collateral Requirements Due to Credit Rating Downgrade

NBK has no provisions in its agreements with counterparties where a downgrade in its credit rating will have an impact on the collateral amount to be posted.

General Disclosure for Counterparty Credit Risk

Table 20	KD 000s	
Derivative Contracts	31 December 2016	31 December 2015
Gross Positive fair value	45,173	**16,697**
Counterparty netting benefit	**(24,198)**	(7,555)
Netted current credit exposure	**20,975**	9,142
Cash collateral (held by NBK)	(3,611)	-
Net exposure (after netting and collateral)	17,364	**9,142**

5. Risk management (continued)

Exposure-at-Default Methodology

As per the regulatory requirements, NBK calculates counterparty credit exposure as per the Current Exposure Method (CEM) for its exposure to derivatives counterparties.

In addition, NBK calculates counterparty credit exposure using the Potential Future Exposure (PFE) measure. NBK applies 'historical' simulation approach (at 99% confidence level) by projecting the potential values of relevant risk factors across the transactions' horizon, and then re-valuing derivatives transactions and counterparty credit exposures according to the projected risk factor.

Both the CEM and PFE methods incorporate the effects of legally enforceable netting and collateral agreements when estimating counterparty exposure.

Table 21	KD 000s	
	31 December 2016	31 December 2015
Counterparty Credit Risk (CEM method) for derivatives' counterparties	78,997	41,789
Counterparty Credit Risk (PFE method) for derivatives' counterparties	22,133	19,637

Notional value of credit derivatives transactions

NBK has no exposure to credit derivatives.

5.4. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

5.4.1. Operational-risk management framework

The Group monitors its operational risks on a regional and global basis through an operational-risk management framework which defines roles and responsibilities for managing and reporting operational risk. The key components of this framework are comprehensive documented policies, procedures and internal controls.

Through the framework, line management is able to identify, assess and decide in what form and scale it can accept, control and reduce operational risk, together with the form of risk-prevention measures which are necessary. Furthermore, it embeds a culture of transparency of information, escalation of key issues, and accountability for issue resolution. Group Risk Management collates and reviews actual and potential loss data arising from the Group's day-to-day operations to continuously refine its control arrangements.

The operational-risk framework is supplemented by regular reviews from the Group internal audit function. The Group has a business continuity plan together with a fully-equipped disaster recovery centre which is tested periodically.

The Group's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Group's services for laundering money and/or financing terrorism. The Group's "anti-money laundering" and "combating terrorism-financing" initiatives are regularly reviewed to ensure full compliance with local legal and regulatory requirements and international best practices.

5. Risk management (continued)

5.5. Liquidity risk

Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having to access funds to meet payment obligations at an excessive cost. It is the policy of the Group to maintain adequate liquidity at all times, in all geographical locations.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of liabilities. The Bank monitors and reports various internal and regulatory liquidity metrices in order to manage and comply with liquidity risk on an on-going basis. Specifically, since 1st Jan 2016 Bank is monitoring and reporting Liquidity Coverage Ratio (LCR) in line with CBK instructions. Refer to the Liquidity Coverage Ratio disclosures available on the website of the Bank for Governance framework, Funding Strategy and LCR ratio results and analysis.

5.6. Reputation and fiduciary risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion which will affect the ability to establish new relationships or services or to continue servicing existing relationships.

Management of reputation risk is an inherent feature of the Group's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary and non-fiduciary clients.

Through its policies and practices NBK ensures proper screening of clients' risk profiles and performance expectations is conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated, and funds placed under management are treated with due care and professionalism.

During the year, Assets under Management at the Group increased by 7.3% (2015: 5.3%) to reach KD 3,614 million on 31 December 2016 (2015: KD 3,368 million).

II. Composition of Capital

1. Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

- Common Equity Tier 1
- Tier 1 Capital
- Tier 2 Capital

Common Equity Tier 1 capital comprises shareholders' equity, retained earnings, eligible reserves and related eligible non-controlling interests. The book values of Goodwill and Intangibles are deducted along with other regulatory adjustments.

Tier 1 Capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital which includes eligible portions of non-controlling interests.

Total Regulatory Capital includes Tier 1 capital and Tier 2 capital which consists of the allowed portions of general provisions and certain additional eligible non-controlling interests.

5. Risk management (continued)

The below table summarises the composition of capital and ratios:

Table 22	KD 000s	
	31 December 2016	31 December 2015
Common Equity Tier 1 capital	2,202,176	1,965,705
Tier 1 capital	2,450,080	2,186,950
Total capital	**2,773,552**	**2,497,481**
Total risk-weighted assets	**15,631,316**	**14,842,129**
Capital ratios and buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	14.1%	13.2%
Tier 1 (as percentage of risk-weighted assets)	15.7%	14.7%
Total capital (as percentage of risk-weighted assets)	17.7%	16.8%
National minima		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.5%	9.0%
Tier 1 minimum ratio	11.0%	10.5%
Total capital minimum ratio excluding Countercyclical and D-SIB buffers	13.0%	12.5%
Bank minimum		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer and Domestic Systemically-Important Bank Buffer	11.5%	9.0%
Tier 1 minimum ratio	13.0%	10.5%
Total capital minimum ratio excluding Countercyclical Buffer	15.0%	12.5%

A detailed breakdown of the Group's regulatory capital position under the Common Disclosures template as stipulated under the Pillar 3 section of the CBK Basel III Capital Adequacy framework is presented in Table 31 available in the Appendices Section.

2. Reconciliation requirements

The basis for the scope of consolidation for accounting and regulatory purposes is consistent for the Group. In order to provide a full reconciliation of all regulatory capital elements to the balance sheet in the audited financial statements, a three-step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework.

Table 23 provides the comparison (Step1) of the balance sheet published in the consolidated financial statement and the balance sheet under the regulatory scope of consolidation. Lines have been expanded and referenced with letters (Step 2) to display the relevant items of the regulatory capital.

5. Risk management (continued)

2. Reconciliation requirements (continued)

Table 23: Steps 1 and 2 of Reconciliation requirements	KD 000s		
Item	Balance sheet as in published financial statements 31-Dec-16	Under regulatory scope of consolidation 31-Dec-16	Reference
Assets			
Cash and short-term funds	2,686,963	2,686,963	
Central Bank of Kuwait bonds	748,889	748,889	
Kuwait Government treasury bonds	493,101	493,101	
Deposits with banks	2,407,915	2,407,915	
Loans, advances and Islamic financing to customers	13,611,491	13,611,491	
from which General Provisions(netted above) eligible for inclusion in Tier 2 capital	179,754	179,754	a
Investment securities	3,174,632	3,174,632	
Investment in associates	73,644	73,644	
of which goodwill deducted from CET1 Capital	14,188	14,188	b
Land, premises and equipment	255,086	255,086	
Goodwill and other intangible assets	581,840	581,840	
of which goodwill deducted from CET1 Capital	394,814	394,814	c
of which other intangibles deducted from CET1 Capital	187,026	187,026	d
Other assets	170,508	170,508	
Total assets	**24,204,069**	**24,204,069**	
Liabilities			
Due to banks and other financial institutions	7,347,803	7,347,803	
Customers deposits	12,608,092	12,608,092	
Certificates of deposit issued	415,989	415,989	
Subordinated Tier 2 bonds	124,700	124,700	
Principal amount recognised in Tier 2 capital	125,000	125,000	e
Other liabilities	302,753	302,753	
Total liabilities	**20,799,337**	**20,799,337**	

5. Risk management (continued)

2. Reconciliation requirements (continued)

Table 23: Steps 1 and 2 of Reconciliation requirements (continued)			
Shareholders' Equity			
Share capital	563,566	563,566	f
Proposed bonus shares	28,178	28,178	g
Statutory reserve	281,783	281,783	h
Share premium account	803,028	803,028	i
Treasury shares	(77,799)	(77,799)	j
Treasury shares reserve	13,994	13,994	k
Other Reserves	1,271,813	1,271,813	
of which Retained Earnings eligible as CET1 Capital	1,163,193	1,163,193	*l*
of which Proposed Dividend	166,184	166,184	
of which Others eligible as CET1 Capital	(57,564)	(57,564)	*m*
Equity attributable to shareholders of the Bank	**2,884,563**	**2,884,563**	
Perpetual Tier 1 Capital Securities	210,700	210,700	n
Non-controlling interests	309,469	309,469	
of which Limited Recognition eligible as CET1 Capital	79,825	79,825	*o*
of which Limited Recognition eligible as AT1 Capital	37,204	37,204	*p*
of which Limited Recognition eligible as Tier 2 Capital	18,718	18,718	*q*
Total equity	**3,404,732**	**3,404,732**	
Total liabilities and equity	**24,204,069**	**24,204,069**	

Table 24 provides the relevant lines under 'Table 31: Composition of Regulatory Capital' with cross references to the letters in Table 23, thereby reconciling (Step 3) the components of regulatory capital to the published balance sheet.

5. Risk management (continued)

2. Reconciliation requirements (continued)

Table 24: Step 3 of Reconciliation requirements

Relevant Row Number in Common Disclosure Template	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	563,566	f
2	Retained earnings	1,163,193	l
3	Accumulated other comprehensive income (and other reserves)	1,069,419	g+h+i+k+m
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	79,825	o
6	Common Equity Tier 1 capital before regulatory adjustments	2,876,003	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill	(409,002)	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(187,026)	d
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(77,799)	j
28	Total regulatory adjustments to Common Equity Tier 1	(673,827)	
29	Common Equity Tier 1 capital (CET1)	2,202,176	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	210,700	n
31	of which: classified as equity under applicable accounting standards	210,700	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	37,204	p
36	Additional Tier 1 capital before regulatory adjustments	247,904	
	Additional Tier 1 capital : regulatory adjustments		
44	Additional Tier 1 capital (AT1)	247,904	
45	Tier 1 capital (T1 = CET1 + AT1)	2,450,080	
	Tier 2 capital : instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000	e

5. Risk management (continued)

2. Reconciliation requirements (continued)

Table 24: Step 3 of Reconciliation requirements

48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	18,718	q
50	General Provisions included in Tier 2 Capital	179,754	a
51	Tier 2 capital before regulatory adjustments	323,472	
	Tier 2 capital: regulatory adjustments		
58	Tier 2 capital (T2)	323,472	
59	Total capital (TC = T1 + T2)	2,773,552	

III. Leverage

1. Leverage Ratio

In October 2015, CBK issued the regulations on the 'Leverage Ratio' introduced by BCBS as part of the regulatory reforms package. This transparent and non-risk based metric supplements the Capital ratio to act as a backstop measure to limit excessive build-up of on- and off-balance sheet exposures.

The Leverage Ratio is a separate, additional requirement from the risk-based capital requirement. It is defined as the 'capital' measure divided by the 'exposure' measure. The capital measure is made up of Tier 1 capital. The exposure measure is a sum of on-balance sheet assets, derivative exposures; securities finance transactions and off-balance sheet exposures.

The Group is in compliance with the requirements stipulated by CBK for the Leverage Ratio set at a minimum of 3%.

The Leverage Ratio for the Group at consolidated level is:

Table 25	31 December 2016	31 December 2015
Tier 1 Capital (KD 000s)	2,450,080	2,186,950
Total Exposures (KD 000s)	26,510,797	25,636,063
Leverage Ratio	9.2%	8.5%

2. Leverage Ratio Exposures

The below Table provides the details of the Total Exposures for Leverage Ratio:

Table 26 Total Exposures	31 December 2016	31 December 2015
On-balance sheet exposures	23,608,041	22,893,285
Derivative exposures	116,184	75,151
Off-balance sheet items	2,786,572	2,667,627
Total exposures	26,510,797	25,636,063

Table 32 in Appendices Section provides details of the Leverage Ratio in the format stipulated for public disclosure under the Pillar 3 framework.

5. Risk management (continued)

3. Reconciliation

Table 27 provides the reconciliation of the balance sheet assets from the published financial statement with total exposure amount in the calculation of the Leverage Ratio.

Summary comparison of accounting assets vs Leverage Ratio exposure measure

Table 27

	Item	31 December 2016	31 December 2015
1	Total consolidated assets as per published financial statements	24,204,069	23,597,630
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage Ratio exposure measure	-	
4	Adjustments for derivative financial instruments	116,184	75,151
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-	
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,786,572	2,667,627
7	Other adjustments	(596,028)	(704,345)
8	**Leverage Ratio exposure**	**26,510,797**	**25,636,063**

IV. Remuneration Disclosures

1. Qualitative Information

a. Board of Directors, Board Nomination and Remuneration Committee

NBK Group's remuneration framework is under the supervision of the Board of Directors. As per the Group's policies and charters, the Board is responsible to review and approve the remuneration policy and oversee the implementation of the remuneration framework.

The Board Nomination and Remuneration Committee (BNRC) comprises four non-executive Board members.

The main objective of the Committee is to carry out the nomination and remuneration responsibilities. In terms of remuneration mandates, the Committee supports the Board in setting up the Group's remuneration framework and ensures effective implementation in accordance with the Group's remuneration policy and Corporate Governance Code.

The key responsibilities of the Committee are summarised below:

a. Prepare the remuneration policy and submit the same to the Board for approval, the Board is responsible for monitoring the implementation of the policy.

b. Review the remuneration policy at least on an annual basis or at the request of the Board, and provide the Board with policy amendments or update suggestions.

c. Evaluate the sufficiency and effectiveness of the remuneration policy on a periodic basis to ensure the achievement of its declared objectives.

d. Make recommendations to the Board regarding the level and components of the remuneration of the Group CEO and his deputies, taking into consideration the total remuneration including salaries, bonuses and other incentives.

5. Risk management (continued)

IV. Remuneration Disclosures (continued)

e. Give recommendations to the Board regarding the nomination for Board membership.

f. Assess the skills and competencies required to fulfil Board's duties, specifically to the issues related to the strategic objectives of the Group

g. Identify Board members qualified to fill vacancies on any Committee of the Board, and recommend the appointment of the identified person(s)to the relevant committee to the Board

During the year 2016 the Committee reviewed and updated the remuneration policy.

b. Remuneration Policy

NBK Group remuneration policy is developed and implemented at the Group level and covers NBK subsidiaries and foreign branches.

NBK Group has a clear remuneration policy, instructions and processes, ensuring sound remuneration framework throughout the organisation. To support the Group's ability to recruit and retain the right talents and competences and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring a sound risk management and sustained profitability.

The policy aims to support the Group to operate a "total reward" philosophy taking account of all components of financial remuneration

Group policy .aims to reward success, not failure, and attempts to align employees' remuneration with its risk framework and risk appetite and is designed to reward competitively the achievement of long-term sustainable performance, attract and motivate the very best people who are committed to a long-term career with the Bank, and who will perform their role in the long-term interests of its shareholders.

In case any provisions of the Policy document deviate from any of the local statutory or regulatory requirements, the local statutory and regulatory requirements will take precedence over the provisions of the Policy.

The remuneration policy defines three major categories for remuneration treatment, governance and disclosures.

First Category: Senior Management

This category includes all employees at the level of Assistant General Manager (AGM) and higher (excluding control functions).

The number of persons in this category as of 31 December 2016 is 70 (2015: 62).

Second Category: Material Risk-Takers

This category includes the Group CEO, his deputy, CEO Kuwait and the heads of business functions and their deputies. The Group's core business units are:

- Corporate Banking
- Treasury Group
- Consumer Banking
- Private Banking
- Foreign Corporate and Trade Finance Banking
- International Banking

The number of persons in this category as of 31 December 2016 is 21 (2015-21).

5. Risk management (continued)

IV. Remuneration Disclosures (continued)

b. Remuneration Policy (continued)

Third Category: Risk and Control Functions

This category includes the following functional heads, their deputies and assistants.

- Financial Control
- Risk Management and Compliance
- Internal Audit
- Anti-Money Laundering Unit

The number of persons in this category as of 31 December 2016 is 15 (2015:15).

c. Remuneration Structure and Components

The Group's financial remuneration framework has been linked with long-term and short-term performance objectives. The Board approved Group Strategy is transformed into Key Performance Indicators (KPIs) and remuneration is determined based on the achievement of those KPIs towards the overall Group strategy [including financial and non-financial criteria and Key Risk Indicators (KRIs), as appropriate].

The Group has two main remuneration components:

- Fixed remuneration:

  The purpose of the fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required for the business.

  Fixed remuneration includes:

  1. Salaries.
  2. Benefits
  3. Other cash allowances

  These payments are fixed and do not vary with performance.

- Variable Remuneration (performance-based remuneration):

  The purpose of the variable remuneration is to drive and reward performance based on annual financial and non-financial measures consistent with shareholder interests and adherence to NBK values.

  Variable remuneration includes:

  1. Cash bonus.
  2. Deferred cash
  3. Equity shares as per phantom shares plan*.

  These payments are not fixed and are linked to performance.

The "other" remuneration represents performance incentives for certain business units upon achieving certain stated business targets.

The Group ensures there is a prudent balance between fixed and variable remuneration to allow for the possibility of reducing remuneration, in cases of adverse financial performance.

* Phantom Shares: are artificial shares which are neither issued shares nor part of the Bank's Capital. The Phantom Shares cannot be sold or circulated. Its value shall be equal to the Bank's shares sale price in the Stock Exchange in a certain date, and according to which the Cash Remuneration for Eligible Employees shall be calculated according to this Plan.

5. Risk management (continued)

IV. Remuneration Disclosures (continued)

c. Remuneration Structure and Components (continued)

The deferred cash and phantom shares plan components of the variable remuneration pool are availed selectively to certain Eligible Employees.

In case of high risk exposures, the Group would try to minimise the percentage of variable remuneration, especially for the Senior Management and Material Risk-Takers.

d. Risk-Based Remuneration Approach

NBK considers its Group risk profile when determining its annual remuneration pool; the risk profile includes the key risks to which the Group is exposed such as strategic, credit, market, liquidity, and operation risk. The policy ensures adequate linkage between the performance and risk materialisation, loss occurrence and risk appetite of the Group.

The overall variable remuneration pool is determined using a multi-year performance assessment which takes account of relevant risk metrics. The metrics used to determine the pool are linked with performance and key risk indicators; the key risk indicators are designed and customised for each core business function and they are in line with the Group's overall risk strategy.

During the year key risk indicators (KRIs) remain linked to the overall remuneration pool without significant change from last year's KRIs.

The Risk Management and Compliance functions are independent and reporting to the Board Risk Committee. The Head of Group Risk Management is assessed by the Board Risk Committee on an annual basis. The total remuneration for this position is determined and approved by the Board Risk Committee as a fully independent party

e. An Overview on the Key Performance Indicators

The overall strategy of the Group is set and approved by the Board and translated into KPIs. These are then documented and communicated to ensure the alignment of management activities to the strategy applied by Senior Management. These KPIs are monitored and reported to the Board on a regular basis.

Examples of Group- level KPIs:

- Return on Assets
- Return on Equity
- Cost-income ratio
- Capital Adequacy
- Capital Adequacy Ratio
- Non-performing Assets (NPA)

Remuneration is determined based on the achievement of KPIs toward the overall Group strategy, this includes financial and non-financial criteria and Key Risk Indicators (KRIs) at Group level.

The annual remuneration pool for this year was approved by the Board of Directors after review and discussion with the Board Nomination and Remuneration Committee. The percentage approved for remuneration was determined based on the Group-level KPIs mentioned above.

Remuneration parameters for core units (revenue-generating functions) are determined based on the stated KPIs and then cascaded into risk limits. Remuneration for other business units, such as support functions (excluding risk and control functions), is based only on stated KPIs.

The KPIs for the risk and control functions are based on the objectives of the control function itself; it is an objective base distinct from the business performance base.

The performance appraisal form for each position identifies the quantitative weights of individual KPIs; the final scoring of the appraisal is linked with a quantitative formula to determine fixed remuneration (salary increments) and variable remuneration (annual bonus).

Since the overall remuneration pool of the Group is linked to Group performance (Group Net Profit), the Group adjusts the remuneration percentages in case of weak performance and business recessions.

5. Risk management (continued)

f. Remuneration Adjustments

The annual remuneration amount (fixed and variable) is reviewed by the Board Nomination and Remuneration Committee and is then subject to review and approval by the Board of Directors.

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organisation) is deferred. The deferment of variable remuneration applies to the deferred cash and phantom shares plan.

The Group applies a deferment approach of up to three years and final vesting of these variable components is subject to achieving the long-term performance targets and risk materialisation. Claw-back applies on the non-vested portions in case long-term targets are not met or risk materialises. The claw-back mechanism is applicable on the deferred cash and phantom shares plan.

This deferred variable remuneration is governed as follows:

- Deferred over a period of three (3) years from the start of the performance period to align with the long-term performance of the Group.
- Subject to Clawback in the event of established fraud, misleading information or exceeding the approved risk limits. Control Functions are subject to Clawback for 1 year and other positions are subject to Clawback for three (3) years.

2. Quantitative Information

1. During the year, the Board Nomination and Remuneration Committee met two times. The total remuneration paid to the Committee members is Nil.
2. The number of persons (Senior Management and Material Risk-Takers) eligible for variable remuneration is 71 persons and they represent 3.4% of the overall NBK total staff number eligible for variable remuneration for 2016.
3. The total number of persons (Senior Management and Material Risk-Takers) is 71 persons. Their total remuneration for 2016 is KD 17,365 thousand
4. The number of employees who received sign-on awards during the year is Nil.
5. The total amount of end-of-service benefit paid during 2016 is KD 437 thousand, this is related to 6 persons (Senior Management and Material Risk-Takers).

Senior Management:

Table 28

Total salaries & remuneration granted during reported period	Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:		
Cash	8,147	Nil
Phantom Shares	Nil	Nil
Variable remuneration:		
Cash	6,775	
Phantom Shares		1,728
Others (Note 1)	612	

5. Risk management (continued)

Material Risk Takers:

Table 29 Total salaries & remuneration granted during reported period	Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:		
Cash	3,955	Nil
Phantom Shares	Nil	Nil
Variable remuneration:		
Cash	5,827	9
Phantom Shares		870
Others (Note 1)	117	

Financial and Risk Control:

Table 30 Total salaries & remuneration granted during reported period	Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:		
Cash	1,479	Nil
Phantom Shares	Nil	Nil
Variable remuneration:		
Cash	593	7
Phantom Shares		370
Others (Note 1)	7	

Note 1: This consists of other performance incentives

Total remuneration paid as per employee categories

Table 31 Employees Category	Number of employees in this category	Grand Total Remuneration Fixed and Variable granted during the reported period (KD 000s)
Senior Management	70	17,262
Material Risk Takers	21	10,778
Financial and Risk Control	15	2,456

5. Risk management (continued)

V. Appendices

1. Regulatory Capital Composition: Common Disclosure Template

Table 32

Row Number	Common Equity Tier 1 capital: instruments and reserves	KD 000s
1	Directly issued qualifying common share capital plus related stock surplus	563,566
2	Retained earnings	1,163,193
3	Accumulated other comprehensive income (and other reserves)	1,069,419
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	79,825
6	Common Equity Tier 1 capital before regulatory adjustments	2,876,003
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	(409,002)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(187,026)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash flow hedge reserve	
12	Shortfall of provisions to expected losses(based on the Internal Models Approach, if applied)	
13	Securitisation gain on sale	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(77,799)
17	Reciprocal cross holdings in common equity of banks, Fis, and insurance entities	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued share capital(amount above 10% threshold of bank's CET1 capital)	
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	

	Common Equity Tier 1 capital: regulatory adjustments	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	Total regulatory adjustments to Common Equity Tier 1	(673,827)
29	Common Equity Tier 1 capital (CET1)	2,202,176
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	210,700
31	of which: classified as equity under applicable accounting standards	210,700
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	37,204
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	247,904
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued common share capital of the entity(amount above 10% threshold)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation(net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	247,904
45	Tier 1 capital (T1 = CET1 + AT1)	2,450,080
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	18,718
49	of which: instruments issued by subsidiaries subject to phase out	-
50	General Provisions included in Tier 2 Capital	179,754
51	Tier 2 capital before regulatory adjustments	323,472

	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	
53	Reciprocal cross holdings in Tier 2 instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued common share capital of the entity(amount above 10% threshold)	
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	323,472
59	Total capital (TC = T1 + T2)	2,773,552
60	Total risk-weighted assets	15,631,316
	Capital ratios and buffers	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	14.1%
62	Tier 1 (as percentage of risk-weighted assets)	15.7%
63	Total capital (as percentage of risk-weighted assets)	17.7%
64	Institution specific buffer requirement (minimum CET1 requirement plus (a) capital conservation buffer plus (b)countercyclical buffer requirements plus (c) DSIB buffer requirement expressed as a percentage of risk-weighted assets)	11.5%
65	of which: (a) capital conservation buffer requirement	2.5%
66	of which: (b) bank specific countercyclical buffer requirement	-
67	of which: (c) DSIB buffer requirement	2.0%
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	7.1%
	National minima	
69	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.5%
70	Tier 1 minimum ratio	11.0%
71	Total capital minimum ratio excluding Counter-cyclical and D-SIB buffers	13.0%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	35,713
73	Significant investments in the common stock of financial entities	58,360
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	595,312
77	Cap on inclusion of allowances in Tier 2 under standardised approach	179,754
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings- based approach (prior to application of cap)	
79	Cap on inclusion of allowances in Tier 2 under internal ratings-based approach	

5. Risk management (continued)

2. Regulatory Capital : Main Features Template

The Bank's share capital as at 31 December 2016 comprised 5,635,664,303 issued and fully-paid-up equity shares (note 19 of the Group's consolidated financial statements), and is eligible as Common Equity Tier 1 Capital at Group and Solo level.

In addition, the following instruments qualify as eligible Regulatory Capital.

1	**Issuer**	**NBK Tier 1 Financing Limited**	**National Bank of Kuwait S.A.K.P.**
2	**Unique identifier**	**XS1206972348**	**Fixed-Rate Bond: KWODI0100506 Floating-Rate Bond: KWODI0100514**
3	**Governing law(s) of the instrument**	**English Law; except for Status of Capital Securities and Subordination which are governed by laws of Dubai International Financial Centre.**	**Laws of the State of Kuwait**
	Regulatory treatment		
4	Type of Capital	Additional Tier 1	Tier 2
5	Eligible at solo/ group / group & solo	Group and Solo	Group and Solo
6	Instrument type	Capital Securities by Issuer Irrevocably guaranteed by National Bank of Kuwait S.A.K.P. on Subordinated basis	Subordinated Debt
7	Amount recognised in regulatory capital	USD 700,000,000 (KD 210,700,000)	KD 125,000,000/-
8	Par value of instrument	USD 1,000/-	KD 50,000/-
9	Accounting classification	Shareholders' equity	Liability-Amortised Cost
10	Original date of issuance	9th April 2015	18th November 2015
11	Perpetual or dated	Perpetual	Dated
12	Original maturity date	No maturity	18th November 2025
13	Issuer call subject to prior supervisory approval	Yes	Yes
14	Optional call date, contingent call dates and redemption amount	Optional Call date: 9 April 2021; Capital Event or Tax Event Call; Principal at 100% plus Accrued Interest	Optional Call date: 18 November 2020; Capital Event or Taxation Reasons; Principal at 100% plus Accrued Interest
15	Subsequent call dates, if applicable	Semi-Annually	Semi-Annually

Coupons / dividends			
16	Fixed or floating dividend / coupon	Fixed for first 6-year period; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD mid-swap rate plus margin	Fixed Tranche: Fixed for first 5 years and reset thereafter to a new fixed rate for subsequent period. Floating Tranche: Floating rate determined semi-annually subject to a cap.
17	Coupon rate and any related index	5.75% p.a. Fixed-Rate up to (but excluding) 9 April 2021; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD mid-swap rate plus 4.119% p.a. margin	Fixed Tranche: 4.75% p.a. Fixed for 5 years and reset thereafter to a new fixed rate of the then CBK Discount Rate plus 2.75% p.a. for subsequent period. Floating Tranche: CBK Discount Rate plus 2.50% determined semi-annually subject to a cap of prevailing Fixed Interest Rate plus 1%
18	Existence of a dividend stopper	Yes	No
19	Fully discretionary, partially discretionary or mandatory	Payment of Interest may be cancelled at the sole-discretion of the Issuer and the Guarantor. Mandatory cancellation upon: -Insufficient Distributable Funds on a consolidated basis -Breach of any applicable capital requirements -Regulatory requirement to cancel	Payment of Interest is Mandatory.
20	Existence of step-up or other incentive to redeem	No	No
21	Non-cumulative or cumulative	Non-cumulative	Not Applicable
22	Convertible or non-convertible	Non-convertible	Non-convertible
23	If convertible, conversion trigger (s)	Not Applicable	Not Applicable
24	If convertible, fully or partially	Not Applicable	Not Applicable
25	If convertible, conversion rate	Not Applicable	Not Applicable

26	If convertible, mandatory or optional conversion	Not Applicable	Not Applicable
27	If convertible, specify instrument type convertible into	Not Applicable	Not Applicable
28	If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable
29	Write-down feature	Yes	Yes
30	If write-down, write-down trigger(s)	Determination by Regulator on grounds of non-viability or an immediate injection of capital is required, by way of emergency intervention to remain viable.	Determination by Regulator on grounds of non-viability or an immediate injection of capital is required, by way of emergency intervention to remain viable.
31	If write-down, full or partial	Can be partial or full	Can be partial or full
32	If write-down, permanent or temporary	Permanent	Permanent
33	If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior only to Ordinary Equity shares i.e. qualifying CET1 instruments	Senior only to Ordinary Equity shares and qualifying Tier 1 instruments
35	Non-compliant transitioned features	No	No
36	If yes, specify non-compliant features	Not Applicable	Not Applicable

Leverage Ratio: Common Disclosure Template

Table 33	Item	KD 000s
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	24,204,069
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(596,028)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	23,608,041
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	45,174
5	Add-on amounts for PFE associated with all derivatives transactions	71,010
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	116,184
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-
off-balance sheet exposures	**Other**	
17	Off-balance sheet exposure at gross notional amount	10,315,241
18	(Adjustments for conversion to credit equivalent amounts)	(7,528,669)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**2,786,572**
20	**Tier 1 capital**	**2,450,080**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**26,510,797**
22	**Basel III leverage ratio**	**9.2%**

GLOSSARY OF TERMS

Term	Definition
Additional Tier 1 Capital	Additional Tier 1 Capital is a Basel III defined concept and consists of high quality capital. It essentially includes providing a permanent and unrestricted commitment of funds, is freely available to absorb losses at the point of non-viability, ranks behind the claims of depositors and other more senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions.
Basel II	Refers to the "Rules and Regulations Concerning Capital Adequacy Standard" issued by Central Bank of Kuwait Circular number 2/BS/184/2005 dated 21 December 2005, as amended.
Basel III	Refers to the "Capital Adequacy Ratio-Basel III for conventional banks" regulations issued by Central Bank of Kuwait Circular number 2/RB, RBA/A336/2015 dated 24 June 2015
Capital Conservation Buffer	A capital conservation buffer of 2.5% (expressed as a percentage of risk-weighted assets) has been subsumed in the Minimum Common Equity Tier 1 Capital requirement level.
Countercyclical Buffer	A countercyclical buffer requirement that varies from 0% to 2.5% which, when triggered as a requirement at the discretion of Central Bank of Kuwait, is required to be met from Common Equity Tier 1 capital.
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital is the highest quality of capital available reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It essentially includes ordinary share capital, retained earnings and reserves less prescribed deductions.
Domestic Systemically-Important Bank Buffer	A Domestic Systemically-Important Bank Buffer that varies from 0.5% to 2% required to be met in the form of Common Equity Tier 1 capital which will be determined at the level of each bank identified as systemically important by Central Bank of Kuwait on an annual basis.
ECAI	An External Credit Assessment Institution (ECAI) as recognised by Central Bank of Kuwait from time to time for the purposes of the assigning risk-weights to obligors under the Standardised Approach.
Significant Investments	Significant Investments in capital of banking, financial and insurance entities are those where the bank owns more than 10% of the issued common share capital of the issuing entity or where the entity is an affiliate of the bank.
Tier 2 Capital	Tier 2 Capital consists of eligible capital instruments that provide an unrestricted commitment of funds for a defined period that is available to absorb losses at the point of non-viability, subordinated to claims of depositors in the event of wind-up. Limited recognition of general provisions held against future, presently-unidentifiable losses are eligible for inclusion in Tier 2 capital.

CONSOLIDATED FINANCIAL STATEMENTS

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of National Bank of Kuwait SAKP ("the Bank") and its subsidiaries (collectively "the Group") for the year ended 31 December 2016.

2016 Financial Performance

The Group reported a net profit after non-controlling interests of KD 295.2 million compared to KD 282.2 million for 2015, an increase of 4.6%. Operating profit amounted to KD 493.3 million as compared to KD 494.1 million in 2015.

Net interest income and net income from Islamic financing at KD 569.7 million reflects a 7.5% increase on 2015 (KD 530.2 million). Net fees and commissions at KD 132.8 million reflects a 2.3% increase on 2015 (KD 129.8 million). Net investment income amounted to KD 6.4 million as compared to KD 32.2 million in 2015. Investment income for 2015 included a one off gain in respect of the Group exiting its investment in International Bank of Qatar QSC. Net gains from dealing in foreign currencies amounted to KD 35.4 million as compared to KD 33.2 million in 2015.

Operating expenses amounted to KD 252 million as compared to KD 234.7 million in 2015. The cost to income ratio for 2016 stood at 33.8% as compared to 32.2% in 2015.

Provision charge for credit losses and impairment losses amounted to KD 152.3 million as compared to KD 164.4 million in 2015.

The return on average equity at 10.2% in 2016 compared to 10.5% in 2015.

2016 Balance Sheet

Total assets of the Group grew to KD 24,204.1 million from KD 23,597.6 million at the end of 2015, an increase of 2.6%. Loans, advances and Islamic financing to customers grew by KD 60.5 million to KD 13,611.5 million. Investment securities grew by KD 390.3 million to KD 3,174.6 million, an increase of 14%.

The Group maintained a strong liquidity position with cash, short term funds, Central Bank of Kuwait bonds and Kuwait Government treasury bonds amounting to KD 3,929 million at the year end. Deposits with banks amounted to KD 2,407.9 million at the year end.

The Group's general provisions in respect of on-balance sheet credit facilities amounted to KD 566.9 million at the year end as compared to KD 469.9 million in 2015, whilst specific provisions amounted to KD 101.4 million at the year end compared to KD 143 million in 2015. The Group operates a conservative credit policy with a balanced diversification across all business sectors and geographical areas. Loan collateral profiles and values are continually monitored to ensure that optimum protection is afforded to the Group at all times.

Customer deposits grew by KD 548.9 million to KD 12,608.1 million at the year end, an increase of 4.6%. The Group benefits from a loyal Kuwaiti customer base whose deposits remain a continuing source of stable funding. Due to banks and financial institutions increased by KD 41.3 million to KD 7,347.8 million. Certificates of Deposit issued decreased by KD 239.3 million, to KD 416 million.

Cash and non-cash credit facilities provided by the Bank to members of the Board of Directors and to related parties amounted to KD 176.7 million at the year end against collateral of KD 288.9 million. Deposits of Board members and related parties were KD 32.1 million. Loans and facilities to the Group's Executive Management amounted to KD 2.7 million whilst deposits from the Group's Executive Management amounted to KD 2.9 million.

Equity

Total equity attributable to the shareholders of the Bank after deducting the proposed cash dividend of KD 166.2 million amounted to KD 2,718.4 million, as compared to KD 2,607.5 million at the end of 2015. During the year, the Bank made a rights issue of 344 million shares at KD 0.400 per share, resulting in an increase of KD 137.6 million in equity.

During the year, Boubyan Bank KSCP, a subsidiary of the Bank, issued "Tier 1 Sukuk", amounting to USD 250 million. The Group did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non-controlling interests.

The Basel III capital adequacy ratio was 17.7% at the year end (2015: 16.8%) as compared to the CBK prescribed regulatory minimum of 15% (2015: 12.5%). The leverage ratio was 9.2% at the year end (2015: 8.5%) as compared to the CBK prescribed regulatory minimum of 3%.

Capital Market Authority Requirements

The necessary measures were taken to ensure compliance with Law No (7) of 2010, and subsequent Executive By-Laws relating to the Establishment of the Capital Market Authority and Organization of Securities Activities.

The Bank maintains a record for reporting the Bank's (including its subsidiaries and associates) shares owned and any changes in ownership by the members of the Board of Directors, Executive Management, General Managers, Deputy General Managers and Assistant General Managers (or their spouses or first degree relatives) to the Capital Market Authority and Stock Exchange.

Share Based Compensation Plan

The Bank had been operating an equity settled share based compensation plan for its senior executives. During the year, the Bank replaced the equity settled share based compensation plan with a cash settled share based compensation plan. The Bank granted 2,197,905 share options to senior executives in 2016 with a fair value of KD 0.612 per share option.

The Bank operates this plan as an incentive to retain eligible employees, enhance loyalty to the Bank and attract experienced and skilled personnel. The options will vest if the employees remain in service for a period of three years and will be settled by cash payment determined based on the market value of the Bank's equity shares on vesting date.

Bonus Shares, Dividends and Proposed Appropriations

Net profit for the year was principally allocated as follows:

1. KD 166.2 million to the dividend account for the distribution of a cash dividend of 30 fils per share (30 fils in 2015) subject to the approval of shareholders at the annual general meeting.
2. KD 28.2 million to the share capital account to cover the issuance of bonus shares equal to 5% of share capital at the end of 2016 (5% for 2015) (equivalent to 281,783,215 shares with a nominal value of 100 fils per share) subject to the approval of shareholders at the annual general meeting.
3. KD 29.8 million to the statutory reserve account to increase the balance to the minimum requirement of 50% of share capital.
4. KD 71 million to retained earnings.

Important Financial Indicators

KD million	*2016*	*2015*	*2014*
Total assets	24,204.1	23,597.6	21,784.1
Loans, advances and Islamic financing to customers	13,611.5	13,551.0	11,908.7
Customer deposits	12,608.1	12,059.2	11,259.7
Total operating income	745.3	728.8	661.0
Profit attributable to shareholders of the Bank	295.2	282.2	261.8

	Notes	***2016*** ***KD 000's***	*2015* *KD 000's*	***2016*** ***USD 000's***	*2015* *USD 000's*
Interest income	4	**665,263**	585,084	**2,173,707**	1,911,727
Interest expense	5	**189,653**	139,427	**619,680**	455,569
Net interest income		**475,610**	445,657	**1,554,027**	1,456,158
Murabaha and other Islamic financing income		**128,000**	106,369	**418,232**	347,554
Finance cost and Distribution to depositors		**33,873**	21,875	**110,678**	71,475
Net income from Islamic financing		**94,127**	84,494	**307,554**	276,079
Net interest income and net income from Islamic financing		**569,737**	530,151	**1,861,581**	1,732,237
Net fees and commissions	6	**132,826**	129,802	**434,001**	424,120
Net investment income	7	**6,398**	32,156	**20,905**	105,068
Net gains from dealing in foreign currencies		**35,391**	33,154	**115,638**	108,329
Other operating income		**957**	3,494	**3,127**	11,416
Non-interest income		**175,572**	198,606	**573,671**	648,933
Net operating income		**745,309**	728,757	**2,435,252**	2,381,170
Staff expenses		**143,844**	137,213	**470,002**	448,335
Other administrative expenses		**87,435**	77,168	**285,688**	252,142
Depreciation of premises and equipment		**16,380**	15,338	**53,521**	50,116
Amortisation of intangible assets	15	**4,362**	4,968	**14,252**	16,233
Operating expenses		**252,021**	234,687	**823,463**	766,826
Operating profit before provision for credit losses and impairment losses		**493,288**	494,070	**1,611,789**	1,614,344
Provision charge for credit losses and impairment losses	8	**152,317**	164,397	**497,687**	537,157
Operating profit before taxation		**340,971**	329,673	**1,114,102**	1,077,187
Taxation	9	**28,811**	33,154	**94,138**	108,329
Profit for the year		**312,160**	296,519	**1,019,964**	968,858
Attributable to:					
Shareholders of the Bank		**295,178**	282,160	**964,476**	921,941
Non-controlling interests		**16,982**	14,359	**55,488**	46,917
		312,160	296,519	**1,019,964**	968,858
Basic and diluted earnings per share attributable to shareholders of the Bank	10	**52 fils**	52 fils	**17 Cents**	17 Cents

The attached notes 1 to 31 form part of these consolidated financial statements.

	2016 KD 000's	2015 KD 000's	2016 USD 000's	2015 USD 000's
Profit for the year	**312,160**	296,519	**1,019,964**	968,858
Other comprehensive income:				
Investments available for sale:				
Net change in fair value	**14,689**	(14,380)	**47,995**	(46,986)
Net transfer to consolidated statement of income	**4,713**	2,061	**15,400**	6,734
	19,402	(12,319)	**63,395**	(40,252)
Exchange differences and share of other comprehensive income transferred to consolidated statement of income on sale of an associate	**-**	(8,471)	**-**	(27,678)
Share of other comprehensive income of associates	**7**	111	**23**	363
Exchange differences on translation of foreign operations	**(159,012)**	(12,794)	**(519,562)**	(41,804)
Other comprehensive loss for the year reclassifiable to consolidated statement of income in subsequent years	**(139,603)**	(33,473)	**(456,144)**	(109,371)
Total comprehensive income for the year	**172,557**	263,046	**563,820**	859,487
Attributable to:				
Shareholders of the Bank	**156,661**	249,505	**511,880**	815,243
Non-controlling interests	**15,896**	13,541	**51,940**	44,244
	172,557	263,046	**563,820**	859,487

The attached notes 1 to 31 form part of these consolidated financial statements.

	Notes	2016 KD 000's	2015 KD 000's	2016 USD 000's	2015 USD 000's
Assets					
Cash and short term funds	11	**2,686,963**	3,481,371	**8,779,490**	11,375,171
Central Bank of Kuwait bonds	13	**748,889**	803,930	**2,446,950**	2,626,793
Kuwait Government treasury bonds	13	**493,101**	380,052	**1,611,178**	1,241,797
Deposits with banks		**2,407,915**	1,426,679	**7,867,718**	4,661,588
Loans, advances and Islamic financing to customers	12	**13,611,491**	13,550,966	**44,474,730**	44,276,968
Investment securities	13	**3,174,632**	2,784,334	**10,372,919**	9,097,644
Investment in associates	14	**73,644**	92,713	**240,627**	302,934
Land, premises and equipment		**255,086**	226,501	**833,478**	740,078
Goodwill and other intangible assets	15	**581,840**	677,594	**1,901,127**	2,213,998
Other assets	16	**170,508**	173,490	**557,125**	566,868
Total assets		**24,204,069**	23,597,630	**79,085,342**	77,103,839
Liabilities					
Due to banks and other financial institutions		**7,347,803**	7,306,467	**24,008,505**	23,873,442
Customer deposits		**12,608,092**	12,059,203	**41,196,184**	39,402,722
Certificates of deposit issued		**415,989**	655,257	**1,359,219**	2,141,013
Subordinated Tier 2 bonds	17	**124,700**	124,664	**407,450**	407,332
Other liabilities	18	**302,753**	260,915	**989,227**	852,524
Total liabilities		**20,799,337**	20,406,506	**67,960,585**	66,677,033
Equity					
Share capital	19	**563,566**	503,972	**1,841,418**	1,646,698
Proposed bonus shares	20	**28,178**	25,198	**92,070**	82,333
Statutory reserve	19	**281,783**	251,986	**920,709**	823,349
Share premium account	19	**803,028**	699,840	**2,623,846**	2,286,685
Treasury shares	19	**(77,799)**	(77,799)	**(254,204)**	(254,204)
Treasury share reserve	19	**13,994**	13,994	**45,725**	45,725
Other reserves	19	**1,271,813**	1,338,748	**4,155,572**	4,374,279
Equity attributable to shareholders of the Bank		**2,884,563**	2,755,939	**9,425,136**	9,004,865
Perpetual Tier 1 Capital Securities	21	**210,700**	210,700	**688,450**	688,450
Non-controlling interests	22	**309,469**	224,485	**1,011,171**	733,491
Total equity		**3,404,732**	3,191,124	**11,124,757**	10,426,806
Total liabilities and equity		**24,204,069**	23,597,630	**79,085,342**	77,103,839

Nasser Musaed Abdullah Al-Sayer
Chairman

Isam J. Al Sager
Group Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	2016 KD 000's	2015 KD 000's	2016 USD 000's	2015 USD 000's
Operating activities					
Profit for the year		**312,160**	296,519	**1,019,964**	968,858
Adjustments for:					
Net investment income	7	**(6,398)**	(32,156)	**(20,905)**	(105,068)
Depreciation of premises and equipment		**16,380**	15,338	**53,521**	50,116
Amortisation of intangible assets	15	**4,362**	4,968	**14,252**	16,233
Provision charge for credit losses and impairment losses	8	**152,317**	164,397	**497,687**	537,157
Share based payment reserve		**491**	1,658	**1,604**	5,417
Taxation	9	**28,811**	33,154	**94,138**	108,329
Operating profit before changes in operating assets and liabilities		**508,123**	483,878	**1,660,261**	1,581,042
Changes in operating assets and liabilities:					
Central Bank of Kuwait bonds		**55,041**	(269,242)	**179,843**	(879,732)
Kuwait Government treasury bonds		**(113,049)**	(35,523)	**(369,381)**	(116,069)
Deposits with banks		**(1,026,578)**	623,836	**(3,354,282)**	2,038,347
Loans, advances and Islamic financing to customers		**(349,165)**	(1,768,227)	**(1,140,876)**	(5,777,576)
Other assets		**(7,390)**	(11,119)	**(24,146)**	(36,331)
Due to banks and other financial institutions		**107,697**	600,750	**351,893**	1,962,915
Customer deposits		**911,541**	799,467	**2,978,406**	2,612,210
Certificates of deposit issued		**(239,268)**	(19,808)	**(781,794)**	(64,721)
Other liabilities		**31,467**	(21,809)	**102,817**	(71,260)
Tax paid		**(28,775)**	(32,351)	**(94,020)**	(105,705)
Net cash (used in) from operating activities		**(150,356)**	349,852	**(491,279)**	1,143,120
Investing activities					
Purchase of investment securities		**(2,110,056)**	(1,532,673)	**(6,894,481)**	(5,007,917)
Proceeds from sale/redemption of investment securities		**1,467,493**	1,226,291	**4,794,945**	4,006,832
Dividend income	7	**3,065**	2,939	**10,015**	9,603
Proceeds from disposal of an associate		**-**	157,857	**-**	515,789
Dividend from associates		**414**	587	**1,353**	1,918
Proceeds from sale of land, premises and equipment		**4,188**	1,003	**13,684**	3,277
Purchase of land, premises and equipment		**(54,021)**	(39,428)	**(176,511)**	(128,829)
Net cash used in investing activities		**(688,917)**	(183,424)	**(2,250,995)**	(599,327)
Financing activities					
Proceeds from issuance of right shares	19(a)	**137,584**	-	**449,547**	-
Net proceeds from issue of Perpetual Tier 1 Capital Securities	21	**-**	209,724	**-**	685,261
Net proceeds from issue of Perpetual Tier 1 Sukuk by a subsidiary	22	**74,738**	-	**244,202**	-
Net proceeds from issue of Subordinated Tier 2 bonds	17	**-**	124,664	**-**	407,332
Proceeds from sale of treasury shares		**-**	112	**-**	366
Dividends paid		**(148,443)**	(141,374)	**(485,029)**	(461,931)
Interest paid on Perpetual Tier 1 Capital Securities		**(12,146)**	(6,087)	**(39,686)**	(19,889)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary		**(2,573)**	-	**(8,407)**	-
Dividends paid by a subsidiary to non-controlling interests		**(4,295)**	(4,087)	**(14,034)**	(13,354)
Net cash from financing activities		**44,865**	182,952	**146,593**	597,785
(Decrease) increase in cash and short term funds		**(794,408)**	349,380	**(2,595,681)**	1,141,578
Cash and short term funds at the beginning of the year		**3,481,371**	3,131,991	**11,375,171**	10,233,593
Cash and short term funds at the end of the year	11	**2,686,963**	3,481,371	**8,779,490**	11,375,171

The attached notes 1 to 31 form part of these consolidated financial statements.

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	*Proposed bonus shares*	*Statutory reserve*	*Share premium account*	*Treasury shares*	*Treasury share reserve*	*Other reserves (Note 19e)*	*Total*	*Perpetual Tier 1 Capital Securities*	*Non - controlling interests*	*Total equity*
At 1 January 2016	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	**2,755,939**	210,700	224,485	**3,191,124**
Profit for the year	-	-	-	-	-	-	295,178	**295,178**	-	16,982	**312,160**
Other comprehensive loss	-	-	-	-	-	-	(138,517)	**(138,517)**	-	(1,086)	**(139,603)**
Total comprehensive income	-	-	-	-	-	-	156,661	**156,661**	-	15,896	**172,557**
Transfer to statutory reserve (Note 19b)	-	-	29,797	-	-	-	(29,797)	**-**	-	-	**-**
Issue of bonus shares (Note 19a)	25,198	(25,198)	-	-	-	-	-	**-**	-	-	**-**
Issue of rights shares (Note 19a)	34,396	-	-	103,188	-	-	-	**137,584**	-	-	**137,584**
Issue of Perpetual Tier 1 Sukuk by a subsidiary (Note 22)	-	-	-	-	-	-	-	**-**	-	75,388	**75,388**
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(379)	**(379)**	-	(271)	**(650)**
Dividends paid	-	-	-	-	-	-	(148,443)	**(148,443)**	-	-	**(148,443)**
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(12,146)	**(12,146)**	-	-	**(12,146)**
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(1,503)	**(1,503)**	-	(1,070)	**(2,573)**
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	**-**	-	(4,295)	**(4,295)**
Transfer to cash settled share based compensation	-	-	-	-	-	-	(2,418)	**(2,418)**	-	-	**(2,418)**
Share based payment in a subsidiary	-	-	-	-	-	-	287	**287**	-	204	**491**
Proposed bonus shares (Note 20)	-	28,178	-	-	-	-	(28,178)	**-**	-	-	**-**
Other movements	-	-	-	-	-	-	(1,019)	**(1,019)**	-	(868)	**(1,887)**
At 31 December 2016	**563,566**	**28,178**	**281,783**	**803,028**	**(77,799)**	**13,994**	**1,271,813**	**2,884,563**	**210,700**	**309,469**	**3,404,732**

The attached notes 1 to 31 form part of these consolidated financial statements.

National Bank of Kuwait Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 19e)	Total	Perpetual Tier 1 Capital Securities	Non - controlling interests	Total equity
At 1 January 2015	479,973	23,999	239,987	699,840	(78,795)	14,878	1,273,389	2,653,271	-	217,269	2,870,540
Profit for the year	-	-	-	-	-	-	282,160	282,160	-	14,359	296,519
Other comprehensive loss	-	-	-	-	-	-	(32,655)	(32,655)	-	(818)	(33,473)
Total comprehensive income	-	-	-	-	-	-	249,505	249,505	-	13,541	263,046
Transfer to statutory reserve (Note 19b)	-	-	11,999	-	-	-	(11,999)	-	-	-	-
Issue of bonus shares (Note 19a)	23,999	(23,999)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	996	(884)	-	112	-	-	112
Dividends paid	-	-	-	-	-	-	(141,374)	(141,374)	-	-	(141,374)
Issue of Perpetual Tier 1 Capital Securities (Note 21)	-	-	-	-	-	-	-	-	210,700	-	210,700
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(6,087)	(6,087)	-	-	(6,087)
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(976)	(976)	-	-	(976)
Proposed bonus shares (Note 20)	-	25,198	-	-	-	-	(25,198)	-	-	-	-
Share based payment	-	-	-	-	-	-	1,470	1,470	-	188	1,658
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,087)	(4,087)
Capital redemption in a subsidiary	-	-	-	-	-	-	-	-	-	(2,458)	(2,458)
Change in effective holding in a subsidiary	-	-	-	-	-	-	18	18	-	32	50
At 31 December 2015	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	2,755,939	210,700	224,485	3,191,124

The attached notes 1 to 31 form part of these consolidated financial statements.

1 - INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 8 January 2017. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 - SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, investment securities other than held to maturity investments and investment properties. In addition and as more fully described below, assets and liabilities that are hedged in fair value hedging relationships are carried at fair value to the extent of the risk being hedged.

2.2 Changes in accounting policies

The accounting policies applied are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2016 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective:

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2016 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group except the following:

IFRS 9: Financial Instruments

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

a. Classification and measurement

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

b. Hedge accounting

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

c. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

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

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

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

The Group has completed an assessment of the requirements of IFRS 9 and is well positioned for adoption of the standard.

IFRS 15: Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the impact of IFRS 15 but does not expect any significant effect on adoption of this standard.

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is in the process of evaluating the impact of IFRS 16 on the Group's consolidated financial statements.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

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

a. Subsidiaries

Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer note 25 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

c. Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

2.4 Foreign currencies

The consolidated financial statements are presented in Kuwaiti Dinars (thousands) which is also the Bank's functional currency.

a. Translation of foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and monetary liabilities in foreign currencies (other than monetary items that form part of the net investment in a foreign operation) are translated into functional currency at rates of exchange prevailing at the reporting date. Any gains or losses are taken to the consolidated statement of income. Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of, the cumulative amount in foreign currency translation reserve relating to that foreign operation is recognised in the consolidated statement of income. Goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities are recorded at the functional currency of the foreign operation and are translated to the presentation currency at the rate of exchange prevailing at the reporting date. All resulting exchange differences are recognised in other comprehensive income and accumulated in foreign currency translation reserve within equity.

Translation gains or losses on non-monetary items carried at fair value are recognised in other comprehensive income as part of the fair value adjustment on investment securities available for sale, unless the non-monetary item is part of an effective hedging strategy.

b. Translation of financial statements of foreign entities

The results and financial position of all the Group entities that have a functional currency different from the presentation currency is translated to presentation currency as follows:

The assets and liabilities are translated at rates of exchange ruling at the reporting date. Income and expense items are translated at average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income and accumulated in foreign currency translation reserve within equity and duly recognised in the consolidated statement of income on disposal of the foreign operation.

2.5 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Fees which are considered an integral part of the effective yield of a financial asset are recognised using effective yield method. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.6 Murabaha and other Islamic financing income

Income from Murabaha, Wakala and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.

2.7 Fees and commissions income

Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management and custody services that are continuously provided over an extended period of time.

2.8 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.9 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if 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.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

a. Assets 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 estimated future cash flows discounted at the financial 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 related 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. In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

b. Assets classified as available for sale

The amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income. This amount is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases for an equity instrument, the previously recognised losses are not reversed through the consolidated statement of income, instead, recorded as increase in the cumulative changes in fair value reserve. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If previously recognised impairment losses have decreased, such excess impairment provision is reversed for non-financial assets other than goodwill.

2.11 Share based compensation

Equity settled share based compensation

The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

Cash settled share based compensation

The fair value of the employee services received in exchange for the cash settled share based payment is recognised as an expense, together with a corresponding increase in liability. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined using the Black Scholes model. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the consolidated statement of income.

2.12 Post employment benefits

The Group is liable to make defined contributions to State 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. The defined benefit plan is unfunded and is computed as the amount payable to employees 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.

2.13 Taxation

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

2.14 Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through statement of income.

2.15 Cash and short term funds

Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days.

2.16 Deposits with banks

Deposits with banks are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

2.17 Loans and advances to customers

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market.

Carrying value

Loans and advances are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

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. The loan continues to be subject to an individual or collective impairment assessment.

2.18 Islamic financing to customers

Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

a. Murabaha

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group stated at amortised cost net of provision for impairment.

b. Wakala

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and stated at amortised cost net of provision for impairment.

c. Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortised cost net of provision for impairment.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Financial investments

The Group classifies its financial investments in the following categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through statement of income

All investments with the exception of investments at fair value through statement of income are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs. Premiums and discounts on financial investments (excluding those carried at fair value through statement of income) are amortised using the effective yield method and taken to interest income.

Held to maturity

Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost, less provision for impairment in value, if any. The losses arising from impairment of such investments are recognised in the consolidated statement of income. The interest income from debt securities classified as held to maturity is recorded in interest income.

Available for sale

Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as fair value through statement of income, held to maturity, or loans and advances. After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in the consolidated statement of income for the period. In case of a reversal of previously recognised impairment losses for equity investments, such changes will not be recognised in the current consolidated statement of income but will be recorded as an increase in the reserve for cumulative changes in fair values. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through consolidated statement of income. The portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated statement of income. The interest income from debt securities classified as available for sale is recorded in interest income and the dividend income from equities are recorded in dividend income.

Investments carried at fair value through statement of income

Investments are classified as "investments carried at fair value through statement of income" if they are held for trading or, upon initial recognition, are designated as fair value through statement of income. Investments are classified as held for trading when they are acquired for the purpose of selling or repurchase in the near term with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Investments are designated as fair value through statement of income if the fair value of the investment can be reliably measured and the classification as fair value through statement of income is as per the documented strategy of the Group. Investments classified as "investments carried at fair value through statement of income" are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income. Any dividend income of equities classified as 'investments carried at fair value through the statement of income' is recorded as part of 'dividend income'.

Reclassification of financial investments

Available for sale investments are reclassified to held to maturity investments only in certain limited circumstances as a result of change in intention when there is an ability to hold till maturity. Upon such reclassification, the fair value on the date of reclassification becomes the new amortised cost of such investments. Any difference between the new amortised cost and the maturity amount are amortised to consolidated statement of income over the remaining life of the investments using effective interest method. The amount of gain or loss previously recognised in other comprehensive income are also amortised to consolidated statement of income over the remaining life of the investments using effective interest method.

2.20 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that include the use of valuation models that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

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

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and also considering the ability to generate economic benefits by using the property in its highest and best use.

2.21 Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the consolidated statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the consolidated statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price treated as interest income using the effective yield method.

2.22 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.23 Derecognition of financial assets and financial liabilities

Financial assets

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

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

When the Group has transferred its rights 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 Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Derivative financial instruments

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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 financial asset or liability or a highly probable forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised immediately in the consolidated statement of income. The carrying amounts of hedged items are adjusted for fair value changes attributable to the risk being hedged and the difference is recognised in the consolidated statement of income.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and any ineffective portion is recognised in the consolidated statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income. Where the hedged transaction results in the recognition of an asset or liability, the associated gains or losses that had initially been recognised in equity are included in the initial measurement of the cost of the related asset or liability. For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the hedging instrument are taken directly to the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked by the Group. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction occurs. In the case of fair value hedges of interest bearing financial instruments, any adjustment relating to the hedge is amortised over the remaining term to maturity. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

2.25 Trade and settlement date accounting

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

2.26 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of income. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of income. When the use of a property changes such that it is reclassified as Land, premises and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

2.27 Land, premises and equipment

Land and premises comprise mainly branches and offices. All premises and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and equipments on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of premises and equipments are as follows:

Building on leasehold land	term of lease (maximum 20 years)
Building on freehold land	50 years
IT systems and equipment	3-10 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of land, premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

2.28 Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other acquisition related costs incurred are expensed and included in other administrative expenses.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included in cost of acquisition. Any resulting gain or loss is recognised in consolidated statement of income. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

2.29 Goodwill and intangible assets

a. Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is recorded in the functional currency of the foreign operation and is translated to the presentation currency at the rate of exchange prevailing at the reporting date. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

b. Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefit will flow to the Group. Intangible assets are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over the useful economic life of 5 to 15 years and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. If the carrying value of the intangible asset is more than the recoverable amount, the intangible asset is considered impaired and is written down to its recoverable amount. The excess of carrying value over the recoverable amount is recognised in the consolidated statement of income. Impairment losses on intangible assets recognised in the consolidated statement of income in previous periods, are reversed when there is an increase in the recoverable amount.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.30 Property acquired on settlement of debt

Property acquired on settlement of debt is stated at the lower of the related loans and advances and the current fair value of such assets. Gains or losses on disposal and revaluation losses are recognised in the consolidated statement of income.

2.31 Due to Banks and Financial Institutions, Customer deposits & Certificates of deposit issued

Due to Banks and Financial Institutions, Customer Deposits & Certificates of deposit issued are stated at amortised cost using effective interest method. The carrying values of such liabilities which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

2.32 Islamic customer deposits

Islamic customer deposits comprise of Investment accounts and Non-investment accounts.

Investment accounts

Investment accounts may take the form of investment deposits, which are valid for specified periods of time, and are automatically renewable on maturity for the same period, unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of the profit, bear a share of loss and are carried at cost plus profit payable.

Non-investment accounts

Non-investment accounts represent, in accordance with Islamic Sharia'a, Qard Hasan from depositors to the Bank. These accounts are neither entitled to profit nor do they bear any risk of loss, as the Bank guarantees to pay the related balance. Investing Qard Hasan is made at the discretion of the Group and the results of such investments are attributable to the shareholders of the Bank. Non-investment accounts are carried at cost.

2.33 Subordinated Tier 2 Bonds

Subordinated Tier 2 Bonds are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective interest rate method.

2.34 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the consolidated statement of income in 'net fees and commissions' on a straight line basis over the life of the guarantee. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee is likely to become payable, the present value of the expected net payments less the unamortised premium is charged to the consolidated statement of income.

2.35 Treasury shares

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

2.36 Fiduciary assets

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

2.37 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Accounting Judgements

Impairment of available for sale equity investments

The Group treats equity financial assets 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 judgment.

Classification of investments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Estimation uncertainty and assumptions

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is 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.

Impairment of investment in associates

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cashflows and selection of appropriate inputs for valuation.

Provision for credit losses

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

Fair values of assets and liabilities including intangibles

Considerable judgment by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

Share-based payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 23.

Valuation of unquoted financial assets

Fair value of unquoted financial assets is determined 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 judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The determination of the cash flows and discount factors requires significant estimation.

2.38 Basis of Translation

The United States dollar amounts in the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows represent supplementary information and have been translated at a rate of KD 0.30605 per USD which represents the mid-market rate at 31 December 2016.

3 - SEGMENTAL ANALYSIS

The Group organises and manages its operations by geographic territory in the first instance, primarily Domestic and International. Within its Domestic operations, the Group segments its business into Consumer and Private Banking, Corporate Banking, Investment Banking and Asset Management, Islamic Banking and Group Centre. All operations outside Kuwait are classified as International. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Consumer and Private Banking

Consumer Banking provides a diversified range of products and services to individuals. The range includes consumer loans, credit cards, deposits, foreign exchange and other branch related services. Private Banking provides a comprehensive range of customised and innovative banking services to high net worth individuals and to institutional clients.

Corporate Banking

Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance, foreign exchange and advisory services.

Investment Banking and Asset Management

Investment Banking provides a full range of capital market advisory and execution services. The activities of Asset Management include wealth management, asset management, custody, brokerage and research.

Islamic Banking

Islamic banking represents the financial results of Boubyan Bank K.S.C.P., the Islamic banking subsidiary of the Group.

Group Centre

Group Centre includes treasury, investments, and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to its clients, and is also responsible for the Bank's liquidity and market risk management. Group Centre includes any residual in respect of transfer pricing and inter segment allocations.

International

International includes all branches, subsidiaries and associates outside the State of Kuwait.

The following table shows net interest income and net income from Islamic financing, net operating income, profit for the year, total assets and total liabilities information in respect of the Group's business segments:

2016	*Consumer and Private Banking*	*Corporate Banking*	*Investment Banking and Asset Management*	*Islamic Banking*	*Group Centre*	*International*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Net interest income and net income from Islamic financing	**181,803**	**126,768**	**130**	**94,127**	**17,990**	**148,919**	**569,737**
Net operating income	**242,059**	**170,785**	**23,307**	**106,997**	**15,446**	**186,715**	**745,309**
Profit (loss) for the year	**139,493**	**137,400**	**12,114**	**41,301**	**(118,106)**	**99,958**	**312,160**
Total assets	**4,218,253**	**5,380,784**	**107,767**	**3,481,807**	**2,719,810**	**8,295,648**	**24,204,069**
Total liabilities	**4,171,318**	**2,287,130**	**47,754**	**3,058,654**	**2,014,183**	**9,220,298**	**20,799,337**

2015	*Consumer and Private Banking*	*Corporate Banking*	*Investment Banking and Asset Management*	*Islamic Banking*	*Group Centre*	*International*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Net interest income and net income from Islamic financing	171,176	121,951	142	84,494	18,016	134,372	530,151
Net operating income	229,373	162,527	23,809	94,680	40,068	178,300	728,757
Profit (loss) for the year	134,452	129,842	12,175	35,185	(95,072)	79,937	296,519
Total assets	4,051,853	5,256,655	62,942	3,132,885	2,163,474	8,929,821	23,597,630
Total liabilities	3,988,777	2,092,663	8,819	2,812,086	2,010,953	9,493,208	20,406,506

Geographic information:

The following table shows the geographic distribution of the Group's operating income based on the location of the operating entities.

	2016	2015
	KD 000's	KD 000's
Net operating income		
Kuwait	**558,594**	550,457
Other Middle East and North Africa	**138,474**	131,248
Europe	**25,398**	24,497
Others	**22,843**	22,555
	745,309	728,757

The following table shows the geographic distribution of the Group's non-current assets based on the location of the operating entities.

	2016	2015
	KD 000's	KD 000's
Non-current assets		
Kuwait	**857,613**	914,370
Other Middle East and North Africa	**24,269**	35,024
Europe	**1,112**	1,349
Others	**444**	456
	883,438	951,199

Non-current assets consist of land, premises and equipment, goodwill and other intangible assets, investment properties and property acquired on settlement of debts.

4 - INTEREST INCOME

	2016	2015
	KD 000's	KD 000's
Deposits with banks	**38,910**	32,613
Loans and advances to customers	**490,903**	430,524
Debt investment securities	**121,705**	111,942
Others	**13,745**	10,005
	665,263	585,084

5 - INTEREST EXPENSE

	2016	2015
	KD 000's	KD 000's
Due to banks and other financial institutions	**68,320**	44,750
Customer deposits	**110,782**	91,764
Certificates of deposit issued	**4,637**	2,222
Subordinated Tier 2 bonds	**5,914**	691
	189,653	139,427

6 - NET FEES AND COMMISSIONS

	2016 KD 000's	2015 KD 000's
Fees and commissions income	**159,584**	153,351
Fees and commissions related expenses	**(26,758)**	(23,549)
Net fees and commissions	**132,826**	129,802

Fees and commissions income includes asset management fees of KD 29,551 thousand (2015: KD 28,672 thousand) earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

7 - NET INVESTMENT INCOME

	2016 KD 000's	2015 KD 000's
Net realised gains on available for sale investments	**4,314**	8,496
Net gains (losses) from investments carried at fair value through statement of income	**822**	(183)
Dividend income	**3,065**	2,939
Share of results of associates	**(1,289)**	220
Gain on sale of investment in an associate	**-**	21,862
Net losses from investment properties	**(514)**	(1,178)
	6,398	32,156

8 - PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2016 KD 000's	2015 KD 000's
Provision charge for credit losses (Note 12)	**125,683**	129,959
Impairment losses on investment securities	**9,027**	10,557
Impairment losses on associates (Note 14)	**12,165**	18,481
Impairment losses on intangible assets (Note 15)	**5,442**	5,400
	152,317	164,397

9 - TAXATION

	2016 KD 000's	2015 KD 000's
National labour support tax	**7,263**	7,022
Zakat	**3,243**	3,084
Contribution to Kuwait Foundation for the Advancement of Sciences	**2,520**	2,573
Overseas tax	**15,785**	20,475
	28,811	33,154

10 - EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier I Capital Securities) by the weighted average number of shares outstanding during the year net of treasury shares.

Diluted earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier I Capital Securities) by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share for 2015 arising from the issuance of employee share options did not result in any change from the reported basic earnings per share. Refer note 23 in this regard.

	2016 **KD 000's**	2015 KD 000's
Profit for the year attributable to shareholders of the Bank	**295,178**	282,160
Less: Interest paid on Perpetual Tier 1 Capital Securities	**(12,146)**	(6,087)
Less: Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary attributable to shareholders of the Bank	**(1,503)**	-
	281,529	276,073
Weighted average number of shares outstanding during the year net of treasury shares (thousands)	**5,440,914**	5,323,407
Basic and diluted earnings per share	**52 fils**	52 fils

Earnings per share calculations for 2015 have been adjusted to take account of the bonus shares and rights shares issued in 2016.

11 - CASH AND SHORT TERM FUNDS

	2016 **KD 000's**	2015 KD 000's
Cash on hand	**179,298**	187,571
Current account with other banks	**1,140,983**	1,361,545
Money at call	**260,366**	190,562
Balances with the Central Bank of Kuwait	**190,830**	5,442
Deposits and Murabaha with banks maturing within seven days	**915,486**	1,736,251
	2,686,963	3,481,371

12 - LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2016	***Middle East and North Africa KD 000's***	***North America KD 000's***	***Europe KD 000's***	***Asia KD 000's***	***Others KD 000's***	***Total KD 000's***
Corporate	**8,572,654**	**271,989**	**344,561**	**179,112**	**294,360**	**9,662,676**
Retail	**4,613,908**	**119**	**3,042**	**-**	**-**	**4,617,069**
Loans, advances and Islamic financing to customers	**13,186,562**	**272,108**	**347,603**	**179,112**	**294,360**	**14,279,745**
Provision for credit losses						**(668,254)**
						13,611,491

2015	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Corporate	8,557,890	257,859	361,965	276,611	386,459	9,840,784
Retail	4,318,942	430	3,699	-	-	4,323,071
Loans, advances and Islamic financing to customers	12,876,832	258,289	365,664	276,611	386,459	14,163,855
Provision for credit losses						(612,889)
						13,550,966

12 - LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

Provisions for credit losses on cash facilities are as follows:

	Specific		General		Total	
	2016	2015	2016	2015	2016	2015
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at beginning of the year	**142,972**	138,764	**469,917**	375,834	**612,889**	514,598
Amounts written off net of exchange movements	**(71,984)**	(27,673)	**-**	(6)	**(71,984)**	(27,679)
Provided during the year	**30,398**	31,881	**96,951**	94,089	**127,349**	125,970
Balance at end of the year	**101,386**	142,972	**566,868**	469,917	**668,254**	612,889

Further analysis of specific provision based on class of financial asset is given below:

	Corporate		Retail		Total	
	2016	2015	2016	2015	2016	2015
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at beginning of the year	**60,431**	68,712	**82,541**	70,052	**142,972**	138,764
Amounts written off net of exchange movements	**(30,336)**	(25,596)	**(41,648)**	(2,077)	**(71,984)**	(27,673)
Provided during the year	**14,153**	17,315	**16,245**	14,566	**30,398**	31,881
Balance at end of the year	**44,248**	60,431	**57,138**	82,541	**101,386**	142,972

Analysis of total provision charge for credit losses is given below:

	Specific		General		Total	
	2016	2015	2016	2015	2016	2015
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash facilities	**30,398**	31,881	**96,951**	94,089	**127,349**	125,970
Non cash facilities	**(1,763)**	1,171	**97**	2,818	**(1,666)**	3,989
Provision charge for credit losses	**28,635**	33,052	**97,048**	96,907	**125,683**	129,959

The available provision on non-cash facilities of KD 29,270 thousand (2015: KD 30,931 thousand) is included under other liabilities (Note 18).

The impairment provision for finance facilities complies in all material respects with the specific provision requirements of the Central Bank of Kuwait and IFRS. In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the minimum rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. Pending further directive from the Central Bank of Kuwait, the general provision in excess of 1% for cash facilities and 0.5% for non-cash facilities was retained as general provision.

Non-performing loans, advances and Islamic financing to customers and related specific provisions are as follows:

	2016	2015
	KD 000's	KD 000's
Loans, advances and Islamic financing to customers	**183,005**	190,092
Provisions	**95,383**	135,270

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2016 amounts to KD 63,838 thousand (2015: KD 30,654 thousand). The collateral consists of cash, securities, bank guarantees and properties.

13 - FINANCIAL INVESTMENTS

The table below provides the details of the categorisation of financial investments:

2016	*Held to maturity KD 000's*	*Available for sale KD 000's*	*Fair value through statement of income KD 000's*	*Total KD 000's*
Investment securities				
Debt securities - Government (Non Kuwait)	**170,958**	**1,529,703**	**-**	**1,700,661**
Debt securities - Non Government	**-**	**1,177,727**	**-**	**1,177,727**
Equities	**-**	**85,354**	**2,987**	**88,341**
Other investments	**-**	**159,288**	**48,615**	**207,903**
	170,958	**2,952,072**	**51,602**	**3,174,632**
Central Bank of Kuwait bonds	**748,889**	**-**	**-**	**748,889**
Kuwait Government treasury bonds	**493,101**	**-**	**-**	**493,101**
	1,412,948	**2,952,072**	**51,602**	**4,416,622**

2015	*Held to maturity KD 000's*	*Available for sale KD 000's*	*Fair value through statement of income KD 000's*	*Total KD 000's*
Investment securities				
Debt securities - Government (Non Kuwait)	115,042	1,374,274	-	1,489,316
Debt securities - Non Government	4,452	1,007,668	-	1,012,120
Equities	-	96,437	2,560	98,997
Other investments	-	116,204	67,697	183,901
	119,494	2,594,583	70,257	2,784,334
Central Bank of Kuwait bonds	803,930	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	380,052
	1,303,476	2,594,583	70,257	3,968,316

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 563 thousand (2015: KD 2,974 thousand), which are recorded at cost since fair value cannot be reliably estimated.

An impairment loss of KD 9,027 thousand (2015: KD 10,557 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

Debt securities (Government – Non Kuwait) amounting to KD 73,232 thousand was reclassified during the year from available for sale investments to held to maturity investments.

14 - INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2016	2015
	KD 000's	KD 000's
Bank Syariah Muamalat Indonesia T.B.K.	**31,150**	41,559
Bank of London and the Middle East	**29,564**	36,762
Turkish Bank A.S.	**4,884**	5,541
United Capital Bank	**4,581**	5,151
Others	**3,465**	3,700
	73,644	92,713

	Country of incorporation	Principal business	% Effective ownership	
			2016	2015
Bank Syariah Muamalat Indonesia T.B.K.	Indonesia	Banking	**30.5**	30.5
Bank of London and the Middle East	United Kingdom	Banking	**26.4**	25.6
Turkish Bank A.S.	Turkey	Banking	**34.3**	34.3
United Capital Bank	Sudan	Banking	**21.7**	21.7

Summarised financial information of the material associate of the Group, Bank Syariah Muamalat Indonesia T.B.K. is as follows:

	2016	2015
	KD 000's	KD 000's
Assets	**1,159,402**	1,198,995
Liabilities	**1,088,830**	1,120,050
Net assets	**70,572**	78,945
Contingent liabilities	**14,956**	18,286
Net operating income	**43,227**	64,137
Net profit	**1,743**	657
Other comprehensive loss for the year	**(637)**	(7)

Carrying amount of investment in Bank Syariah Muamalat Indonesia T.B.K. consists of the Group's share of net assets and goodwill identified on acquisition.

Other associates	**2016**	2015
	KD 000's	KD 000's
Share of results for the year	**(1,820)**	20
Share of other comprehensive income for the year	**200**	113

During the year the Group received dividend amounting to KD 414 thousand from associates (2015: KD 587 thousand).

During the year the Group provided KD 12,165 thousand by way of impairment in respect of its associate Bank Syariah Muamalat Indonesia T.B.K. The impairment is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using market mutiples. During 2015 the Group had provided KD 18,481 thousand by way of impairment in respect of associates, consisting primarily of KD 15,212 thousand for its investment in Turkish Bank A.S.

15 - GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill KD 000's	Intangible Assets KD 000's	Total KD 000's
Cost			
At 1 January 2016	**474,174**	**241,326**	**715,500**
Exchange rate adjustments	**(79,360)**	**(23,667)**	**(103,027)**
At 31 December 2016	**394,814**	**217,659**	**612,473**
Accumulated amortisation & impairment			
At 1 January 2016	**-**	**37,906**	**37,906**
Amortisation charge for the year	**-**	**4,362**	**4,362**
Impairment charge for the year	**-**	**5,442**	**5,442**
Exchange rate adjustments	**-**	**(17,077)**	**(17,077)**
At 31 December 2016	**-**	**30,633**	**30,633**
Net book value			
At 31 December 2016	**394,814**	**187,026**	**581,840**

	Goodwill KD 000's	Intangible assets KD 000's	Total KD 000's
Cost			
At 1 January 2015	481,711	243,591	725,302
Exchange rate adjustments	(7,537)	(2,265)	(9,802)
At 31 December 2015	474,174	241,326	715,500
Accumulated amortisation & impairment			
At 1 January 2015	-	28,886	28,886
Amortisation charge for the year	-	4,968	4,968
Impairment charge for the year	-	5,400	5,400
Exchange rate adjustments	-	(1,348)	(1,348)
At 31 December 2015	-	37,906	37,906
Net book value			
At 31 December 2015	474,174	203,420	677,594

Net book value of goodwill as at 31 December 2016 includes KD 334,531 thousand (2015: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 57,341 thousand (2015: KD 136,701 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,942 thousand (2015: KD 2,942 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2016 includes banking licences and brand amounting to KD 162,232 thousand (2015: KD 170,221 thousand), customer relationships and core deposits amounting to KD 17,923 thousand (2015: KD 20,657 thousand) and brokerage licences amounting to KD 6,871 thousand (2015: KD 12,542 thousand). Intangible assets with indefinite useful life amounts to KD 165,494 thousand (2015: KD 171,165 thousand). Intangible assets with definite useful life amounting to KD 21,532 thousand (2015: KD 32,255 thousand) are amortised over a period of 5 to 15 years.

Impairment testing for goodwill and intangible assets with indefinite useful life

The carrying value of goodwill and intangible assets with indefinite useful life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill or intangible assets might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations unless fair value based on an active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows are then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

15 - GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Recoverable amount of goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of Boubyan Bank K.S.C.P. is allocated to a single CGU which consists of identifiable net assets including intangible assets of Boubyan Bank K.S.C.P. A discount rate of 9.25% (2015: 9.25%) and a terminal growth rate of 3.25% (2015: 3.5%) are used to estimate the recoverable amount of this cash generating unit. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 18% (2015: 16%) and a terminal growth rate of 5% (2015: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 10% (2015: 10%) and terminal growth rate of 3% (2015: 3.5%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin.

Based on such analysis, the Group has recorded an impairment loss of KD 5,442 thousand (2015: KD 5,400 thousand) in respect of the brokerage licence in Kuwait. There are no indications that the remaining goodwill or intangible assets with indefinite useful life are impaired.

16 - OTHER ASSETS

	2016	*2015*
	KD 000's	*KD 000's*
Interest receivable	**56,683**	52,759
Sundry debtors and prepayments	**41,675**	50,833
Investment properties	**24,680**	23,397
Properties acquired on settlement of debts	**21,832**	23,707
Others	**25,638**	22,794
	170,508	173,490

17 - SUBORDINATED TIER 2 BONDS

On 18 November 2015, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD 125,000 thousand with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 4.75% per annum, payable semi-annually in arrears, for the first five years and will be reset for the subsequent period at the rate of 2.75% over the CBK Discount Rate (on the fifth year anniversary of date of issuance). Floating rate bonds carry an interest rate of 2.50% per annum over the Central Bank of Kuwait discount rate, reset semi-annually, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds and payable semi-annually in arrears. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions and regulatory approvals.

18 - OTHER LIABILITIES

	2016	*2015*
	KD 000's	*KD 000's*
Interest payable	**74,144**	40,249
Income received in advance	**28,808**	22,846
Taxation	**20,605**	20,569
Provision on non-cash facilities (Note 12)	**29,270**	30,931
Accrued expenses	**32,367**	40,011
Staff payables	**30,653**	29,822
Others	**86,906**	76,487
	302,753	260,915

19 - SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises of 6,000,000,000 (2015: 5,039,717,687) shares of KD 0.100 each. The increase in the authorised share capital was approved by the Extraordinary General Assembly meeting of the shareholders held on 19 March 2016.

	2016 KD 000's	2015 KD 000's
Issued and fully paid in cash:		
5,635,664,303 (2015: 5,039,717,687) shares of KD 0.100 each	**563,566**	503,972

Annual General Assembly meeting of the shareholders held on 19 March 2016 approved an increase of KD 25,198,588.400 in the issued and fully paid share capital of the Bank by issuing 251,985,884 bonus shares representing 5% of the share capital. The issued and fully paid up share capital increased from KD 503,971,768.700 to KD 529,170,357.100 and the change in share capital was recorded in the commercial register on 23 March 2016.

The Bank also made a rights issue to its shareholders at KD 0.400 per share made up of KD 0.100 share capital and KD 0.300 share premium. A total of 343,960,732 shares were issued resulting in an increase in share capital by KD 34,396,073.200 from KD 529,170,357.100 to KD 563,566,430.300 and an increase in the share premium account by KD 103,188,219.600 from KD 699,839,641.800 to KD 803,027,861.400. The change in share capital was recorded in the commercial register on 6 December 2016.

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

	2016	2015
Number of shares in issue as at 1 January	**5,039,717,687**	4,799,731,131
Bonus issue	**251,985,884**	239,986,556
Rights issue	**343,960,732**	-
Number of shares in issue as at 31 December	**5,635,664,303**	5,039,717,687

b) Statutory reserve

The Board of Directors recommended a transfer of KD 29,797 thousand (2015: KD 11,999 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

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

c) Share premium account

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

d) Treasury shares and Treasury share reserve

The Bank held the following treasury shares at the year end:

	2016	2015
Number of treasury shares	**96,208,554**	91,626,899
Treasury shares as a percentage of total shares in issue	**1.7%**	1.8%
Cost of treasury shares (KD thousand)	**77,799**	77,799
Market value of treasury shares (KD thousand)	**62,536**	73,302
Weighted average market value per treasury share (fils)	**643**	845

Movement in treasury shares was as follows:

	No. of shares 2016	 2015
Balance as at 1 January	**91,626,899**	88,381,436
Bonus issue	**4,581,344**	4,363,258
Purchases	**311**	-
Sales	**-**	(1,117,795)
Balance as at 31 December	**96,208,554**	91,626,899

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.

19 - SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
							KD 000's
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	**1,338,748**
Profit for the year	-	295,178	-	-	-	-	**295,178**
Other comprehensive (loss) income	-	-	(158,166)	19,649	-	-	**(138,517)**
Total comprehensive income (loss)	**-**	**295,178**	**(158,166)**	**19,649**	**-**	**-**	**156,661**
Transfer to statutory reserve (Note 19b)	-	(29,797)	-	-	-	-	**(29,797)**
Dividends paid	-	-	-	-	-	(148,443)	**(148,443)**
Interest paid on perpetual Tier 1 Capital Securities	-	(12,146)	-	-	-	-	**(12,146)**
Profit distribution on perpetual Tier 1 Sukuk by a subsidiary	-	(1,503)	-	-	-	-	**(1,503)**
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	(379)	-	-	-	-	**(379)**
Proposed bonus shares (Note 20)	-	(28,178)	-	-	-	-	**(28,178)**
Proposed cash dividend 30 fils per share (Note 20)	-	(166,184)	-	-	-	166,184	**-**
Transfer to cash settled share based compensation	-	-	-	-	(2,418)	-	**(2,418)**
Share based payment in a subsidiary	-	-	-	-	287	-	**287**
Other movements	-	(1,019)	-	-	-	-	**(1,019)**
At 31 December 2016	**117,058**	**1,163,193**	**(237,915)**	**49,121**	**14,172**	**166,184**	**1,271,813**
At 1 January 2015	117,058	1,017,780	(61,497)	43,875	14,833	141,340	1,273,389
Profit for the year	-	282,160	-	-	-	-	282,160
Other comprehensive loss	-	-	(18,252)	(14,403)	-	-	(32,655)
Total comprehensive income (loss)	-	282,160	(18,252)	(14,403)	-	-	249,505
Transfer to statutory reserve (Note 19b)	-	(11,999)	-	-	-	-	(11,999)
Dividends paid	-	-	-	-	-	(141,374)	(141,374)
Dividends on treasury shares sold	-	(34)	-	-	-	34	-
Interest paid on perpetual Tier 1 Capital Securities	-	(6,087)	-	-	-	-	(6,087)
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	(976)	-	-	-	-	(976)
Proposed bonus shares (Note 20)	-	(25,198)	-	-	-	-	(25,198)
Proposed cash dividend 30 fils per share (Note 20)	-	(148,443)	-	-	-	148,443	-
Share based payment	-	-	-	-	1,470	-	1,470
Change in effective holding in a subsidiary	-	18	-	-	-	-	18
At 31 December 2015	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable, except for the amount equivalent to the cost of treasury shares.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

20 - PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 30 fils per share (2015: 30 fils per share) and bonus shares of 5% (2015: 5%) on outstanding shares as at 31 December 2016. The cash dividend, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the annual general assembly meeting and the bonus shares, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the regulatory approval for distribution of bonus shares.

21 - PERPETUAL TIER 1 CAPITAL SECURITIES

In April 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Capital Securities"), through a wholly owned special purpose vehicle, amounting to USD 700,000 thousand which are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. The Capital Securities are subordinated, unsecured and carry an interest rate of 5.75% per annum, payable semi-annually in arrears, until the first call date in April 2021. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date in April 2021 and on every interest payment date thereafter, subject to certain conditions.

22 - NON-CONTROLLING INTERESTS

During the year, Boubyan Bank K.S.C.P. (Boubyan Bank), a subsidiary of the Bank, issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250,000 thousand. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Boubyan Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Boubyan Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588% per annum. At the issuer's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.The Group did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non- controlling interest in the consolidated statement of financial position.

23 - SHARE BASED PAYMENT

The Bank had been operating an equity settled share based compensation plan for its senior executives. These options vest if the employees remain in service for a period of three years from the grant date and the exercise price was equal to 100 fils per share. During the year, the Bank replaced the equity settled share based compensation plan with a cash settled share based compensation plan. As per the modified plan, options will vest if the employees remain in service for a period of three years and will be settled by cash payment determined based on the market value of the Bank's equity shares on vesting date.

The Bank also amended the settlement terms of the previous plan from equity settlement to cash settlement. Accordingly the Bank determined the fair value of the cash settled plan on the modification date and reclassified an amount of KD 2,418 thousand from share based payment reserve to other liabilities.

23 - SHARE BASED PAYMENT (continued)

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.612 as at the end of the year. The significant inputs into the model were a share price of KD 0.660 at the measurement date, a standard deviation of expected share price returns of 20.40%, option life disclosed above and annual risk free interest rate of 2.5%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The following table shows the movement in number of share options during the year:

	2016	2015
	No. of share options	*No. of share options*
Outstanding at 1 January	**5,637,743**	5,275,605
Granted during the year	**2,197,905**	1,925,883
Exercised during the year	**(1,556,637)**	(1,117,795)
Lapsed during the year	**(227,019)**	(445,950)
Outstanding at 31 December	**6,051,992**	5,637,743

Boubyan Bank K.S.C.P. operates an equity settled share based compensation plan and granted share options to its senior executives.

The expense accrued on account of share based compensation plans for the year amounts to KD 1,693 thousand (2015: KD 1,658 thousand) and is included under staff expenses.

24 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuation techniques include discounted cash flow models, comparison with similar instruments for which market observable prices exist, recent transaction information and net asset values. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

The following table provides the fair value measurement hierarchy of the Group's financial instruments recorded at fair value:

2016	***Level 1***	***Level 2***	***Level 3***	***Total***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***
Debt securities	**1,753,246**	**939,419**	**14,765**	**2,707,430**
Equities and other investments	**91,489**	**132,410**	**71,782**	**295,681**
	1,844,735	**1,071,829**	**86,547**	**3,003,111**
Derivative financial instruments (Note 27)	**-**	**2,633**	**-**	**2,633**

2015	*Level 1*	*Level 2*	*Level 3*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*
Debt securities	1,537,093	813,163	31,686	2,381,942
Equities and other investments	129,797	70,223	79,904	279,924
	1,666,890	883,386	111,590	2,661,866
Derivative financial instruments (Note 27)	-	(28,944)	-	(28,944)

The table below analyses the movement in level 3 and the income (interest, dividend and realised gain) generated during the year.

	At 1 January 2016	***Change in fair value***	***Additions/ Transfers***	***Sale/ redemption***	***Exchange rate movements***	***At 31 December 2016***	***Net gains in the consolidated statement of income***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***
Debt securities	**31,686**	**-**	**14,000**	**(30,929)**	**8**	**14,765**	**989**
Equities and other investments	**79,904**	**(9,677)**	**9,950**	**(8,771)**	**376**	**71,782**	**4,616**
	111,590	**(9,677)**	**23,950**	**(39,700)**	**384**	**86,547**	**5,605**

	At 1 January 2015	*Change in fair value*	*Additions*	*Sale/ redemption*	*Exchange rate movements*	*At 31 December 2015*	*Net gains in the consolidated statement of income*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Debt securities	39,089	-	-	(7,397)	(6)	31,686	1,675
Equities and other investments	82,564	(4,748)	8,804	(8,608)	1,892	79,904	6,688
	121,653	(4,748)	8,804	(16,005)	1,886	111,590	8,363

Debt securities included in this category consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow method using credit spread of 4% (2015: ranging from 2% to 3.9%). Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

24 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

25 - SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	*Country of incorporation*	*Principal business*	*% Effective ownership*	
			2016	*2015*
National Bank of Kuwait (International) plc	United Kingdom	Banking	**100.0**	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	**100.0**	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	**85.5**	85.5
National Investors Group Holdings Limited	Cayman Islands	Investment Company	**100.0**	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	**84.3**	84.3
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	**99.9**	99.9
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	**93.3**	86.7
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	**98.5**	98.5
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	**58.4**	58.4

At 31 December 2016, 38.1% (2015: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in note 31.

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2016	*2015*
	KD 000's	*KD 000's*
Accumulated balances of non-controlling interest	**293,211**	207,231
Profit attributable to non-controlling interest	**16,527**	13,449

Summarised financial information of Boubyan Bank K.S.C.P. are as follows:

	2016	*2015*
Summarised financial information	*KD 000's*	*KD 000's*
Assets	**3,481,807**	3,132,885
Liabilities	**3,058,654**	2,812,086
Net operating income	**103,303**	91,353
Results for the year	**41,301**	35,185
Other comprehensive loss for the year	**(297)**	(3,717)

	2016	*2015*
Summarised cash flow information	*KD 000's*	*KD 000's*
Operating cash flow	**(390,912)**	179,176
Investing cash flow	**(47,840)**	(16,515)
Financing cash flow	**60,873**	(12,223)

26 - COMMITMENTS AND CONTINGENT LIABILITIES

	2016 **KD 000's**	2015 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	**115,668**	118,367
Letters of credit	**319,459**	320,673
Guarantees	**3,638,537**	3,466,160
	4,073,664	3,905,200

Irrevocable commitments to extend credit amount to KD 786,888 thousand (31 December 2015: KD 755,668 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 105,426 thousand (31 December 2015: KD 93,456 thousand).

27 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to interest rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Group exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity.

27 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2016			2015		
	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value	Notional
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Interest rate swaps (held as fair value hedges)	**25,992**	**30,117**	**1,376,449**	6,361	33,597	900,027
Interest rate swaps (others)	**1,450**	**1,404**	**84,811**	758	689	101,718
Forward foreign exchange contracts	**17,741**	**11,029**	**2,094,223**	9,625	11,402	1,742,618
	45,183	**42,550**	**3,555,483**	16,744	45,688	2,744,363

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2016 is negative KD 4,125 thousand (2015: negative KD 27,236 thousand). Gain on the hedged fixed income financial assets amounted to KD 26,805 thousand (2015: KD 29,664 thousand).

28 - RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were 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 did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		Number of related parties			
	2016	2015	2016	2015	2016	2015
					KD 000's	KD 000's
Board Members						
Loans (secured)	**4**	4	**16**	11	**155,598**	259,355
Contingent liabilities	**-**	1	**13**	12	**20,981**	18,889
Credit cards	**6**	6	**10**	3	**99**	18
Deposits	**8**	9	**67**	67	**32,090**	30,073
Collateral against credit facilities	**4**	4	**14**	14	**288,898**	337,443
Interest and fee income					**7,586**	7,629
Interest expense					**43**	66
Purchase of equipment and other expenses					**23**	27
Sale of property acquired on settlement of debts					**-**	8,500
Executive Officers						
Loans	**3**	4	**3**	2	**2,702**	2,609
Contingent liabilities	**5**	5	**-**	-	**2**	2
Credit cards	**12**	12	**2**	1	**38**	56
Deposits	**13**	12	**33**	29	**2,910**	3,234
Interest and fee income					**90**	85
Interest expense					**-**	2

Details of compensation to key management personnel are as follows:

	2016 KD 000's	2015 KD 000's
Salaries and other short term benefits	**9,462**	8,893
Post-employment benefits	**514**	486
Share based compensation	**475**	408
	10,451	9,787

Board members do not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

29 - RISK MANAGEMENT

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a global risk policy which embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors with the support of the Board Risk Committee and the Board Audit Committee. The Group's Risk Management and Internal Audit functions assist Executive Management in controlling and actively managing the Group's overall risk profile.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action.

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk.

29.1 CREDIT RISK

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All significant policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

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 comprising competent professional staff and having 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. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

29 - RISK MANAGEMENT (continued)

29.1 CREDIT RISK (continued)

29.1. 1 MAXIMUM EXPOSURE TO CREDIT RISK

An analysis of loans, advances and Islamic facilities to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements, is as follows:

	2016		2015	
	Gross exposure KD 000's	Net exposure KD 000's	Gross exposure KD 000's	Net exposure KD 000's
Loans, advances and Islamic financing to customers	**13,611,491**	**9,063,108**	13,550,966	8,758,404
Contingent liabilities	**4,073,664**	**3,939,330**	3,905,200	3,744,182

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

29.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2016 is 16% (2015: 15%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

2016 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	**2,770,929**	**1,087,006**	**656,737**	**400,908**	**-**	**4,915,580**
Central Bank of Kuwait bonds	**748,889**	**-**	**-**	**-**	**-**	**748,889**
Kuwait Government treasury bonds	**493,101**	**-**	**-**	**-**	**-**	**493,101**
Loans, advances and Islamic financing to customers	**12,533,231**	**269,013**	**343,165**	**174,628**	**291,454**	**13,611,491**
Held to maturity investments	**158,504**	**-**	**-**	**12,454**	**-**	**170,958**
Available for sale investments	**1,897,481**	**48,516**	**176,496**	**548,525**	**36,412**	**2,707,430**
Other assets	**104,006**	**6,836**	**9,988**	**1,978**	**1,188**	**123,996**
	18,706,141	**1,411,371**	**1,186,386**	**1,138,493**	**329,054**	**22,771,445**
Commitments and contingent liabilities (Note 26)	**2,432,241**	**256,158**	**1,256,892**	**900,991**	**14,270**	**4,860,552**
	21,138,382	**1,667,529**	**2,443,278**	**2,039,484**	**343,324**	**27,631,997**

2015 *Geographic region*	*Middle East and North Africa* *KD 000's*	*North America* *KD 000's*	*Europe* *KD 000's*	*Asia* *KD 000's*	*Others* *KD 000's*	*Total* *KD 000's*
Balances and deposits with banks	2,759,289	1,327,326	471,153	159,492	3,219	4,720,479
Central Bank of Kuwait bonds	803,930	-	-	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	-	-	380,052
Loans, advances and Islamic financing to customers	12,279,672	255,331	361,192	271,914	382,857	13,550,966
Held to maturity investments	99,318	-	-	20,176	-	119,494
Available for sale investments	1,618,218	48,300	184,440	498,176	32,808	2,381,942
Other assets	109,972	2,326	6,850	1,538	5,700	126,386
	18,050,451	1,633,283	1,023,635	951,296	424,584	22,083,249
Commitments and contingent liabilities (Note 26)	2,390,801	320,765	1,057,485	880,039	11,778	4,660,868
	20,441,252	1,954,048	2,081,120	1,831,335	436,362	26,744,117

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2016 ***KD 000's***	*2015* *KD 000's*
Industry sector		
Trading	**2,267,693**	2,323,127
Manufacturing	**1,748,422**	1,713,148
Banks and other financial institutions	**9,107,707**	8,861,239
Construction	**1,304,291**	1,515,697
Real Estate	**2,947,829**	2,798,090
Retail	**4,507,414**	4,191,243
Government	**2,484,846**	2,157,018
Others	**3,263,795**	3,184,555
	27,631,997	26,744,117

29 - RISK MANAGEMENT (continued)

29.1 CREDIT RISK (continued)

29.1. 3 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. 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 capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of financial assets for statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired		*Past due*	
	High	*Standard*	*or impaired*	*Total*
2016	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Balances and short term deposits with banks	**2,507,665**	**-**	**-**	**2,507,665**
Central Bank of Kuwait bonds	**748,889**	**-**	**-**	**748,889**
Kuwait Government treasury bonds	**493,101**	**-**	**-**	**493,101**
Deposits with banks	**2,230,960**	**176,955**	**-**	**2,407,915**
Loans, advances and Islamic financing to customers	**11,626,334**	**2,381,425**	**271,986**	**14,279,745**
Held to maturity investments	**12,454**	**158,504**	**-**	**170,958**
Available for sale investments	**2,252,553**	**454,877**	**-**	**2,707,430**
	19,871,956	**3,171,761**	**271,986**	**23,315,703**
2015				
Balances and short term deposits with banks	3,293,800	-	-	3,293,800
Central Bank of Kuwait bonds	803,930	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	380,052
Deposits with banks	1,237,787	188,892	-	1,426,679
Loans, advances and Islamic financing to customers	11,936,161	1,919,793	307,901	14,163,855
Held to maturity investments	20,176	99,318	-	119,494
Available for sale investments	1,658,973	722,969	-	2,381,942
	19,330,879	2,930,972	307,901	22,569,752

29.1.4 AGEING ANALYSIS OF PAST DUE OR IMPAIRED LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

	Corporate		*Retail*		*Total*	
	Past due and not impaired	*Past due and impaired*	*Past due and not impaired*	*Past due and impaired*	*Past due and not impaired*	*Past due and impaired*
2016	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Up to 30 days	**4,500**	**2,793**	**36,541**	**-**	**41,041**	**2,793**
31 - 60 days	**13,261**	**-**	**16,983**	**-**	**30,244**	**-**
61 - 90 days	**15,078**	**-**	**2,618**	**-**	**17,696**	**-**
91 - 180 days	**-**	**37,984**	**-**	**20,138**	**-**	**58,122**
More than 180 days	**-**	**58,673**	**-**	**63,417**	**-**	**122,090**
	32,839	**99,450**	**56,142**	**83,555**	**88,981**	**183,005**
2015						
Up to 30 days	41,987	2,687	35,132	-	77,119	2,687
31 - 60 days	8,295	-	16,043	-	24,338	-
61 - 90 days	14,081	-	2,271	-	16,352	-
91 - 180 days	-	9,523	-	21,582	-	31,105
More than 180 days	-	69,862	-	86,438	-	156,300
	64,363	82,072	53,446	108,020	117,809	190,092

Of the aggregate amount of gross past due or impaired loans, advances and Islamic financing to customers, the fair value of collateral that the Group held as at 31 December 2016 was KD 75,586 thousand (2015: KD 55,563 thousand).

29.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2016	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	4,782,330	258,957	53,591	5,094,878
Central Bank of Kuwait bonds	544,722	204,167	-	748,889
Kuwait Government treasury bonds	66,871	144,012	282,218	493,101
Loans, advances and Islamic financing to customers	4,489,373	1,567,813	7,554,305	13,611,491
Held to maturity investments	23,184	86,692	61,082	170,958
Available for sale investments	456,236	412,395	2,083,441	2,952,072
Investments carried at fair value through statement of income	51,602	-	-	51,602
Investment in associates	-	-	73,644	73,644
Land, premises and equipment	-	-	255,086	255,086
Goodwill and other intangible assets	-	-	581,840	581,840
Other assets	89,677	34,319	46,512	170,508
	10,503,995	2,708,355	10,991,719	24,204,069
Liabilities and equity				
Due to banks and other financial institutions	4,985,624	1,509,419	852,760	7,347,803
Customer deposits	10,420,857	1,810,620	376,615	12,608,092
Certificates of deposit issued	281,566	134,423	-	415,989
Subordinated Tier 2 bonds	-	-	124,700	124,700
Other liabilities	242,830	-	59,923	302,753
Share capital and reserves	-	-	2,718,379	2,718,379
Proposed cash dividend	166,184	-	-	166,184
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	309,469	309,469
	16,097,061	3,454,462	4,652,546	24,204,069

29 - RISK MANAGEMENT (continued)

29.2 LIQUIDITY RISK (continued)

2015	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	4,600,880	301,100	6,070	4,908,050
Central Bank of Kuwait bonds	553,920	250,010	-	803,930
Kuwait Government treasury bonds	55,211	212,182	112,659	380,052
Loans, advances and Islamic financing to customers	4,431,115	1,987,624	7,132,227	13,550,966
Held to maturity investments	93,900	23,441	2,153	119,494
Available for sale investments	327,807	556,656	1,710,120	2,594,583
Investments carried at fair value through statement of income	70,257	-	-	70,257
Investment in associates	-	-	92,713	92,713
Land, premises and equipment	-	-	226,501	226,501
Goodwill and other intangible assets	-	-	677,594	677,594
Other assets	87,605	38,781	47,104	173,490
	10,220,695	3,369,794	10,007,141	23,597,630
Liabilities and equity				
Due to banks and other financial institutions	5,278,742	1,621,057	406,668	7,306,467
Customer deposits	10,328,767	1,400,124	330,312	12,059,203
Certificates of deposit issued	561,172	94,085	-	655,257
Subordinated Tier 2 bonds	-	-	124,664	124,664
Other liabilities	200,161	-	60,754	260,915
Share capital and reserves	-	-	2,607,496	2,607,496
Proposed cash dividend	148,443	-	-	148,443
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	224,485	224,485
	16,517,285	3,115,266	3,965,079	23,597,630

The liquidity profile of financial liabilities of the Group summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2016				
Financial Liabilities				
Due to banks and other financial institutions	**4,998,573**	**1,527,916**	**886,416**	**7,412,905**
Customer deposits	**10,431,268**	**1,837,137**	**408,186**	**12,676,591**
Certificates of deposit issued	**282,388**	**134,913**	**-**	**417,301**
Subordinated Tier 2 bonds	**-**	**6,035**	**173,065**	**179,100**
	15,712,229	**3,506,001**	**1,467,667**	**20,685,897**
Contingent liabilities and commitments				
Contingent liabilities	**817,517**	**1,065,384**	**2,190,763**	**4,073,664**
Irrevocable commitments	**82,921**	**309,724**	**394,243**	**786,888**
	900,438	**1,375,108**	**2,585,006**	**4,860,552**
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	**1,807,064**	**235,010**	**135,040**	**2,177,114**
Contractual amounts receivable	**1,804,471**	**235,471**	**145,539**	**2,185,481**

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2015				
Financial Liabilities				
Due to banks and other financial institutions	5,285,641	1,632,290	418,182	7,336,113
Customer deposits	10,341,087	1,426,765	365,512	12,133,364
Certificates of deposit issued	561,635	94,224	-	655,859
Subordinated Tier 2 bonds	-	5,860	177,704	183,564
	16,188,363	3,159,139	961,398	20,308,900
Contingent liabilities and commitments				
Contingent liabilities	802,261	991,311	2,111,628	3,905,200
Irrevocable commitments	119,367	227,979	408,322	755,668
	921,628	1,219,290	2,519,950	4,660,868
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	1,452,136	284,670	90,242	1,827,048
Contractual amounts receivable	1,450,558	285,134	97,017	1,832,709

29 - RISK MANAGEMENT (continued)

29.3 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

29.3.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and most exposures arising on medium term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board of Directors and adjusted where necessary, to reflect the changing market conditions.

Interest rate sensitivity

Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity on equity is the impact arising from changes in interest rate on fair value of available for sale investments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

		2016		2015	
		Effect on profit KD 000's	***Effect on equity KD 000's***	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Currency	**Movement in Basis points**				
KWD	+25	5,969	-	4,546	-
USD	+25	2,137	(114)	2,064	(859)
EUR	+25	915	(5)	164	(8)
GBP	+25	827	-	11	-
EGP	+25	30	-	623	(882)

29.3.2 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. In general assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The table below analyses the effect on profit of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase.

		2016	2015
Currency	**% Change in currency rate**	Effect on profit KD 000's	Effect on profit KD 000's
USD	+5	**(412)**	(174)
GBP	+5	**40**	58
EUR	+5	**214**	165
EGP	+5	**(127)**	56
Other	+5	**(42)**	5

29.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through statement of income) and on equity (as a result of change in the fair value of equity investments held as available for sale) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2016		2015	
Market indices	**% Change in equity price**	**Effect on profit KD 000's**	**Effect on equity KD 000's**	Effect on profit KD 000's	Effect on equity KD 000's
Kuwait stock exchange	+5	-	**949**	-	944
Saudi stock exchange	+5	-	**475**	-	468
UAE stock indices	+5	-	**309**	-	184

29.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

30 - CAPITAL

A key objective of 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 the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

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 Basel Committee on Banking Supervision as adopted by the CBK.

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2016	*2015*
	KD 000's	*KD 000's*
Risk Weighted Assets	**15,631,316**	14,842,129
Capital required	**2,344,697**	1,855,266
Capital available		
Common Equity Tier 1 capital	**2,202,176**	1,965,705
Additional Tier 1 capital	**247,904**	221,245
Tier 1 capital	**2,450,080**	2,186,950
Tier 2 capital	**323,472**	310,531
Total capital	**2,773,552**	2,497,481
Common Equity Tier 1 capital adequacy ratio	**14.1%**	13.2%
Tier 1 capital adequacy ratio	**15.7%**	14.7%
Total capital adequacy ratio	**17.7%**	16.8%

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2016	*2015*
	KD 000's	*KD 000's*
Tier 1 capital	**2,450,080**	2,186,950
Total exposures	**26,510,797**	25,636,063
Leverage ratio	**9.2%**	8.5%

31 - FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2016, funds under management were KD 3,614 million (2015: KD 3,368 million).

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of National Bank of Kuwait S.A.K.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 statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' responsibilities for the Audit of the Consolidated Financial 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.

We have identified the following key audit matters:

a) Impairment of loans, advances and Islamic financing to customers

Impairment of loans, advances and Islamic financing to customers is a highly subjective area due to the level of judgement applied by management in determining provisions which is dependent on the credit risk related to that loan. Certain judgements applied by the management in accounting for impairment of loans, advances and Islamic financing to customers include the identification of impairment events, the valuation of collateral and assessment of customers that may default, and the future cash flows of loans, advances and Islamic financing to customers granted.

Due to the significance of loans, advances and Islamic financing to customers and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies and in Note 12 to the consolidated financial statements.

Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans, advances and Islamic financing to customers and the impairment provisioning process, to validate the operating effectiveness of the key controls in place, which identify the impaired loans, advances and Islamic financing to customers 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, advances and Islamic financing to customers 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 all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing loans, advances and Islamic financing to customers, 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 performing loans, advances and Islamic financing to customers, we assessed whether the borrowers exhibit any possible default risk that may affect the repayment abilities.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Key Audit Matters (continued)

b) Impairment of goodwill and other intangible assets

The Group has goodwill and other intangible assets with carrying value of KD 581,840 thousand as at 31 December 2016. The impairment tests of goodwill and other intangible assets performed by the management are significant to our audit because the assessment of the recoverable amount of goodwill and other 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 goodwill and other intangible assets as a key audit matter.

As part of our audit procedures, we obtained management's impairment calculations and tested the reasonableness of key assumptions, including profit forecasts and the selection of growth rates and discount rates. We also involved our valuation specialists in these audit procedures. We challenged the management to substantiate its assumptions, including the comparison of relevant assumptions to industry benchmarks and economic forecasts. We substantively tested the integrity of supporting calculations and corroborated certain information with third party sources. We agreed the underlying cash flows to approved budgets and assessed growth rates and discount rates by comparison with third party information, the Group's cost of capital and relevant risk factors. Future cash flow assumptions were also assessed through comparison to current trading performance against budget and forecasts, considering the historical accuracy of budgeting and forecasting and the understanding of the reasons for growth profiles used. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions on the available headroom.

We also assessed the adequacy of the Group's disclosures regarding those assumptions, which are disclosed in Note 15 to the consolidated financial statements.

c) Valuation of derivative financial instruments

The Group has significant derivative financial instruments, the valuation of which is determined through the application of valuation techniques that often involves the exercise of judgement and the use of assumptions and estimates. Due to the significance of the derivative financial instruments and the related estimation and uncertainty, we have assessed the valuation of derivative financial instruments as a key audit matter.

Our audit procedures included assessment of controls over the identification, measurement and management of derivative financial instruments to confirm the operating effectiveness of the key controls in place. We assessed whether the key controls in the above processes were designed, implemented and operating effectively.

In addition to the testing of key controls, we evaluated and challenged the methodologies, inputs and assumptions used by the Group in determining fair values, with the help of our own valuation specialist and by reference to externally available market data to assess whether appropriate inputs are used in the valuation. We also compared valuations derived from our internal valuation model, for a sample of instruments, to the fair values determined by the Group. Further, we assessed whether the disclosures in the consolidated financial statements about the valuation basis and inputs used in the fair value measurement are adequate and that disclosures relating to the fair value risks and sensitivities appropriately reflect the Group's exposure to the derivative financial instruments at the reporting date. Refer to Note 27 to the consolidated financial statements for the disclosures on derivative financial instruments.

d) Valuation of investment securities

Investment securities are primarily comprised of portfolios of debt and equity investments. These instruments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. The valuation is performed by the Group using a fair value hierarchy:

- Level 1 are valuations based on quoted prices (unadjusted) in active markets.
- Level 2 are valuations based on other than quoted prices included within level 1, which are observable either directly or indirectly.
- Level 3 are valuations based on unobservable inputs for the asset.

The valuation of investment securities is inherently subjective, most predominantly for the instruments classified under level 2 and level 3 since these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level 2 and level 3 investments are expected cash flows, risk free rates and credit spreads. In addition, the Group determines whether objective evidence of impairment exists for individual investments. In these cases, the difference between amortised cost and fair value is transferred from other comprehensive income to the consolidated statement of income. Given the inherent subjectivity in the valuation of the instruments classified under level 2 and level 3, we determined this to be a key audit matter. The investment securities classified under level 2 and level 3 amount to KD 1,071,829 thousand and KD 86,547 thousand respectively as at 31 December 2016.

Our audit procedures comprised, amongst others of an assessment of the methodology and the appropriateness of the valuation models and inputs used to value the investment securities. Further, we used our internal valuation specialists to assess the valuation of all individual investments available for sale, and to assess whether the valuations performed by the Group were within a pre-defined tolerable differences threshold. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data. We also evaluated the Group's assessment whether objective evidence of impairment exists for individual investments. Additionally, we assessed the adequacy of the fair value disclosures in Note 24 to the consolidated financial statements.

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

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2016, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2016 after the date of our auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of other information; we are required to report that fact. We have nothing to report in this regard.

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 the 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.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 1 of 2016, 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/BS/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)

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

8 January 2017
Kuwait

Group Directory

Head Office

Abdullah Al-Ahmed Street
P.O.Box: 95, Safat
13001 Kuwait
Tel: +965 2242 2011
Fax: +965 2243 1888

Consumer Banking Group

Retail Banking
Ext: 3034
Fax: 2241 6738

Domestic Branches
Ext: 2592
Fax: 2246 7929

Alternative Channels
Ext: 3393
Fax: 2246 7929

Direct Sales
Ext: 5003
Fax: 2259 5522

Consumer Lending
Ext: 3171
Fax: 2224 6865

Marketing
Ext: 3036
Fax: 2259 5679

Consumer Credit Collection
Ext: 2181
Fax: 2259 5671

Private Banking Group
Ext: 2226
Fax: 2241 8415 or
2224 6619

Domestic Corporate Banking
Ext: 2116
Fax: 2224 6643

Foreign Corporate, Oil and Trade Finance Group
Ext: 2307
Fax: 2242 6813

Treasury Group
Ext: 3566
Fax: 2241 9720

Credit Risk Management Group
Ext: 2417
Fax: 2246 4162

Economic Research Group
Ext: 5364
Fax: 2224 6973

Legal Affairs Group
Ext: 3091
Fax: 2244 5098

Human Resources
Ext: 5162
Fax: 2244 3250

International Banking Group

Regional Institutional Banking
Ext: 5328
Fax: 2224 6977

Please refer to international network for a complete listing

Operations Group
Ext: 3060
Fax: 2245 9233

Information Technology Group
Ext: 2711
Fax: 2245 9233

Group Financial Control
Ext: 3009
Fax: 2242 2730

International Legal Affairs
Ext: 2065
Fax: 2243 6208

Executive Office
Ext: 2230
Fax: 2246 2469

Public Relations
Ext: 3166
Fax: 2259 5804

Media Relations
Ext: 2259 2789
Fax: 2246 2469

Advertising
Ext: 2665
Fax: 2259 5805

Group Internal Audit
Ext: 5400
Fax: 2243 3835

Local Branches

Ahmadi
Ahmed Al-Jaber
Airport
Ali Sabah Al-Salem
Al Hamra Tower
Al Rihab
Al Tadhamoun (Farwaniya)
Andalus
Ardiya
Arraya 2
Avenues
Bayan
Camp Arifjan
Cinema Al-Salmiya
Dahyat Abdullah Al-Salem
Daiyah
Dasma
Doha
Fahad Al-Salem
Fahaheel
Fahaheel Al Sahely
Faiha
Farwaniya
Fintas
Ghazali
Grand Avenues
Hadiya
Hawalli
Kheitan
Jabriya
Jahra
Jahra Commercial Branch
Jleeb Al-Shuyoukh
Kaifan
Kuwait National Petroleum Company
Kuwait Oil Company
Kuwait Petroleum
Corporation
Ministries Complex
Mishref
MTC Headquarters
Mubarak Al-Kabeer
Nuzha
Othman
Qadisiya
Qurain
Qurtuba
Ras Al-Salmiya
Rawdha
Riqqa
Rumaithiya
Saad Al-Abdullah
Sabah Al-Nasser
Sabah Al-Salem
Sabahiya
Sabhan
Salmiya
Salwa
Shamiah
Sharq
Shuwaikh
Shuwaikh Medical
Social Security (PIFSS)
Sour Street
South Surra
Surra
Watya
Yarmouk

Head Office Tel.: 2242 2011
Call Center Tel.: 1801801

For More Information About National Bank of Kuwait:

NBKPage NBKGroup NBKGroup NBKGroup NBKGroup National Bank of Kuwait 52221333

International Branches

Bahrain
National Bank of Kuwait SAK
Bahrain Branch
GB Corp Tower
Block 346
Road 4626, Building 1411
P.O.Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

Saudi Arabia
National Bank of Kuwait SAK
Jeddah Branch
Al-Khalidiah Distric
Al-Mukmal Tower
P.O.Box 15385
Jeddah 21444, Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

United Arab Emirates
National Bank of Kuwait SAK
Dubai Branch
Latifa Tower
Sheikh Zayed Road
P.O.Box 9293
Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

Abu Dhabi
Sheikh Rashed Bin Saeed
Al Maktoom Road
(Old Airport Road 2nd Street)
P.O.Box 113567
Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Jordan
National Bank of Kuwait SAK
Head Office
Al Hajj Mohd Abdul Rahim Street
Hijazi Plaza, Building # 70
P.O.Box 941297
Amman – 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Sweifieh Branch
Tel: +962 6 580 0444
Fax: +962 6 580 0440

Shmeisani Branch
Tel: +962 6 560 8800
Fax: +962 6 560 8811

Abdoun Branch
Tel: +962 6 590 2333
Fax:+962 6 590 2320

Lebanon
National Bank of Kuwait
(Lebanon) SAL

Sanayeh Head Office
BAC Building, Justinien Street
P.O.Box 11-5727, Riad El-Solh
1107 2200 Beirut, Lebanon
Tel: +961 1 759 700
Fax: +961 1 747 866

Chiah Branch
Tel: +961 1 270 176
Fax: +961 1 270 177

Bhamdoun Branch
Tel: +961 5 260 100
Fax: +961 5 260 102

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoun Street, District 102
P.O.Box 3420
Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot No. 155, City Center, First Sector
5th Settlement, New Cairo, Egypt
P.O. Box 229-Postal Code 11835
Tel: +202 26149300
Fax: +202 26133978

United Kingdom
National Bank of Kuwait
(International) PLC

Head Office
13 George street
London, W1U 3QJ, UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

Portman Square Branch
7 Portman Square
London, W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait
(International) PLC

Paris Branch
90 Avenue des Champs-Elysees
75008 Paris, France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Turkey
Turkish Bank

Head Office
Valikonagi Avenue No. 1
P.O.Box: 34371 Nisantasi
Istanbul
Tel: +90 212 373 6373
Fax: +90 212 225 0353

Singapore
National Bank of Kuwait SAK

Singapore Branch
9 Raffles Place #24-02
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAK

Shanghai Branch
Suite 1501-1502, AZIA Center
1233 Lujiazui Ring Road
Shanghai 200120
China
Tel: +86-21-8036-0800
Fax: +86-21-8036-0801

United States of America
National Bank of Kuwait SAK

New York Branch
299 Park Avenue, 17th Floor
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

Kuwait
Watani Financial Brokerage Co.
Abdullah Al-Ahmed Street
Al-Naqi Building, Office 17
P.O.Box 21350
Safat 13074
Kuwait
Tel: +965 2259 5102
Fax: +965 2224 6979

NBK Capital
Arraya II
Al Shuhada Street
Block 6, Sharq
P.O.Box 4950
Safat 13050 Kuwait
Tel: +965 2224 6901
Fax: +965 2224 6904/5

NBK Capital Limited – UAE
Precinct Building 3, Office 404
Dubai International Finance Center
Sheikh Zayed Road
P.O.Box 506506, Dubai
United Arab Emirates
Tel: +971 4 365 2800
Fax: +971 4 365 2805