National Bank of Kuwait

Annual Report and Financial Statements 2014

Towards a new horizon...

Contents

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

Our Mission

To be the premier Arab Bank

To achieve consistently superior returns
for our shareholders

To deliver world-class products and services
to our customers

To invest in people

To benefit the communities in which we operate

Financial Highlights

(In US$ millions)	2010	2011	2012	2013	2014
Net interest income & net income from Islamic financing	1,225	1,301	1,359	1,542	1,603
Non-interest income	477	544	861	597	655
Operating expenses	543	553	627	707	735
Net profit	1,030	1,033	1,042	813	894
Total assets	44,054	46,540	56,327	63,525	74,399
Assets under management	8,893	8,641	9,621	10,475	10,922
Shareholders' equity excluding proposed dividend	7,084	7,403	7,849	8,109	8,579
Market capitalization	17,644	15,022	14,010	13,634	14,643
Return on beginning equity excluding proposed dividends (%)	17.7	14.6	14.1	10.4	11.0
Year-end price per share (US$)	4.9	3.8	3.3	3.0	3.1
Basic earnings per share (Cents)	22	22	22	17	19
Proposed cash dividends (Cents)	14	14	10	10	10
Proposed bonus shares (%)	10	10	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 16 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 165 branches, subsidiaries and representative offices in 16 countries on four continents, of which 9 are in the Middle East.

1 KUWAIT (No. of branches 66)
Tel: +965 2242 2011
Fax: +965 2259 5804

WATANI FINANCIAL BROKERAGE COMPANY
Tel: +965 2259 5102
Fax: +965 2224 6979

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

2 IRAQ (No. of branches 13)
Credit Bank of Iraq
Tel: +964 1 7182198 / 7191944
Tel: +964 1 718884406 / 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 6)
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 QATAR (No. of branches 6)
Tel: +974 4447 8000
Fax: +974 4447 3710

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

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

9 EGYPT (No. of branches 38)
NBK Egypt
Tel: +202 261 49300
Fax:+202 261 33978

10 TURKEY (No. of branches 20)
Turkish Bank
Tel: +90 212373 6373
Fax: +90 212225 0353

11 SWITZERLAND
Tel: +41229064343
Fax: +41229064399

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

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

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

15 CHINA
Shanghai Representative Office
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

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

Board of Directors

1 Nasser Musaed Abdullah Al-Sayer
Chairman

2 Ghassan Ahmed Saoud Al-Khalid
Vice Chairman

3 Hamad Abdul Aziz Al-Sager
Board Member

4 Yacoub Yousef Al-Fulaij
Board Member

5 Hamad Mohamed Al-Bahar
Board Member

6 Muthana Mohamed Ahmed Al-Hamad
Board Member

7 Haitham Sulaiman Hamoud Al-Khaled
Board Member

8 Loay Jassim Mohammed Al-Kharafi
Board Member

9 Emad Mohamed Al-Bahar
Board Member


1


3


4


5


2


6


7


8


9

Group's Board of Directors:

1 **Mr. Nasser Musaed 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.

2 **Mr. Ghassan Ahmed Al-Khalid**
(Vice Chairman)
Mr. Ghassan Ahmed Al Khalid 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.

3 **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.

4 **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.

5 **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.

6 **Mr. Muthana Mohamed Ahmed Al-Hamad**
(Board Member)
Mr. Muthana Mohamed Al-Hamad joined the NBK Board in 2007. He is a member of the Board Credit Committee and Board Corporate Governance Committee.

Mr. Al-Hamad is a Board member of Alwatyah United Real Estate Company and has been the Chairman of Future Communication Company International. 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.

7 **Mr. Haitham Sulaiman Al-Khaled**
(Board Member)
Mr. Haitham Sulaiman Al-Khaled joined the NBK Board in 2010. He is a member of the Board Audit Committee and Board Risk 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.

8 **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.

9 **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

Moving Towards A New Horizon

Dear Shareholders,

On behalf of members of the board, I'm proud to present to you the 62nd National Bank of Kuwait Annual Report. The report outlines the main achievements and accomplishments of the NBK Group in 2014 which reaffirms the Bank's well established and solid financial position, leadership in the Kuwaiti banking sector, strong performance and execution and continued commitment to a profitable and successful future for the Bank, our community and Kuwait as a whole.

2014 represented a new era of growth and development for NBK. As Kuwait entered a new phase of economic growth and development, NBK's leadership in financing mega governmental projects strengthened the bank's position in the domestic market. On the regional front, especially in the GCC, NBK continued to leverage its presence in these promising markets, growing its contribution to the group which all reflected positively on the bank's performance and laid the groundwork for a profitable and successful new year ahead. Finally, and with a relatively new management team at the helm of the bank we look forward for a prosperous future.

Strong Financial Performance and Growth

National Bank of Kuwait Group continued its strong performance during 2014 reporting a net profit of KD 261.8 million, confirming the superiority of the Bank's conservative strategy, prudent risk management and commitment to the highest standards across all business lines. NBK delivered again and again best-in-class services and products to all its customers in the face of many challenges and the start of a new era in the local economic environment. Strong growth across business lines proved the effectiveness of the Bank's sound and solid leadership leading to a 5.6% growth in the bank's net operating income to reach KD 661 million in 2014. Loans and advances grew by 11.3% to KD 11.9 billion at the end of December 2014, a clear indication of a marked improvement in the operational environment with the launch of the government's new Five Year Development Plan and the implementation of many mega projects. Deposits also witnessed strong growth of 7.5% year-on-year to KD 11.3 billion, reaffirming the reputation of NBK as one of the region's most trustworthy and safest banks.

Financial indicators reflected NBK's strength and durability. The bank achieved a strong return on assets of 1.28% and a return on equity of 11.0% at year end. Total Group assets reached KD 21.8 billion, recording a growth of 17.1% year-on-year. In addition, total shareholders' equity reached KD 2.5 billion, growing at 5.8% year-on-year. Capitalization remained very strong with Basel III Capital Adequacy Ratio reaching 14.5% at the end of December 2014, comfortably higher than the regulatory requirements.

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 2014.

Highest Rated and Safest

NBK Group retained its leadership position in Kuwait and the region, maintaining very high credit ratings from the three largest rating agencies: Moody's, Fitch and Standard & Poor's with all ratings having a stable outlook. In 2014, all rating agencies affirmed NBK's high ratings at "Aa3" by Moody's, "AA-" by Fitch Ratings and an "A+" rating from Standard and Poor's.

NBK Group also held on to its leading position as one of the safest banks in the world for the ninth time. The ranking is an endorsement of the Bank's prestigious reputation and global positioning as NBK is the only bank in the Arab world to maintain this position for nine consecutive times.

Mega Projects Gain Momentum

The year 2014 was a turning point for the prospects of the Kuwaiti economy. The year saw the launch of several major development projects considered vital to stimulating the local economy and this has already begun to boost the local operating environment. During the year, NBK played a major role in these development projects including most

2014 represented a new era of growth and development. Domestically, the execution of mega governmental projects gained momentum and regionally, NBK continued to leverage its presence in promising markets

importantly the bank's leading role in the landmark Clean Fuel project, the largest project in the history of Kuwait. NBK also played a vital role in North AL Zour power plant which is the first PPP (Public Private Partnership) project in Kuwait. NBK also led international syndications to finance the expansion plans of Kuwaiti and regional companies. An example of such syndications was the bank's recent role acting as a Coordinator and Mandated Lead Arranger for the USD $1 billion KUFPEC deal to finance the company's international expansion plans.

NBK's role in these mega deals reflects its prestigious reputation and its leadership position in the banking sector locally, and regionally. This positioning of NBK also reflects its ability to take advantage of growth opportunities like the pickup rate in implementation of mega development projects in Kuwait – expected to accelerate considerably in the coming years.

Stability and Solidity Despite Turmoil

Regionally, the National Bank of Kuwait continued its strategy to strengthen its position in MENA markets with a particular focus on the GCC markets that are characterized by their strong economic scope and promising growth opportunities. Despite political and social unrest and its developments in some Arab markets, the International Banking Group (IBG) proved resilient. IBG profits increased its contribution to the group growing at 6.4% year-on-year and confirming NBK's successful regional expansion strategy.

Selling the Bank's stake in its Qatari associate, International Bank of Qatar (IBQ) was among the prominent decisions taken by NBK. The decision came after difficulties to raise NBK's 30% ownership to a controlling stake. In addition to the returns NBK achieved from its investment in IBQ over the years, the exit from this investment enhances the Bank's ability to seize better growth opportunities in Qatar and other GCC markets.

Egypt features prominently in NBK's regional expansion strategy. The Bank feels confident of the country's medium-to-long term economic growth prospects. To better align with the Group and strengthen the identification with the prestigious and widely trusted NBK brand, the Bank rebranded Al Watani Bank of Egypt to NBK-Egypt furthering integration and unification at the Group level. Despite continued limited political turmoil, NBK-Egypt continued to deliver strong results in 2014. We expect that NBK-Egypt will continue with high performance as the political situation stabilizes and view Egypt as a long-term investment strategy.

Islamic Banking

In parallel with its regional strategy, NBK continued to reap the benefits from its acquisition of 58.4% of Boubyan Bank. This acquisition supported NBK with new avenues for growth, further diversification of income sources, and enhancing its customer base by providing a wide variety of banking services.

A fundamental change in Boubyan Bank has been seen in terms of growth, profitability, and increasing market share since its acquisition by NBK. NBK will continue its strategy to support Boubyan Bank by supplying the bank with expertise and guidance. National Bank of Kuwait is fully committed to the independence of the two banks according to the provisions of Shari'a law.

Risk Management and Governance

The success of the National Bank of Kuwait in the face of local, regional and global challenges is reflected by its adoption of effective risk management and corporate governance practices. The Bank's conservative strategy in addition to the rational management of risks and strict corporate governance standards protected the bank from the repercussions of the political, economic and social upheavals felt locally and regionally.

Since its establishment more than six decades ago, NBK continually adopts and implements the best practices in corporate governance standards as an integral part of its culture and philosophy. The principles of transparency, accountability and protection of shareholders' rights remain as top priorities for the bank.

Concurrent Leadership

NBK witnessed a remarkable year in leadership in 2014. After decades spent in the Bank's service, Mr. Ibrahim Dabdoub retired as Group CEO and handed the reins to Mr. Isam Al-Sager, who was appointed as the Group Chief Executive Officer. Ms. Shaikha Al-Bahar was appointed as Deputy Group Chief Executive Officer. And more recently Mr. Salah Al-Fulaij was appointed as Chief Executive Officer for Kuwait.

> NBK Group continued its strong performance during 2014 delivering growth across all business segments

The Bank's results for the year 2014 testify to the success of the leadership succession and reaffirm our confidence and trust in the executive management. The Bank continues to uphold the highest professional standards in its administrative system. The experience of NBK's leaders exceeds 30 years which has seen the evolution of the Bank to become one of the financial leaders in the Arab world and praised by international organizations and rating agencies.

Human Wealth

The development and growth of human talent remains a top priority for the Bank. NBK continued in 2014 to invest in its employees through courses and programs to develop their skill sets and expand their knowledge base. It also strengthened its partnership with leading universities and academic institutes to organize many of the high level training programs to prepare the next generation of bankers – the promising young leaders.

In line with the permanent quest to localize and increase the national employment rate, the bank hired about 315 Kuwaiti citizens in 2014 leading the Kuwaiti employees to comprise about 64% of NBK's workforce. The bank maintained its position as a major national employer in the private sector. This confirms NBK's full support of government efforts to employ young national cadres in the private sector and develop the human capital of Kuwait.

Absolute Commitment to CSR

National Bank of Kuwait confirmed its commitment to corporate social responsibility last year through its tireless community development efforts. The bank didn't spare any effort in supporting social, educational, humanitarian and charitable activities and encouraging the values of cooperation and participation.

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. Moreover, the Bank continued to support various charities and humanitarian organizations such as Bayt Abdullah for Children Hospice, Bayt Lothan and LOYAC.

Our Ramadan social program included providing iftar daily for hundreds in Kuwait while we continued our commitment and support for several activities aimed at protecting and preserving the environment. Moreover, NBK continued giving special attention to various initiatives including those focused on environmental preservation, educational and sports events; a great example was this year Walkathon which celebrated its 20^{th} anniversary.

Thanks and appreciation

Finally, on behalf of the board and executive management of the Bank, I would like to thank the authorities and regulators for their ongoing support of Kuwait's economic stability and growth. We would also like to express our greatest appreciation and thanks to the Central Bank of Kuwait for its continued support and leadership and its steady guidance.

We thank our shareholders and our customers for the trust they place in us and for their continued support of NBK as the top financial institution in Kuwait and one of the leading banks in the MENA region.

I would like to thank our executive management team and our devoted employees for their commitment and professionalism. It has always been the people behind the Bank that have led the way forward and I am confident of a bright and profitable future. I am confident in NBK's strategy, its leadership and its way forward and I am honored to chair such a successful institution.

Nasser Musaed Abdulla Al-Sayer
Chairman of the Board of Directors

Executive Management


1


2


3

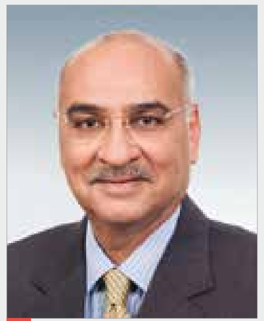

4

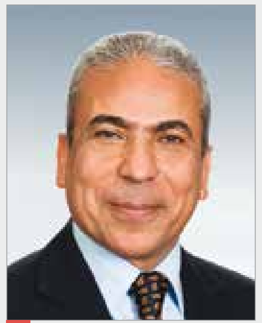

5


6


7


8


9


10


11


12


13


14

1 **Isam J. Al-Sager**
Group Chief Executive Officer

2 **Shaikha K. Al-Bahar**
Deputy Group Chief Executive Officer

3 **Salah Y. Al-Fulaij**
CEO- NBK Capital

4 **Georges Richani**
General Manager
International Banking Group

5 **Jim Murphy**
Group Chief Financial Officer

6 **Parkson Cheong**
Group Chief Risk Officer

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

8 **Dr. Elias Bikhazi**
Group Chief Economist
Economic Research

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

10 **Mustafa Al Gindi**
General Manager - Corporate Banking Group

11 **Malek J. Khalife**
General Manager - Private Banking Group

12 **Dimitrios Kokosioulis**
General Manager - IT & Operations Group

13 **Carl Ainger**
Group Chief Internal Auditor

14 **Emad Al-Ablani**
General Manager - Human Resources

Group's Senior Management

1 Mr. Isam 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 the Chairman of NBK Capital and Chairman of NBK Egypt. He also 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.

2 Ms. Shaikha K. Al-Bahar
Deputy 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. Shaikha is the Chairperson of National Bank of Kuwait (Lebanon) and serves on the Board of NBK Global Asset Management Limited; International Bank of Qatar, Qatar and 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.

3 Mr. Salah Y. Al-Fulaij
Chief Executive Officer – NBK Capital
Mr. Salah Y. Al-Fulaij joined NBK in 1985 and has been the Chief Executive Officer of NBK Capital since 2007.

Prior to joining NBK Capital, Mr. Al-Fulaij held several key positions at NBK and his last position was Group General Manager of Treasury and Investment 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.

4 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.

5 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).

6 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.

7 Dr. Soliman AbdelMeguid
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 31 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.

8 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.

9 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.

10 Mr. Mustafa El-Gendi
General Manager - Domestic 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.

11 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 31 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.

12 **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.

13 **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.

14 **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.

Management Discussions and Analysis

Overall Bank Strategy

NBK's strategy remains on course; NBK continues to strive to be the premier Arab bank, truly diversified in product offerings, competencies and earnings. 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.

Since turning Boubyan into a fully consolidated subsidiary of NBK Group in 2012, the bank has increased its efforts to establish stronger presence in Kuwait's growing Islamic banking segment. This strategic acquisition complements NBK's strong offering in the Kuwaiti banking market and emphasizes the bank's strategy to further diversify its income stream, product offering and client base. NBK plans to continue with full commitment to Boubyan Bank to further strengthen its market position among domestic financial institutions and increase its contribution to the group.

On the regional front, and in light of the recent events and the political instability in the region, our expansion strategy has been put on hold while we continue to focus on integrating and consolidating our international operations to harness their values. This is being done through refining our positioning and offerings in each market, capitalizing on our international reach and relationships both in Kuwait and outside to support growth, and branding initiatives to build a household name across the region.

Financial and performance indicators

The Group reported net profit of KD261.8m for the year ended 31st December 2014 compared to KD238.1m in 2013, a 10% year-on-year increase. This was a very solid performance by the Group, reflecting on the one hand the many successes in harnessing available business opportunities, but also success in managing the on-going challenges that persisted in the Group's various operating environments.

The Group's total loans and advances grew by 11.3% year-on-year as of end of December 2014. Customer deposits grew by 7.5% in the same period, a recurring testimony to the Group's reach and solid banking franchise. Total assets grew by 17.1%, to KD21.8bn.

Contributions from the Group's overseas operations continued to demonstrate the ongoing benefits of its well managed earnings diversification strategy. International operations profits grew by 6.4% year-on-year in 2014. As regards diversification into Islamic Banking, the Group continued to see very positive momentum at Boubyan Bank, with the subsidiary delivering a remarkably strong 111% year-on-year growth in net profits during the year.

NBK's return on assets during the year was 1.28%, and return on equity was 11.0%.

Key asset quality indicators for the year were exceptional, with NPL's/Gross loans at 1.5%, and coverage ratio at 276%. Total shareholder's equity increased to KD2,512m, as compared to KD2,374m at December 2013. The capital adequacy ratio under the new Basel 3 regime was 14.5%.

CONSUMER BANKING GROUP

Consumer Banking Group produced another year of robust growth in revenues, net income and key drivers such as loans and deposits while keeping a check on costs. The Group effectively and carefully managed risk throughout the volatile year, with markets on edge owing to the Family Fund law.

Consumer Banking focused on a three prong, customer-centric strategy to achieve both short and long term business goals. This strategy included initiatives aimed at deepening of customer relationship, strengthening customer retention and improving the overall customer experience, which was all evident in the increased sales volumes.

2014 also saw the introduction of several innovative products such as Point-of-Sale (POS) redemption at local retailers. This made NBK the first bank in Kuwait to provide fast, secure and easy access via POS to redeem customer reward points instantaneously from retailers. Moreover the Group also launched new payment gateways and PayPal accounts through NBK Watani Online banking.

Customer experience continues to remain the top priority, leveraging the strength of the "I AM NBK" program within the Consumer Banking Group. The success of the "I AM NBK" program was further supported by a bank-wide roll out in 2014.

Consumer Banking was also awarded The Best SME Credit Card Program for Middle East and Africa. This award was presented by MasterCard, making NBK the only bank in Kuwait to be the recipient of such a prestigious award.

Consumer Banking Group has also increased growth by broadening the Bank's product set and expanding reach through e-Channels. In addition, Consumer Banking Group revamped credit criteria to accommodate the expatriate segment, offering a broader range of credit card products with the launch of new and improved prepaid cards; the NBK Miles card and the MasterCard World Elite for Private Banking clients. The upgrading of the Bank's online platforms such as Watani Online Banking and NBK Mobile Banking were among the several steps taken to expand reach.

Customer service

Customer experience continues to drive strategy. The Consumer Banking Group continuously and consistently measures customer experience to ensure a data-driven and comprehensive understanding of what drives increased customer satisfaction and loyalty. This reflective practice further supports the NBK brand by guaranteeing consistent positive customer experience, reliability and responsiveness. NBK understands its customers' needs and can be trusted to deliver upon those needs. The Bank maintains positive customer experience scores and has enjoyed increased rankings in transparency, reliability, trustworthiness, stability and solidity.

Consumer Banking Group invests in a spectrum of customer research and customer experience data mining tools in order to anticipate and understand customer preferences, customer demographic trends and customer behaviors and identify any shifts which may occur in the future.

Distribution Channels

Consumer Banking operates 66 branches in Kuwait (including the Kuwait International Airport branch; KGOC and Saad Al-Abdullah branches) complemented by 252 ATMs (170 ATMs, 82 CDM), a Call Centre, a Direct Sales Force (DSF), Internet Banking Channel through Watani Online (WOL) and

Mobile Banking. This is all complemented by the new multi-currency ATMs in the departure hall of Kuwait International Airport making cash withdrawals available in several currencies including; USD, EUR, GBP, AED, SAR.

The branch network remains competitive and strong. Nonetheless, the Bank has been very successful in migrating mass customer segments to self-service channels including Mobile Banking, Watani Online, ATM, and Call Centre / IVR.

The introduction of the One Time Password enables Watani Online banking users to create or edit beneficiaries with more convenience. NBK Mobile Banking service was recently enhanced to include new features. A new Arabic service has also been developed and added recently to further expand reach and customer pick up of mobile banking services.

Consumer Banking Group also developed a new, secure online shopping experience for customers by linking up with PayPal. NBK customers can now open their own PayPal account through NBK Online Banking. When shopping online through their PayPal account, recipients of their transaction will not be able to view the customer's bank account number or credit card number. The PayPal option adds another level of customer experience and expands product variety by providing a reliable and secure payment method for customers. Based on research and data mining that indicates significant growth potential for online shopping in Kuwait, the PayPal option positions the Bank as a leader in future e-channel marketing and customer reach.

Product Performance

The financial performance of the Consumer Banking Group remained strong during 2014 with deposits volume increased by 11% compared to previous year. The increase is composed of Current Deposits by 13%, Jawhara by 13% and interest bearing deposits by 6%. Loans portfolio, excluding Family Fund loan settlement, increased by 5% compared with the same period last year. NBK witnessed record breaking cards purchase volume growth of 13% on a comparable basis.

POS Instant Redemption was rolled out where customers could instantly redeem reward points at all participating outlets. The rollout took place in 600 participating outlets consisting of 1000+ POS machines. Premium debit cards were introduced to selected segments with added benefits that enhanced customer usage and overseas experience.

Consumer Banking organized a mega day event at the Grand Avenue to announce the winners of Al Jawhara's grand prize and the summer campaign Rolls Royce Phantom. The Cards summer campaign was successfully concluded with target achievement and 12% growth year-on-year.

Segments & Products Development

A Customer Value Management (CVM) strategy has been developed across core segments with key milestones mapped over five years with the main objective of defending and expanding market share. The plan covers a new salary acquisitions sourcing model and marketing campaigns to support the channels achieving or exceeding their targets.

Youth: A key strategic segment, the Youth or Shabab Segment is a growth market the Bank actively develops. Consumer Banking has launched a series of initiatives to promote Shabab packages targeting new university entrants for the academic year 2014-2015. Moreover, another strategic campaign for Zeina packages promoting savings in partnership with KidZania has also been developed and launched.

Expatriate banking: NBK expatriate banking value proposition remains among the best in the market, which includes loans in Kuwait, credit cards and free online money transfer to customer's home country.

Premium banking: The newly introduced privilege banking segment targets the Affluent segment in addition to the fast track service provided to existing Mass Affluent segment.

Privilege: Relationship managers have been proactively migrating customers to the new package and establishing close relationships with their customers in order to develop greater depth of relationship, brand loyalty and customer satisfaction. Visa Signature was also launched exclusively for this segment.

Thahabi: Fast track service has been launched for the Mass Affluent segment which includes priority on financial transactions and access to personal banking offices across branches.

PRIVATE BANKING GROUP

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

NBK has strengthened its leading position in this market segment through a wide portfolio of innovative private banking products and services tailored for its client base. Through a team of highly skilled professionals and an unparalleled level of service quality, Private Banking saw a steady increase in its Assets Under Management (AUMs) and high net worth clients despite the regional political turmoil. Adhering to the Bank's conservative strategy, Private Banking continued to advise clients to maintain safe and secure investments and built on these strong and trusted relationships.

The Private Banking Group continued to leverage NBK's international network extending its services to clients in Beirut, Cairo, Dubai, Geneva, London, Manama, New York and Paris. NBK implemented industry best practices in asset allocation and risk profiling. The Bank's product line includes enhanced regional and international brokerage capabilities and regional (MENA) discretionary portfolio management mandates.

In 2014, Private Banking was successful in issuing new Islamic Equipment Leasing Funds. In addition it 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.

CORPORATE BANKING GROUP

The operating environment in Kuwait improved markedly in 2014 on the back of solid progress in the implementation of several government mega infrastructure projects. This development reflected positively on private business sector sentiment and confidence and triggered a boost in banking sector lending activity.

NBK's Corporate Banking Group (CBG), with its prominent market position and unique experience in structuring and underwriting large capital market deals, was very well positioned for these new business opportunities. CBG 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.

Domestic Corporate deal highlights

NBK Corporate Banking Group landed the prominent role of mandated lead arranger for the USD $800 million, five year revolving credit facility for the local private telecommunications company, Mobile Telecommunications. This intricate arrangement involved cooperation with a consortium of 11 leading regional and international banks, proving NBK's capabilities in handling sophisticated deals and building relationships with other international lenders.

NBK Domestic Corporate Banking also concluded several other major financial deals on a bilateral basis for landmark private projects in Kuwait that reaffirmed its status as the market leader in corporate banking in Kuwait. For instance, NBK managed the financing agreement with the local contractor Ahmadiah for the expansion of The Avenues Mall, Phase 4.

Foreign Corporate and Oil and Gas deal highlights

In the Foreign Corporate Group, major deals include supporting most of the EPC Contractors for their banking requirements for the KNPC Clean Fuels Project for more than KD 4.0 billion.

In the Oil and Gas corporate side, NBK acted as Lead Bank in financing Kuwait Petroleum International's acquisition of KUPIT (Shell's Italian assets). NBK was the only Arab and local bank involved in this transaction, which highlights the strong, historical relationship that NBK enjoys with the Kuwait Petroleum Corporation and its subsidiaries that goes back to several decades. NBK also acted as a Coordinator and Mandated Lead Arranger for the USD $1 billion KUFPEC deal in 2014.

Market Position

In addition to the several mega project financing deals, NBK Corporate Banking Group has been very active and supportive to other clients in all size segments. Corporate Banking Group approved substantial amounts of loans for existing customers and captured new clients at a solid hit rate. Some of these loans are to be drawn in Kuwait, while others were arranged for multinational clients through NBK subsidiaries in their respective markets of operation. Corporate Banking capitalized on

the Bank's strategic client relationships, making NBK the first choice for expansion plans and increasing the Bank's market share.

Corporate Banking 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 of 25%. On the Foreign Corporate side, NBK's market share is estimated at 75%.

Corporate Banking also upheld NBK's position as the best Trade Finance Provider in Kuwait, as determined by international financial publication, Global Finance. In fact, NBK is 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 around 60% of the guarantees for major projects in the country and the rest of the trade finance products commanding a share of around 30%. At the same time, NBK enjoys supremacy as the bank of choice in Kuwait's Oil and Gas industry by being the banker to 100% of KPC group companies.

Watani Online Corporate

NBK's Watani Online Corporate (WOLC) unit has upgraded its offerings too. WOLC has added functionalities in response to expanding client requirements and upgraded to new technology, better security and performance standards. NBK is also in the process of adding a new service, "Client Trade Portal" with complete trade finance functionalities.

Corporate Banking Group's ongoing strategic development of capabilities shall continue in 2015. In our most recent customer satisfaction survey concluded in November 2014, overall satisfaction of CBG's clients improved vis-à-vis previous survey and competition. Our customers depend on our dedicated approach and CBG is optimistic that NBK will remain the premier choice for financing mega government projects and other private landmark projects. Given NBK's dominating market share of all corporate business segments, the Bank is confident of its continued leading role in the development of Kuwait's future.

TREASURY GROUP

Liquidity management remains a top priority for Treasury Group despite the marginal improvement in market sentiment and better economic prospects globally (except for the Euro Zone) relative to the past few years. Treasury Group has been actively working on improving the bank's funding profile through expanding and diversifying its funding sources by introducing new funding instruments.

Treasury Group is also actively managing the interest rate risk, both for local and foreign currencies, especially with the growing expectations of rising interest rates in the US and the UK in 2015.

NBK's funding costs remained the lowest relative to regional and international counterparts, supported by the bank's high credit ratings and abundance of liquidity in the local market, both in local and foreign currencies.

Client activities in foreign exchange increased notably in 2014 relative to the last few years on the back of the kick-off in the government development plan and its related projects. 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 for the third consecutive year.

Treasury Group continued to work on upgrading its IT systems and infrastructure in order to better serve the bank's clients.

INTERNATIONAL BANKING GROUP

NBK's International Banking Group achieved record performance in 2014. This performance can be attributed to a high rate of successful execution of a range of new initiatives and programs. The three main initiatives include: a significant asset push throughout the year, productivity gains and stable asset quality. NBK's asset push was focused on profitable and stable markets, especially high growth markets in the affluent GCC which benefitted from high oil prices and high government spending. The IBG results were also supported by recovery in Egypt, the second largest market for NBK after Kuwait.

NBK launched its strategic regional expansion in the 1980s, opening full service branches in regional hubs Bahrain and Lebanon. It also chose key international destinations – Geneva, London, New York, Paris and Singapore to add to its international presence. In 2004, NBK took the strategic decision to expand its presence in the Middle East and North Africa (MENA) region. The Bank quickly established branches in Jordan, Saudi Arabia (Jeddah) and the UAE (Dubai and recently Abu Dhabi) and through acquisition entered simultaneously Egypt, Iraq, Qatar, and Turkey.

Today, NBK has an international network of subsidiaries and associates with close to 100 branches outside Kuwait. 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 and as a result streamlined its branch networks in Egypt, Iraq, Jordan and Lebanon.

GCC

In the affluent 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 high net worth individuals (HNWIs) a range of treasury and wholesale banking credit solutions, both conventional and Sharia-compliant, in addition to trade finance services and basic retail services including personal loans and NBK's Premier Thahabi Account. The Bank is increasing its presence in GCC member states by extending online banking services in Bahrain and Dubai (UAE). It also opened a new branch on Airport Road in Abu Dhabi (UAE).

In Qatar, NBK exited its minority stake investment in International Bank of Qatar as the potential to increase the stake beyond the 30% level became unforeseen. NBK continues to cover this very attractive market by working closely with IBQ and other domestic banks.

Other MENA

Outside the GCC, NBK's customer base continued to grow in 2014 despite the challenging geopolitical environment, with customers drawn by the Bank's strong brand and values of quality, confidence, stability and security.

In Egypt, NBK operates through Al Watany Bank of Egypt (AWB), the subsidiary acquired in 2007. Under NBK management, AWB is now fully rebranded to NBK Egypt (NBKE) and is experiencing a full transformation to become one of the top foreign-owned banks in the country. NBK Egypt has fully migrated to a new core banking system, and successfully expanded and upgraded its physical network, including doubling the number of ATMs (92) and the number of branches (38, including two that are fully Sharia-compliant). NBKE improved customer service and availability by establishing a call center and online banking services. Incoming calls and emails are now answered around the clock.

NBK's emphasis in 2014 was on positioning itself for growth as the country started to emerge from unrest and enter a period of growth. As business activity started to recover during the second half of the year, NBKE's commercial network was busy servicing existing customers and capturing new customers seeking the safety and reputation of the NBK brand.

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. There was continued emphasis as well during the year on staff security, especially in Iraq where there were spikes of violence and unrest. NBK operates in Iraq through its subsidiary Credit Bank of Iraq (CBI), in which the Bank owns a controlling 84% stake. CBI offers transfers and trade finance to Kuwaiti corporate clients and foreign contractors as well as basic retail products for Iraqi customers. It operates 13 branches throughout the country and is among the largest private banks in Iraq.

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

International markets

In Geneva, 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.

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 for customers wanting to purchase a property in their country of choice (Egypt, France, Jordan, Lebanon, UAE, UK and USA). A dedicated center in the Ras Salmiya branch in Kuwait provides the infrastructure needed for customer applications.

NBK CAPITAL

NBK Capital is a leading investment firm in the MENA region, with four principal lines of business including Wealth Management, Alternative Investments, Brokerage & Research and Investment Banking.

Leveraging the deep regional experience and strong expertise of its professionals, NBK Capital delivers innovative financial solutions and products that address the specific needs of clients and investors in Kuwait and the region.

Wealth Management

Our highly experienced team of asset management professionals offers investors a suite of global investment products and expertise across various sectors in the MENA region.

- Product Development:

This team of professional financial experts focuses mainly on providing NBK clients with suitable investment products that meet their needs. Among other investment opportunities, the Bank offers include fixed income products that offer low volatility and steady income stream on a monthly basis. Our detailed reporting on existing investment products offers investors transparency and frequent updates in different markets.

- MENA Equities:

This year, the region's leading asset management platform received several highly acclaimed accolades including "Middle East & North Africa (MENA) Equities Manager of the Year 2014"; and for the second year in a row "Kuwait Asset Manager of the Year 2014" from a number of preeminent international finance publications. Our products this year performed very well both in absolute terms and relative to the respective benchmarks. The MENA Equities' team managed to increase its assets under management by more than 75%. The team has taken on several portfolios containing listed securities and restructured them into regional discretionary portfolios. Our highly skilled financial professionals managed to attract several new High Net Worth and Institutional clients while increasing product offerings.

- Investment Advisory:

Investment Advisory is an exclusive part of NBK Capital keen to providing sophisticated investment recommendations reflecting the client's risk and return objectives. Our team of professional financial advisors met regularly with clients and investors and worked through a streamlined process for customizing allocations for their portfolios to achieve optimal results. Investment Advisory provided comprehensive portfolio reporting, as well as product updates to NBK Private Banking clients. The team also leveraged their capabilities in offering tailored advice and investment services to the NBK Privilege Banking segment, drawing on its expertise to expand NBK Capital's product and service offering to a new client segment. Investment Advisory continues to serve as a gateway between NBK Capital and NBK, serving as a conduit between private bankers and relationship managers, and NBK Capital's businesses.

Alternative Investments

The Alternative Investments Group currently manages four active funds focusing on middle market private equity and mezzanine investments across the MENA region with total assets under management of approximately USD $1 billion. The disciplined investment approach of the management team has resulted in superior returns to investors outpacing global and regional comparable funds during the same period. During the year, the group continued to build on its strong track record with key achievements including:

- Exiting three companies successfully during the year including; (1) an education company based in the UAE (2) consumer finance company in KSA and (3) an education company based in Qatar.

- Making further investments in private equity and mezzanine including: (1) a mattress manufacturer and retailer in Turkey, (2) a producer and distributor of baked goods and confectionery products in Kuwait and (3) a digital signage and advertising network company in Turkey.

- Building a robust pipeline of new investments across the MENA region to continue to deploy capital in an effective and efficient manner.

- Driving significant value initiatives at portfolio companies resulting in increasing valuations and improvement of corporate infrastructures specifically in financial reporting and corporate governance.

- Raising a new private equity fund, NBK Capital Equity Partners Fund II with USD 310$ million in capital commitments.

- Developing the investment platform further through key staff additions to bolster team and development of technology infrastructure.

Brokerage & Research

- Watani Brokerage:

The Brokerage Division at NBK Capital received "Kuwait Broker of the Year 2014" award for the third year in a row by Global Investor's editorial panel and a selection of industry experts.

In 2014 Watani Brokerage, NBK Capital's Brokerage Division, introduced advanced features and services to enhance the trading experience of its clients. NEW NET, a new and advanced trading platform, was developed and launched using the latest electronic trading technology and replaced the previous NET Application. By logging into their accounts online, our clients can enjoy a world-class trading experience with a variety of new and enhanced trading features. In addition, Watani Brokerage clients are now able to trade on their mobile devices using our trading applications on both the iPhone and Android systems.

Watani Brokerage offers investors an unparalleled trading experience and a wide range of online brokerage services by providing direct online access to seven capital markets in Kuwait, GCC, Egypt and the US. Watani Brokerage offering includes Online Brokerage, Trading through smart mobile devices, Prime Brokerage for Institutional and HNW investors, Watani Financial Brokerage and NBK Capital Securities-Egypt supported by a professional team of Brokers and Institutional Sales. NBK Capital is now the sole provider offering its clients this wide array of brokerage services.

- NBK Capital Research:

During 2014, NBK Capital MENA Equity Research team increased coverage in existing sectors. The research is widely disbursed to regional and international clients and is well respected for its objectivity. The firm's research is robust covering around 50% of the total market capitalization of the GCC and Egypt. The coverage now spans around 100 companies across the following sectors banking, telecommunications, consumer goods and retail, petrochemicals and oil, real estate, building materials transportation and logistics.

INVESTMENT BANKING

NBK Capital's Investment Banking Division continued to cement its position as the preferred advisor on financing transactions, mergers & acquisitions, IPOs, capital raising and restructuring advisory services. Overall client mandates have increased year-over-year with some notable transactions as follows:

- Kuwait National Petroleum Company (KNPC), subsidiary of Kuwait Petroleum Corporation (KPC) selected NBK Capital to act as the exclusive financial advisors in the financing of the Clean Fuels Project (CFP), the largest financing in the history of Kuwait with estimated value exceeding KD 4 billion.
- Advised on an IPO in Bahrain, which completed in H2 2014.
- Advised Mezzan Holding Company on its acquisition of Unitra Mets Group, the distributor of Red Bull, San Pellegrino and Aqua Panna in the United Arab Emirates, which completed in H1 2014.
- Advised VIVA, the second largest telecom operator in Kuwait, on its listing on the Kuwait Stock Exchange (KSE).

OPERATIONS & INFORMATION TECHNOLOGY GROUP

Operations

During 2014, Operations driving mandate centered on the successful execution of efforts to streamline the Bank's operations and functions. Executed initiatives that reached successful conclusion in 2014 were focused on restructuring, automation, human talent and cost containment. In 2014 Operations succeeded at executing a Group-wide restructuring that allows the Bank to deliver more with greater efficiency, lower costs and more streamlined processes.

Automation

Operations initiated and successfully executed several automation programs to streamline processes throughout the group. These programs included the following:

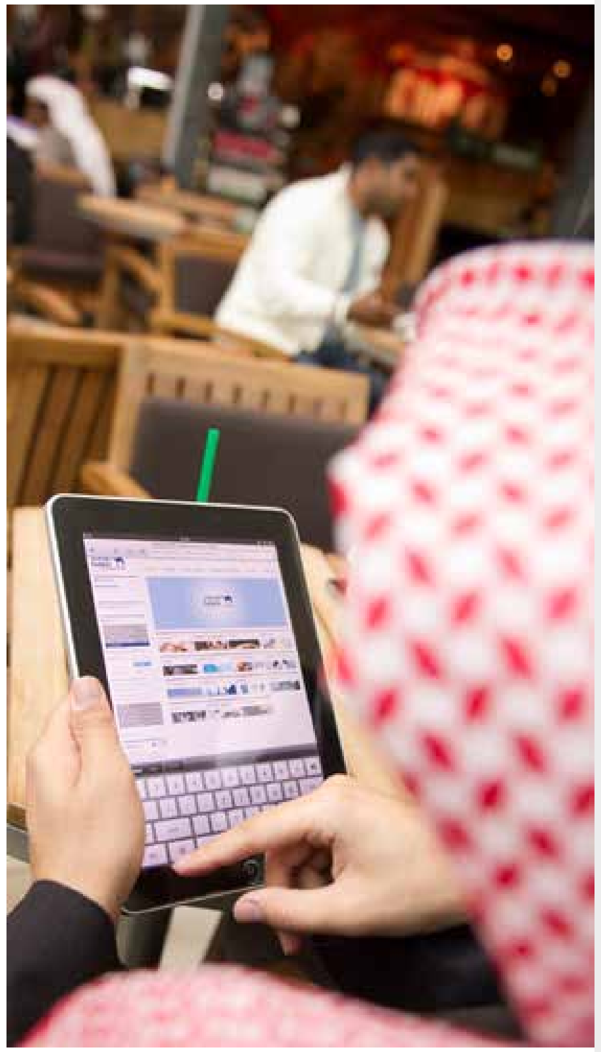
Domestic Credit Operations (DCO) - the successful completion and delivery of 26 business requirements, reducing workaround from 17 to five and thus remarkably increasing DCO efficiency.

Corporate Online Payments – The successful completion and delivery of fully automated corporate online payments with the finalizing of Phase 1 of the Payments Engine. (Also includes all manually processed payments).

Other successful initiatives completed and delivered in 2014 included the roll out of the new Kuwaiti Dinar Bills, the outsourcing of the ATM monitoring service to NCR, the upgrade of the Safewatch system, the accommodation of the US FATCA Law procedures and requirements, and the successful launching of two new funds domiciled in Kuwait.

Talent

Operations also developed and executed a new program to focus more intently on talent acquisition and retention in line with the Group's overall needs. Many initiatives and programs aimed at supporting staff, boosting productivity and change management were developed and delivered in 2014. The OASIS principles (Ownership, Automation, Service, Initiative and Spend Clever) were developed to



help communicate Operations management's vision to staff. Workshops and programs including Change Management Workshops, Town Hall meetings, I AM NBK, Adopt a Future Leader program (previously called NBK High Fliers), Most Valuable Team Player (MVP – which provided staff the chance to vote for the most valuable team player and encourages team work). Most of these programs offered ongoing recognition throughout the year; a ceremony was scheduled in January, during which multiple rewards and prizes were distributed in recognition of excellent performance.

Information Technology & ISO

The Information Technology Department executed a slate of programs and developed a comprehensive strategy for delivering greater information functionality and management across all departments. IT also streamlined processes and more fully integrated Group business functionalities through successful execution of multiple initiatives including Enterprise releases and production databases upgrades. Other successfully delivered projects included enhancements to the mobile banking functionality to enable bill payments, improved functionality of IVR and improved performance in extended customer information functionality.

Other major projects successfully executed during 2014 included: The implementation of the Family Funds project, the establishment of a Security Operations Center through an outsourcing model, the improvement of customer statements generation reports (Parallel Data Warehouse (PWD) solution has been already commissioned), the completion of Phase 1 of the Payments Engine project, the completion of Phase 1 of Multi ISP project, and the upgrade of database platforms to Oracle 11G. During 2014 defects were reduced from 214 to 137.

Information Security

Information Security successfully executed several key initiatives in 2014: The implementation of APT and malware monitoring in eight out of 10 countries, ISO and third party Security Testing and commencing NBK SIEM/SOC update which is planned to be completed in 2015.

PricewaterhouseCoopers performed a five-day penetration testing exercise on the National Bank of Kuwait in June 2014, reporting that the security provided by NBK compared well against the average for similar testing against other global entities, and well above that within the region.

The new strategy within IT focused and will continue to focus on stability, accountability, transparency, governance, cost reduction and execution.

On the people side, Change Management workshops have been completed for the IT team to ensure that the importance of organizational change is embraced by all. IT Town Hall meetings have been held to address staff concerns regarding different matters including restructuring.

HUMAN RESOURCES GROUP

Human Resources in 2014 successfully implemented and executed a streamlining of processes to support the NBK Group strategic goals. Strategic HR Business Partner teams were restructured to improve team cooperation and support._The 360 tool was successfully implemented across the entire department, a renewed focus on coaching senior leadership adopted and executed with greater focus on leadership development and sustaining high performing teams. An innovative Talent Identification process: The Talent Cube was acquired and implemented with department-wide execution including training and pick up. This is unique to NBK and it should give the organization a competitive edge when attracting and retaining high potential and high performer employees. All the HR Centers of Excellence delivered on their strategic goals for the year.

Training and Development

In 2014 training was delivered to 1,624 employees, 13% of whom were junior staff. As in previous years, the bulk of the Bank's training was executed through NBK in-house workshops with 20% of courses delivered. Soft skills courses represent 21% and specialized or technical skills 38%.

Recruitment

In 2014 the Bank recruited 345 new employees into the organization, of which 315 were Kuwaiti citizens. Our YTD Kuwaitization has now reached 64.1% compared to 61.2% last year for the same period. Overall 72 IHE (In House Engagement) announcements were implemented in 2014. The team effectively launched three Shabab programs with a total of 45 participants and completed three NBK academies with 63 total participants.

Talent

In 2014, besides the ongoing delivery of bespoke Talent training to NBK Academy participants, the Talent Team also accomplished several initiatives aimed at further developing NBK offerings to grow its Future Leaders.

Another strategic Talent focus for 2014 delivered a robust succession plan program for leadership roles across the organization with special attention on identifying Level 1 and 2 critical positions and successor pipelines. The team offered help and guidance in assessing attrition risk; key successor strengths and development needs as well as ensuring comprehensive development plans and career conversations are being implemented to all High Potential employees.

Engagement and Employee Relations

This year, Employee Relations continued reaching out to staff across the Bank by visiting departments and branches, giving employees an opportunity to voice their concerns and ultimately reducing the attrition rate. The exit interview process was revised

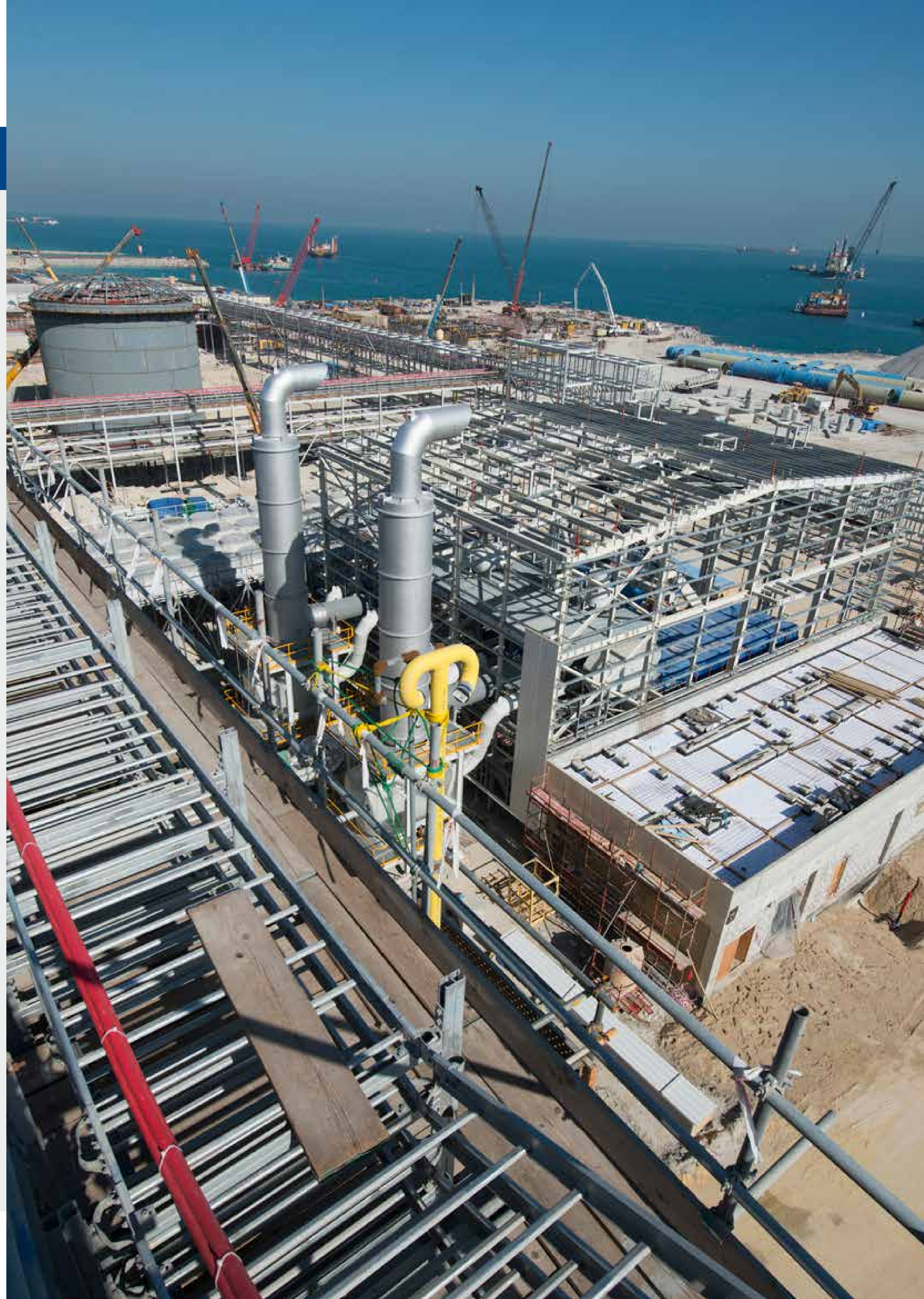
Strategic and ad-hoc HR projects:

HR Operations with Talent are leading on the implementation of Oracle, a system to automate HR processes and increase efficiency as well as employees' experience. To start with, a new HR self-service and improved payroll system will be launched in early 2015, aligning NBK HR processes to best-in-class global organizations.

The HR team introduced across NBK housing allowance for non-Kuwaiti female employees, enhancing NBK benefits for that particular group and aligning to best practices.

It also developed and introduced the NBK Academy Reward Scheme, enabling NBK to further attract the best Kuwaiti talent in the marketplace.

Finally later this year, it will implement changes in the housing allowance, following a strategic review by one of the international consultancy firms.



Economic and Financial Developments

in the MENA and Kuwait

MENA and the GCC:

The region's oil economies continued to benefit from relatively high oil prices during the first half of 2014, providing support for increases in government spending and driving economic growth. However, the year ended with oil prices down by more than 50% from their highs. Stock markets were punished as investors feared an end to the good times. Meanwhile, geopolitics continued to weigh on regional economies. While in some places conditions deteriorated, risks appeared to subside in others. Civil war, insecurity and political instability continued to plague a number of MENA countries. Iraq and Syria were particular concerns, especially as militant groups there began to pose a regional and international threat.

A year of political strife

The conflict in Syria widened and spilled over into neighboring Iraq, with the militant group ISIS capturing a third of Iraq's territory and threatening to make further advances into the Kurdish region and even Baghdad itself. Intervention by the international community managed to limit the spread of the conflict for now, though ISIS remains a regional and even international threat. In Libya, the political transition was set back by renewed violence, though the deteriorating security situation had limited impact on Libyan oil production. In contrast, Egypt saw notable gains in political stability with the election of a new President and the strong commitment by GCC allies to provide the needed support to the country's economy. Meanwhile, Tunisia looked to be the country to emerge from the Arab Spring with the most durable political consensus and stability following successful and largely peaceful parliamentary and presidential elections.

Oil markets rise and fall

The performance of oil markets in 2014 was a tale of two halves. The international benchmark crude, Brent, reached a year-high of $115 per barrel (pb) in mid-June before a combination of demand and supply factors propelled oil prices downwards during the second half of 2014. By the end of the year, oversupply and the absence of an OPEC response saw Brent decline by over 50% to a five year low of $54 pb. Weaker global oil demand coupled with burgeoning supply, particularly from the United States, led to a significant glut in world markets, pressuring prices downwards. Hopes that OPEC would cut oil production at its November meeting in an effort to prop up prices were dashed, pushing prices further down. Brent crude averaged $99 pb in 2014, down from the 2013 average of $108 pb.

Budgets and receipts

With the decline in oil prices during the second half of 2014, oil and gas receipts for the GCC hydrocarbon producers are expected to weaken. Most GCC fiscal and current accounts surpluses are forecast to decline in 2015 with some even going into deficit. Still, with most countries having ample reserves to pull through a period of lower oil prices, the region is not likely to see rapid cuts in spending. As a result, the region will continue to see non-oil growth at healthy levels across the GCC.

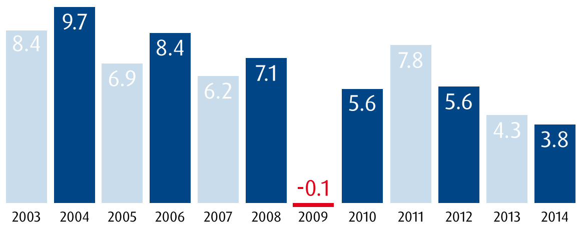
GCC economic activity remained robust and unaffected by instability in the wider region. Qatar's economy looked to be the most dynamic, with non-hydrocarbon growth in the double digits following the government's investment and economic diversification program. Private sector activity in Saudi Arabia was similarly buoyant in 2014, as evidenced by positive retail POS and PMI data and likely to contribute to non-oil growth of more than 5% y/y. Meanwhile, data from the UAE indicates that private sector activity there was still going strong in 2014 led by tourism, trade and transportation.

GCC outlook strong and stable

More broadly, the GCC states outperformed the region, with growing emphasis on non-oil sector segments of their economies. Well-capitalized banks, low government debt ratios, vast financial reserves and large fiscal and trade surpluses over the past few years provide the GCC region with a substantial buffer against volatility in international markets. Moreover, many of the excesses of the pre-financial crisis environment have been purged. Economic growth is now at a more moderate but sustainable level and policymakers are actively monitoring and regulating potential risks to the financial system. While significant long-term challenges remain on issues such as fiscal policy and employment, the near-term outlook for the GCC economy looks fairly robust.

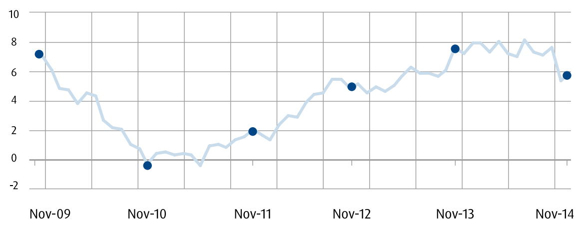
While 2014 started off as another strong year for regional markets, it ended mixed following a deep correction triggered by the decline in oil prices. The S&P Pan Arab Composite trailed emerging markets, declining by 1.4% during the year. Most markets in the GCC registered declines during the year as markets were punished for the decline in the price of crude, with the S&P GCC index down 2.5% only months after having registered a gain of 25% ytd in September. Only the UAE and Qatar managed to hold on to some gains made earlier in the year, with Qatar up 18% and Dubai up 12%. These markets benefited from their upgrade by MSCI to "emerging market" status. In the wider region, Egypt was the stellar performer with the market there up 32% as it benefited from an improved political outlook and return of investor confidence.

GCC Real GDP Growth (%)



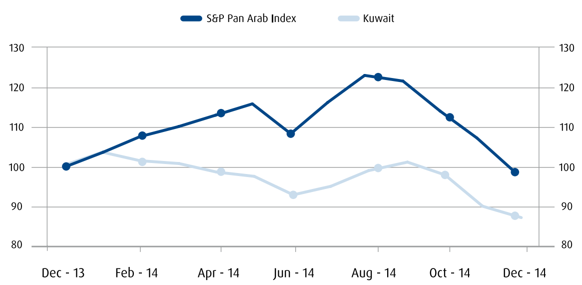
Source: National sources / NBK estimates

Kuwait Private Sector Credit Growth (%)



Source: Central Bank of Kuwait

Stock Market Indices



Source: S&P / KSE

Kuwait

Kuwait's economic outlook continued to improve during the year, with non-oil activity seeing a pick-up which has been reflected in solid private credit growth. The government's ambitious development plan has been a key driver of growth with greater implementation rates anticipated for the coming year. Kuwait continued to enjoy robust fiscal and external positions, as it recorded large surpluses during the year: KD 12.9 billion for the fiscal year 2013/14. Oil prices retreated during the latter half of the year, though the impact for the domestic economy has been limited. Kuwait witnessed relatively moderate inflation in 2014 thanks to the monetary authority's steady policy and a benign environment. The Kuwaiti dinar strengthened somewhat during the year as a result of a stronger dollar, though it was down against the US currency due to the nature of Kuwait's exchange rate regime.

Economic growth is expected to have remained stable in 2014 ranging between 1.3% to 1.5%. Non-oil growth during the year is expected to have maintained a healthy pace around 5-6%. Increasing investment, led by the government's development plan, has been a key driver of non-oil growth and indications are promising that momentum has picked up in the implementation of long-delayed government infrastructure projects. The improvement is being increasingly felt in higher lending growth.

The consumer sector remained an important source of economic growth. The sector has been supported by robust hiring and income growth, as well as an uptick in employment of skilled expatriates. The value of point-of-sale transactions rose by 15.3% y/y through 3Q14. Employment growth among Kuwaitis was steady at around 3.3% while skilled expatriate numbers grew by 4.3% as the acceleration in economic growth boosted hiring. As a result of solid growth in consumer demand, household borrowing has also been growing at a healthy pace, reaching 13% in November 2014. This was despite the government's decision to reschedule a portion of personal loans that originated before 2008, which effectively removed them from banks' balance sheets.

Overall credit growth continued to accelerate in 2014, boosted by an improving business environment and the near resolution of the debt overhang left over from the economic crisis in 2009. Growth picked up to average 7.3% annually as per in November 2014. Private sector deposit growth slowed to average 6.2% y/y in November 2014, compared to growth of 9.8% y/y in 2013.

The real estate sector remained vibrant, with 2014 sustaining strong growth in sales similar to the previous year. The sector reflected the improved economic growth and more positive outlook. Total real estate sales reached a record KD 4.6 billion during the year, averaging a monthly KD 358 million, up from KD 300 million per month in 2013. The investment sector was particularly strong, supported by low borrowing rates and plentiful liquidity. The residential sector also did well, supported by strong demand, though the limited supply continued to hamper the market. Commercial property activity maintained rising and healthy levels of sales.

The Central Bank of Kuwait (CBK) left its main policy rates unchanged in 2014, with the benchmark discount rate at 2.0% and the 1-week repo deposit rate at 1.5%. Interbank rates picked up noticeably during 2014 as liquidity in the system tightened somewhat. The three-month interbank rate rose to its highest level in over five years during 2014, though it came down to 0.96% by the end of the year. A smaller rise was also felt in banks' retail deposit rates. The dinar, which is pegged to a basket of currencies dominated by the US dollar, weakened somewhat against the dollar during the second half of 2014 as a result of a strong USD, ending the year at 3.41 USD/KWD. But as a result, the dinar strengthened against all other currencies, with its overall index gaining 5.5% during the year.

Government spending remained a key driver of economic activity in Kuwait, both from current spending as well as investment. Public spending growth actually declined by 2.1% in FY13/14. But this followed strong growth the previous year. Also, the decline reflected the government's development plan focus on shifting investment increasingly to the private and oil sectors. Indeed, on-budget capital spending declined by 4% in FY13/14. Meanwhile, other areas continued to grow. Wages and salaries rose by 4%. Some transfers to large independent institutions that employ many Kuwaitis also continued to grow, including Kuwait University and the Public Authority for Applied Education and Training.

Capital spending, both on and off-budget, is a particularly important element of the government's economic program and the year saw implementation efforts improve markedly. A number of large government development projects were awarded, including the Al-Zour North IWPP and the KNPC Clean Fuels project. While delays have plagued the government's various projects over the years, 2014 appears to have been a turning point as important hurdles have been overcome and political cooperation improved. The government also presented its five year plan for the coming period, which expects to boost investment in Kuwait to an annual average of KD 11.8 billion, up from KD 7 billion in 2013.

Kuwait's budget balance continued to benefit from relatively high oil prices during 2014, even

after prices retreated somewhat during the second half. A budget surplus of 26% of GDP was recorded during FY13/14. The surplus is expected to narrow in FY14/15 to around 10%, as revenues decrease and spending continues to see healthy growth. In an effort to address budget sustainability, the cabinet proposed a number of measures during 2014 to reduce the government's subsidy bill which amounts to around 10% of GDP. As a first step, the government hiked prices on diesel and kerosene, which could save the state around 0.5% of GDP. Similar reforms are expected to take place gradually over the coming few years, ensuring Kuwait's longer term sustainability.

Inflation picked up slightly in 2014 but remained moderate. It was helped by low price growth in the international environment and a stronger dinar. Inflation is expected to have averaged 3.0% in 2014, up from 2.7% in 2013. Core inflation, excluding food and housing, edged up but remained moderate at 2.9%. Inflation is expected to remain relatively contained in the coming year thanks in part to a stronger dinar, which has benefited from the USD's rise against major currencies over the last few months.

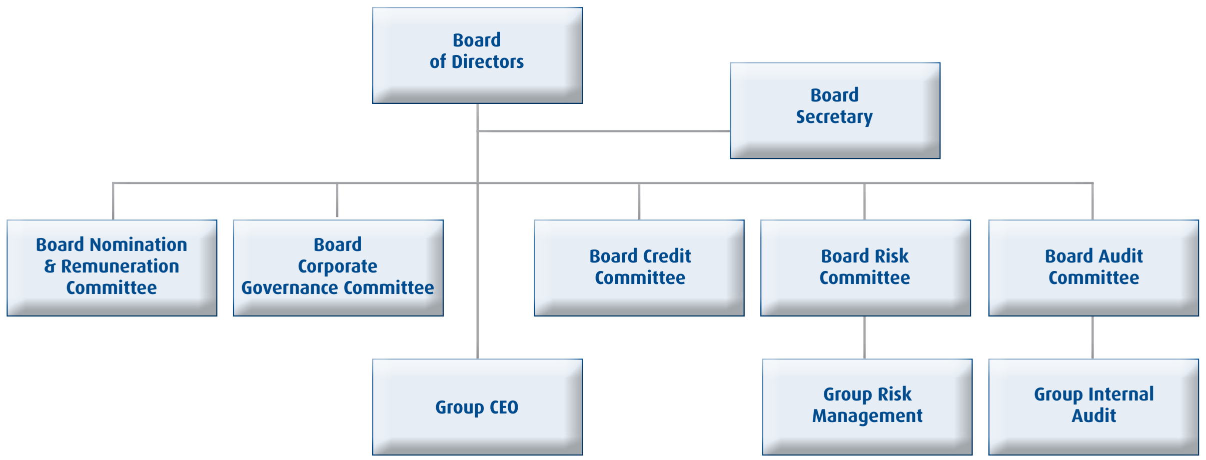
Kuwaiti banks continued to see gradual recovery in their overall performance as the operating environment improved and they put the legacy of the financial crisis behind them. Loan loss provisions declined further as nonperforming loan levels decreased and banks resolved more of their problem loans. Bank profits grew by 19% y/y during the nine months ending September 2014, reflecting stronger revenue growth and lower provisions. Operating income growth picked up on the back of healthy loan growth, though it was hampered by the persistence of low rates and tight spreads. The sector's average return on equity ratio remained relatively subdued at 9.5% during the first three quarters of 2014.

Corporate Governance

Corporate Governance Framework

NBK Group has continued implementing its Corporate Governance framework in compliance with corporate governance leading practices, taking into consideration the developments in supervisory and regulatory aspects.

The Group's governance structure including all the Board – level committees is illustrated as follows:



NBK Group's Governance structure is transparent and efficient as the Board of Directors sets direct communication channels between the Group and its entities, allowing an easy flow of information and to ensure the existence of a centralized supervisory function at the Group level.

The Board and its Committees are responsible for the overall supervision of implementing corporate governance at the Group level, as the Board and its committees work on a regular basis following-up on the progress of the Executive Management in implementing charters, procedures and components relating to corporate governance..

During the year 2014, the Board has reviewed and developed the Group's Strategy and Risk Appetite pertaining to it, including all future strategic plans of Subsidiaries and Overseas branches. The Board pays particular attention on monitoring the progress of strategy implementation through approved key performance indicators and mitigation actions plan.

Any strategic changes, whether in the Group's structure or its operational framework, are subject to the Board's discussion and approval.

The Board gives great importance of implementing the corporate governance framework at the Group's level, this is reflected through reporting packs and procedures which are applied by the Group based on the philosophy and principles of the Group, as a corporate culture and principles of work, and not only as supervisory instructions and legislative regulations.

During the year, the Group was able to achieve a number of important accomplishments on the effective implementation of corporate governance, which is as follows:

- Reviewed and developed the governance policies and charters at the Group level which aligns with the international practices in the area of governance. Group's Governance Structure and aligned governance policies, procedures and charters of respective Group entities.
- Conducted comparative studies between the charters and corporate governance framework applied at the Group level against the rules and legislation relating to governance in the countries in which the Group operates to ensure full compliance and avoid any discrepancies. Identified any gaps in the implementation of corporate governance rules and principles at the group level.
- Organized workshops and awareness sessions about the rules of disclosure and transparency and the mechanism in which to apply these rules.
- Developed procedural templates to help the Group implement the policies and procedures of governance and contribute in the facilitation and understanding of the corporate governance principles by the Board and staff.
- Conducted an independent review and evaluation of the Board's effectiveness through a third-party specialized in developing and a packages of procedures and templates for the work of the Board of Directors and their emerging committees.
- Reviewed the rewards structure and the mechanisms linking rewards to performance, the level of risk exposure and renewed the rewards policy at the Group level.

Activities of the Board of Directors and Board Committees

The Board of Directors held thirteen (13)meetings during the year 2014. Minutes of all meetings have been recorded and are included in the Bank's records.

Board Corporate Governance Key Achievements:

- Discussed and approved the updated strategy for the Group.
- Discussed the risk appetite and its impact on the Group's strategy.
- Approved the renewed list of policies and charters relating to governance.
- Followed the progress of the works of the Group through regular meetings with Executive Management and discussed the results of the Group's business through periodic reports.
- Conducted an evaluation on the effectiveness of the Board and its committees in addition to an individual self-evaluation of the Board and committee members, through an independent specialized third-party.
- Reviewed the results of the independent annual reports for the governance framework, that were conducted through the Group Internal Audit function, highlighting aspects for improvement which are necessary for the governance framework.
- Reviewed the framework relating to remuneration and benefits, through an independent third party, and took the necessary decisions required to develop and enhance the framework.

Board Structure

The Group's Board of Directors is composed of nine (9) Members; all of whom are Non-Executive who were elected through the General Assembly

During 2014; NBK Group sadly lost the Chairman of the Board Mr. Mohamed AbdulRahman Al Bahar, who was one of the members to established the National Bank of Kuwait. Accordingly, the Board of Directors has been re-structured by admitting the reserve member Mr. Emad Mohamed Al Bahar and selecting Mr. Nasser Musaed Al Sayer as the new Chairman of the Board and re-forming the Board's committees based on the latest changes and CBK instructions.

The Board Members collectively have a deep knowledge and experience relevant to the banking and business industry, including accounting, finance, economic, strategic planning, governance, internal controls, and risk management and in addition to the outstanding expertise in the local and regional business environment.

Board Committees

In developing the role of the Board of Directors, with respect to strategic planning, governance , risk management and controls, the Board is taking the responsibility to continue over-seeing the bank's business effectively and efficiently through the following committees:

- **Corporate Governance Committee (BCGC)**
- **Board Risk Committee (BRC)**
- **Board Audit Committee (BAC)**
- **Board Nomination and Remuneration Committee (BNRC)**
- **Board Credit Committee (BCC)**

The key roles of the Board's Committees are described in their respective "Charters". The mandates of each Committee are defined and delegated by the Board. All Committee members are composed of Non-Executive members and hold relevant experience as per the mandate of the respective Committee.

During the year, each Committee reviews its charter on a periodic basis to identify any areas of development and submits their review to the Corporate Governance Committee as well as the Board for approval.
In addition these Committees submit periodic reports to the Board's Chairman regarding their respective duties.
It should be noted that the number of Committee meetings held during 2014 was in compliance with CBK Corporate Governance requirements.

Board Corporate Governance Committee (BCGC)

Key Mission:
Assist the Board in overseeing the implementation of the Group's corporate governance The Committee is also responsible for monitoring the implementation of the policies and procedures pertaining to governance.

Key Achievements in 2014:
The Committee met twice during 2014 and the following are the key duties achieved:
- Reviewed and discussed the results of the annual evaluation of the Corporate Governance Framework.
- Reviewed and updated the governance policy on the Group level.
- Discussed the comparative analysis of the corporate governance instructions adhered to in the overseas locations where NBK is operating, identifying gaps if any, and determining their impact on the Group's corporate governance policy.
- Reviewed and updated the policy and the process for dealing with Related-Parties transactions.
- Supervised the application of the Whistleblowing policy in the Group in coordination with the Board Chairman and Board Secretary.

Committee Structure:
- The Board Corporate Governance Committee consists of four (4) Board Members:
- Mr. Nasser Musaed Al Sayer (Board and Committee Chairman)
- Mr. Hamad Abdul Aziz Al-Sager
- Mr. Yacoub Yousef Al-Fulaij
- Mr. Muthana Mohamed Al-Hamad

Board Risk Committee (BRC)

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.

Key Achievements in 2014
The committee met four (4) times and following are the key duties achieved:
- Reviewed and discussed the periodic risk management reports at the Group-level including the key risk indicators.
- Reviewed and discussed the risk appetite and exposure levels in the countries in which the Group operates.
- Reviewed the updated operational risk policies of the Group and raised the recommendation to the Board for approval.
- Reviewed and updated the international credit authorities and put forward the recommendation to the Board for approval.
- Reviewed the procedures of the Group relating to compliance with Basel III instructions and the Capital Planning mechanism.
- Reviewed the stress-testing results and Internal Capital Adequacy Assessment Process ("ICAAP").
- Monitored the Group-level liquidity ratios.
- Reviewed and discussed the risk profile of the Group including key risks.
- Coordinated with the Board Nomination and Remuneration Committee to evaluate the incentives proposed and the extent of its relation with the risk limits.

Committee Structure:
The Board Risk Committee consists of three (3) Board Members:
- Mr. Ghassan Ahmed Al Khaled (Chairman)
- Mr. Haitham Sulaiman Al-Khaled
- Mr. Loay Jassim Al-Kharafi

Board Audit Committee (BAC)

Key Mission:
Assists the Board in a supervisory role regarding the efficiency and independence of the internal and external audit operations for the Group. The committee also oversees the preparation of the periodic financial statements and other regulatory reports. the oversight of financial statements, internal controls, as well as internal and external audit independence and validation. The Committee also reviews the reports presented by Internal Auditors and other regulatory bodies and provides guidance and direction in the areas of internal controls and compliance.

Key Achievements in 2014:
The Committee met seven (7) times during the year and following are the key duties achieved:
- Coordinated with the External Auditors and reviewed the quarterly and annual financial statements, providing recommendations to the Board of Directors.
- Discussed aspects of internal audit issues that relate to information technology and IT security.
- Reviewed and discussed the inspection reports issued by Central Bank of Kuwait.
- Reviewed and approved the Group's Internal Audit Risk-Based Audit Plan based on the audit focus areas.
- Discussed the results of the report of the annual Internal Controls Review
- Reviewed the efficiency of the internal audit function, infrastructure and the overall annual assessment of the function's performance with the Group Chief Internal Auditor.
- Met the External Auditor, Group Chief Internal Auditor, and Compliance Head without the presence of Executive Management and received reports on External Auditor's strategy in relation to audit of financial statements and the progress of audit. The Committee also looked into the terms of engagement and approved the External Auditor fees in respect of the audit services provided.
- Reviewed the Group's Whistleblowing policy and enhanced the process of implementing said policy.
- Reviewed the process of related party transactions and how to deal with said transactions on a regular basis.
- Evaluated the Group Chief Internal Auditor performance and determined his remuneration.

Committee Structure:
The Board Audit Committee consists of three (3) Board Members:
- Mr. Hamad Mohammed Al-Bahar (Chairman)
- Mr. Haitham Sulaiman Al-Khaled
- Mr. Loay Jassim Al-Kharafi

Board Nomination and Remuneration Committee (BNRC)

Key Mission:
Assists the Board to carry out the Nomination and Remuneration responsibilities pertaining to the Directors and Executive Officers. The Committee also supports the Board in reviewing and enhancing the Board Structure and development of the caliber of the Board Members.
Furthermore, the Committee assists the Board in setting up the Group's Remuneration Framework and ensures effective implementation in accordance with Group Remuneration Policy.

Key Achievements in 2014:
The Committee met three (3) times during the year and the following are the key duties achieved:

Nomination Side
- Reviewed the Board structure and its committees after the passing of the Board Chairman and the election of the new Chairman.
- Supervised the process of the Board of Directors performance evaluation and the self-assessment of the Board members through an independent third-party which facilitated the discussion of the evaluation methodology, self-assessment templates, and discussion of the draft of the evaluation report. The report was then submitted to the Board with development and improvement plans for the Board and its committees.
- Reviewed training needs and necessary development for the members of the Board and arranged workshops and training courses for the members through a specialized consultant body.
- Reviewed the annual performance of the Group Chief Executive Officer and approved the recommendations by the Board.
- Selected some technical abstracts and articles relating to banking matters and aspects of risk management which are presented to the Board in order to enhance Members' knowledge and expertise.

Remuneration Side
- Reviewed and developed the existing Remuneration policy at the Group level.
- Studied the levels of the salaries, wages and incentives at the local and regional market level through an external specialized party and defined the necessary development aspects.
- Reviewed the rewards and incentives for 2014 based on the Group performance and put forward the recommendations to the Board.
- Reviewed the link between the remunerations\reward and the group long-term objectives

Board Nomination and Remuneration Committee (BNRC) (Continued)

Committee Structure:

The Board Nomination and Remuneration Committee consist of three (3) Board Members:

- Mr. Ghassan Ahmed Al-Khalid (Chairman)
- Mr. Hamad Mohammed Al-Bahar
- Mr. Emad Mohamed Al Bahar

Board Credit Committee (BCC)

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 exceeding the authorization thresholds granted to Executive Management and Authority Matrix adopted by the group.

Key Achievements in 2014:

During 2014, the Committee met on a regular basis and the following are the key duties achieved:
Reviewed and approved credit decisions within the authority Matrix delegated by the Board of Directors Coordinated with the Board Risk Committee to discuss credit-risk limits.

Committee Structure:

The Committee consists of four (4) Board Members:

- Mr. Hamad Abdul Aziz Al Sager (Chairman)
- Mr. Yacoub Yousef Al-Fulaij
- Mr. Muthana Mohamed Al-Hamad
- Mr. Emad Mohamed Al Bahar

The table below shows the number of Board and Board Committees' meetings along with the extent of each Member's attendance at relevant meetings during the year:

* During this period, the late Mr. Mohamed AbdulRahman Al-Bahar was unable to attend meetings of the Board and Committees, due to Health Conditions.

Total Number of meetings held during the period of 01/01/2014 to 18/08/2014	BOD	BCGC	BRC	BAC	BNRC	BCC
	7	1	3	3	1	30
Board Members	Number of meetings attended by the Board Members					
Mr. Mohammed Abdulrahman Al-Bahar (Chairman of BOD)	-	-			-	
Mr. Nasser Musaed Al-Sayer	7				1	23
Mr. Hamad Abdul Aziz Al-Sager	7	-				18
Mr. Ghassan Ahmed Al-Khalid	6				1	17
Mr. Yacoub Yousef Al-Fulaij	6	1	3			
Mr. Hamad Mohammed Al-Bahar	5			2	1	
Mr. Muthana Mohamed Al-Hamad	7	1				28
Mr. Haitham Sulaiman Al-Khaled	7		3	3		
Mr. Loay Jassim Al-Kharafi	4		1	1		

■ Not a Committee Member

* After the death of the Chairman of the Board of Directors Mr. Mohamed AbdulRahman Al-Bahar, the Board elected Mr. Nasser Musaed Al-Sayer as Chairman on 19/08/2014, and admitted Reserve Member Mr. Emad Mohammed Al-Bahar to the Board.Accordingly, Board Committees have been restructured and meetings held as per the below.

Total Number of meetings held during the period of 19/08/2014 to 31/12/2014	BOD	BCGC	BRC	BAC	BNRC	BCC
	6	1	1	4	2	18
Board Members	Number of meetings attended by the Board Members					
Mr. Nasser Musaed Al-Sayer (Chairman of BOD)	5	1				
Mr. Ghassan Ahmed Al-Khalid	5		1		2	
Mr. Hamad Abdul Aziz Al-Sager	2	1				8
Mr. Yacoub Yousef Al-Fulaij	6	-				10
Mr. Hamad Mohammed Al-Bahar	5			3	2	
Mr. Muthana Mohamed Al-Hamad	5	1				18
Mr. Haitham Sulaiman Al-Khaled	4		1	4		
Mr. Loay Jassim Al-Kharafi	5		-	4		
Mr. Emad Mohamed Al Bahar	6				1	14

■ Not a Committee Member

Board of Directors Assessment Framework

Under the supervision of the Board Chairman and through the Board Nomination and Remuneration Committee (BNRC), a review for the Board's current structure, along with the performance of the Board and each member, has been arranged in coordination with an independent external party. This review aimed at conducting a self-assessment for each Board Member to determine the aspects for development and the necessary training for the members.

The Assessment process was based on the below elements:

- Composition and qualifications
- Attendance and participation
- Meetings, minutes and resolutions agenda.
- Means of communication and reporting mechanism
- Oversight role of the Board and the Committees

The independent external party, using their global methodology, has evaluated the Board of Directors as "Qualified". In accordance with this evaluation, the Board of Directors has an effective management, integrated strong governance and internal control system, diversity of experience, commitment to the audience and effective member discussions.

It should be noted that the evaluation report has been reviewed and discussed by the Remuneration and Nomination Committee, in addition to display the results on the Board of Directors.

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 that an effective Internal Control System and Risk Management function 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, Internal Audit and independent external parties.
The Board believes the existing internal control systems adopted and used at NBK Group are satisfactory and adequate.
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, Financing/Credit 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.

A summary of ICR report for the year ended 31 Dec 2013 was presented to the Board of Directors during 2014. 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.
State of Kuwait
23 June 2014

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 20 February 2014, we have examined the accounting and other records and internal control systems at Kuwait, branches in Bahrain, Jordan and United Arab Emirates ("UAE") and subsidiaries National Bank of Kuwait (Lebanon) SAL and National Bank of Egypt (together referred to as "the Group") which were in existence during the year ended 31 December 2013. We covered all area 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
- Due Payment System (limited to Kuwait only)

Our examination has been carried out with regard to the requirements contained in the Manual of General Directives concerning Internal Control Reviews issued by the Central Bank of Kuwait ("the CBK") on 14 November 1996, CBK instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwait Banks, CBK instructions dated 23 July 2013 concerning Combating Money Laundering Operations and Financing of Terrorism and Internal Standards on Assurance Engagement 3000.

National Bank of Kuwait (International) PLC, United Kingdom, National Bank of Kuwait, New York, SAK, Singapore Branch, National Bank of Kuwait, Kingdom of Saudi Arabia Branch and National Bank of Kuwait (Suisse) S.A., Switzerland, are subject to evaluation of internal controls and annual supervision by the respective local regulators which is in line with the Central Bank of Kuwait requirements and hence excluded from the scope of our review by the Central Bank of Kuwait.

As Board of Directors of the National Bank of Kuwait you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems. The objective is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that banking 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 accounting and internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

In our opinion, having regard to the nature and size of its operations, during the year ended 31 December 2013, the accounting and other records and internal controls systems, in the areas examined by us, were established and maintained satisfactorily in accordance with the requirements of the Manual of General Directives concerning Internal Control Reviews issued by the Central Bank of Kuwait on 14 November 1996, CBK instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwaiti Banks and the CBK instructions dated 23 July 2013 concerning Combating Money Laundering Operations and Financing of Terrorism with the exception of the matters set out in the report.

Furthermore, the Bank has established a process of regular follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the control weaknesses and gaps identified during the course of the Internal Control Review.

Safi A. Al-Mutawa
License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Ethics, Professional Conduct and Group Structure

Values and Ethics

NBK Group continues to apply the values of corporate governance as a key principle and an important part of the culture of the Group. During the year the Group has worked on a number of initiatives that 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 have committed to achieving the highest levels of governance and have established these 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 approved by the Group's Board of Directors and adopted by 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 continues to exert due care in applying policies to avoid conflict of interest. As such, during the year and under the supervision of the Board of Directors, a review of related-party transactions has been developed to be compatible with the nature of the Group's business and regulatory updates in the markets in which it operates. In addition to adopting a package 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 recognize the importance of 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 2014, the Group continued to apply measures to maintain the confidentiality of information in accordance with policies and procedures and internal control systems, which requires the preservation of confidentiality.

Whistleblowing Policy

The Group has adopted a number of channels to allow for its employees to report directly to the Board Chairman, in good faith and trust, about any concerns relating to certain irregularities or abuses. This includes an electronic link on the Bank's internal network as well as a specified email address for the purpose of receiving communications directly from staff. This procedure is applied independently by the Secretary of the Board of Directors, who in turn provides reports periodically to the Chairman of the Board.

The information received will remain confidential and in case of necessity it will be saved on the record anonymously, provide the necessary protection for the reporting employee. This mechanism is also subject to review by Group Internal Audit.

Group Risk Management

Risk Management & Compliance Structure

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

- Domestic Credit Risk Management Unit
- International Credit Risk Management Unit
- Operational Risk Management Unit
- Market Risk Management Unit
- Portfolio Risk Management and Controls Unit
- Compliance Risk Management Unit

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 that 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 planning 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 average 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 requirements, capital requirements in line with the Business strategy
3. Effective risk planning through an appropriate risk appetite
4. Performing stress tests consistently to assess the 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 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.

During the year 2014, the Board Nomination and Remuneration Committee coordinated with the Board Risk Committee and the Group Chief Risk Officer to align risk appetite with performance objectives.
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 Employee Stock Option Plan - ESOP)

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 ESOP component of variable compensation. The ESOP 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 ultimate decisions and responsibilities to be borne by the Board of Directors.

Remuneration Disclosures

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

The five senior Executives 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 4,157 thousand for the year ended in December 2014

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

Employees Categories	Number of Employees	Fixed Remuneration KD'000	Variable Remnueration KD'000		Total KD'000
			Cash	ESOP	
Senior Management	58	5,505	3,877	1,234	10,616
Material Risk Takers	20	2,700	2,904	628	6,232
Financial and Risk Control	14	1,185	495	281	1,961

For Disclosure purposes

- Senior Management includes all staff above and equivalent to the position of Assistant General Manager for all business units excluding Control Functions.
- Material Risk-Takers include Group Chief Executive Officer and his deputy, the head of operational department and their deputies.
- Financial & Control functions includes all staff equivalent and above the level of an Assistant General Manager in Financial Control, Risk Management and Compliance, Internal Audit and Anti-Money Laundering Unit.

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

In line with the Group's Articles of Association and Corporate Governance Code, 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

To enhance transparency with stakeholders, mainly for current and prospective customers, the Group has continued implementing a Customer Management System in place to ensure customers are assisted and guided accordingly, including addressing customer complaints, in an efficient, appropriate and timely manner.

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, in terms of finding 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 2014", as an independent report.

Risk Management

Risk Management

I. Capital Adequacy

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 2014.

The principal subsidiaries of the Group are presented in the note 21 of the Group's consolidated financial statements. All subsidiaries have been fully consolidated under the regulatory scope of consolidation for regulatory capital calculations.

Significant investments 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 under Note 13 of the Group's consolidated financial statements have been subject to the threshold treatment and risk-weighted as prescribed.
- The significant Investment in Associate classified as "held for sale" has been subject to the threshold treatment and risk-weighted as prescribed.
- Other significant investments in Banking and Financial entities classified as equities have been subject to the threshold treatment and risk-weighted as prescribed.
- Other 'minority' Investments in Banking, Financial and Insurance entities classified as equities have been subject to the prescribed threshold treatment and risk-weighted as required.

2. CAPITAL STRUCTURE

The Group's regulatory capital comprises:

a) 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),

b) Additional Tier 1 (AT1) capital which consists of certain additional eligible portion of non-controlling interests, and

c) Tier 2 (T2) capital which consists of the allowed portions of general provisions and certain additional eligible non-controlling interests.

The Bank's share capital as at 31 December 2014 comprised 4,799,731,131 issued and fully-paid up equity shares.

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

Table 1

Regulatory Capital	31st December 2014
Common Equity Tier 1	1,782,908
Additional Tier 1 Capital	8,893
Tier 1 Capital	1,791,801
Tier 2 Capital	163,176
Total Regulatory Capital	1,954,977

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 credit 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) for the Group under the various levels of Regulatory capital expressed as a percentage of Risk-weighted Assets for period ended 31st December 2014 are:

Table 2

Regulatory Capital	CET1	Tier1	Total
Minimum Capital Requirement*	8.5%	10%	12%

* includes a Capital Conservation Buffer of 2.5% which is to be met through CET1 capital.

The Domestic Systemically-Important Bank Buffer and Countercyclical Capital Buffer have not been required for the period ended 31st December 2014 in the MCR.

The MCR including Capital Conservation Buffer is to be increased to 13% through a transitional phase-in period until 2016.

The Tier 1 and total capital ratio of the banking subsidiaries were as follows:

Table 3

	CET1	Tier1	Total
Group for 31st December 2014	13.24%	13.31%	14.52%

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:

3. CAPITAL ADEQUACY RATIO (Continued)

Table 4

	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	18.94%	18.94%	18.94%
NBK(Lebanon)S.A.L. (Lebanon)	33.62%	33.62%	33.62%
NBK Banque Privee (Suisse) S.A. (Switzerland)	11.21%	11.21%	19.21%
Boubyan Bank K.S.C.P. (Kuwait)	16.88%	16.94%	18.05%
			Total
Credit Bank of Iraq S.A. (Iraq)			275.23%
NBK Egypt S.A.E. (Egypt)			19.42%

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.

4.1. Credit risk:

The total capital charge in respect of credit risk as at 31 December 2014 was KD 1,423,763 thousand as detailed below:

Table 5

	KD 000's		
	31 December 2014		
	Gross credit exposure	Risk-weighted assets	Capital charge
Cash	221,103	-	-
Claims on sovereigns	4,314,510	98,408	11,809
Claims on International Organisations	38,099	-	-
Claims on public sector entities	54,303	6,689	803
Claims on banks	4,824,351	1,265,163	151,820
Claims on corporates	10,432,149	6,251,889	750,227
Regulatory retail exposure	3,819,537	3,400,903	408,108
Past due exposures	70,019	47,090	5,651
Other exposures*	765,588	794,552	95,345
Total	**24,539,659**	**11,864,694**	**1,423,763**

* "Other exposures" above includes an amount of KD 249,924 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 48,881 thousand as detailed below:

Table 6

	KD 000's
	31 December 2014 Capital Charge
Interest rate risk	2,848
Foreign exchange risk	46,033
Total	**48,881**

4.3. Operational risk:

The total capital charge in respect of operational risk was KD 143,117 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.

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.

During 2009 the Group augmented 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.

5.1. 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:

Risk Management Continued

5. RISK MANAGEMENT (Continued)

5.1. Scope and nature of risk reporting tools (Continued)

- 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.

Country limits are determined based on the outlook of economic and political factors, along with the review of reports by rating agencies on the country (where available) 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 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 re-payment, 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
  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.
- Credit risk management oversees the "consumer" segment through an independent unit directly reporting to Group Risk Management but working in partnership with the Consumer Banking business. Within this framework, limits and approval authorities are exercised by the officers with defined approval authorities.
- 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.

5.2.5.Key features of consumer credit risk management

- All significant credit policies and amendments to policies are reviewed and approved annually by the Executive Committee and ratified by the Board.
- 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

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

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 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.

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. RISK MANAGEMENT (Continued)

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.

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:
w

Table 7 KD 000's

31 December 2014	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees
Cash	221,103	-	-
Claims on sovereigns	4,314,510	-	-
Claims on International Organisations	38,099	-	-
Claims on public sector entities	54,303	1,492	-
Claims on banks	4,824,351	10,117	794,990*
Claims on corporates	10,432,149	3,049,592	-
Regulatory retail exposure	3,819,537	90,121	-
Past due exposures	70,019	10,305	-
Other exposures	765,588	-	-
Total	**24,539,659**	**3,161,627**	**794,990**

"Memorandum" item where banks act as "guarantors"

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

Table 8: Gross Credit Exposures KD 000's

31 December 2014	Gross credit exposure	Funded Exposure	Unfunded Exposure
Cash	221,103	221,103	-
Claims on sovereigns	4,314,510	4,314,402	108
Claims on International Organisations	38,099	38,099	-
Claims on public sector entities	54,303	33,162	21,141
Claims on banks	4,824,351	3,753,372	1,070,979
Claims on corporates	10,432,149	8,368,769	2,063,380
Regulatory retail exposure	3,819,537	3,766,035	53,502
Past due exposures	70,019	70,019	-
Other exposures	765,588	765,588	-
Total	**24,539,659**	**21,330,549**	**3,209,110**

Table 9: Average Credit Exposures KD 000's

31 December 2014	*Average credit exposure	Funded Exposure	Unfunded Exposure
Cash	231,802	231,802	-
Claims on sovereigns	4,355,221	4,355,112	109
Claims on International Organisations	12,700	12,700	-
Claims on public sector entities	54,459	30,935	23,524
Claims on multilateral development banks	960	960	-
Claims on banks	4,555,086	3,501,370	1,053,716
Claims on corporates	10,106,233	8,090,827	2,015,406
Regulatory retail exposure	3,692,090	3,639,036	53,054
Past due exposures	69,964	69,964	-
Other exposures	780,855	780,855	-
	23,859,370	**20,713,561**	**3,145,809**

*Based on quarterly average balances (Jun-Dec'14)

5. RISK MANAGEMENT (Continued)

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

Table 10: Net Credit Exposures

KD 000's

	31 December 2014		
	Net credit exposure	Funded Exposure	Unfunded Exposure
Cash	221,103	221,103	-
Claims on sovereigns	4,314,455	4,314,401	54
Claims on International Organisations	38,099	38,099	-
Claims on public sector entities	46,493	31,670	14,823
Claims on banks	4,280,381	3,743,245	537,136
Claims on corporates	6,423,558	5,364,134	1,059,424
Regulatory retail exposure	3,701,421	3,676,228	25,193
Past due exposures	59,714	59,713	1
Other exposures	765,588	765,588	-
Total	**19,850,812**	**18,214,181**	**1,636,631**

As at 31 December 2014, 41% of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), as detailed below:

Table 11: Net Credit Exposures

KD 000's

	31 December 2014		
	Net credit exposure	Rated Exposure	Unrated Exposure
Cash	221,103	-	221,103
Claims on sovereigns	4,314,455	3,470,813	843,642
Claims on International Organisations	38,099	-	38,099
Claims on public sector entities	46,493	-	46,493
Claims on banks	4,280,381	4,019,455	260,926
Claims on corporates	6,423,558	554,194	5,869,364
Regulatory retail exposure	3,701,421	-	3,701,421
Past due exposures	59,714	-	59,714
Other exposures	765,588	-	**765,588**
Total	**19,850,812**	**8,044,462**	**11,806,350**

The Group uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

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 2014					
	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	172,307	847	47,949	-	-	221,103
Claims on sovereigns	3,251,630	980,101	62,898	19,881	-	4,314,510
Claims on International Organisations	38,099	-	-	-	-	38,099
Claims on public sector entities	54,303	-	-	-	-	54,303
Claims on banks	2,536,497	356,413	810,312	982,103	139,026	4,824,351
Claims on corporates	9,078,653	338,606	455,085	408,039	151,766	10,432,149
Regulatory retail exposure	3,813,382	597	5,558	-	-	3,819,537
Past due exposures	67,741	-	3	2,275	-	70,019
Other exposures	589,332	23,380	81,646	41,291	29,939	765,588
Total	**19,601,944**	**1,699,944**	**1,463,451**	**1,453,589**	**320,731**	**24,539,659**

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

Table 13

KD 000's

	31 December 2014			
	Up to 3 Months	3 to 12 Months	Over 1 Year	Total
Cash	221,103	-	-	221,103
Claims on sovereigns	2,975,148	678,064	661,298	4,314,510
Claims on International Organisations	38,099	-	-	38,099
Claims on public sector entities	9,000	13,509	31,794	54,303
Claims on banks	2,030,292	1,499,590	1,294,469	4,824,351
Claims on corporates	4,293,557	1,845,254	4,293,338	10,432,149
Regulatory retail exposure	177,116	355,217	3,287,204	3,819,537
Past due exposures	70,019	-	-	70,019
Other exposures	191,125	34,019	540,444	765,588
Total	**10,005,459**	**4,425,653**	**10,108,547**	**24,539,659**

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.

5. RISK MANAGEMENT (Continued)

5.2.10. "Past-due" and impairment provisions

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:

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

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 2014 was KD 186,412 thousand against which a specific provision of KD 130,917 thousand has been made, as detailed below:

Table 14

KD 000's

31 December 2014	Past due and impaired financing	Related Specific provision	Specific provision written off, net of exchange movement
Claims on sovereigns	31	31	-
Claims on corporates	91,145	56,192	(53,850)
Regulatory retail exposure	95,236	74,694	(1,404)
Total	**186,412**	**130,917**	**(55,254)**

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

Table 15

KD 000's

31 December 2014	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	183,221	4	3,182	5	**186,412**
Specific provision	129,656	2	1,254	5	**130,917**

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

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

The Group's total provision as at 31 December 2014 was KD 541,539 thousand inclusive of a general provision of KD 401,357 thousand as detailed below:

Table 16

KD 000's

31 December 2014	General provision
Claims on sovereigns	146
Claims on banks	4,912
Claims on corporates	350,977
Regulatory retail exposure	45,322
Total	**401,357**

The total general provision above includes KD 25,523 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 2013	Middle East and North Africa	North America	Europe	Asia	Others	Total
General provision	365,601	2,266	3,883	1,569	2,515	**375,834**

The analysis of specific and general provisions is further detailed in note 11 of the Group's consolidated financial statements.

5.3 "Market" risk

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

Market risk results from uncertainty in future earnings arising from changes in interest rates, exchange rates, market prices and volatilities.

The Group assumes market risk from financial claims and loans, position-taking, and trading and investment activities.

The strategy for controlling market risk involves:

- Stringent controls and limits.
- Strict segregation of "front" and "back" office duties.
- Regular reporting of positions.
- Regular independent review of all controls and limits.

5.3.1. Market-risk management framework

The market-risk management framework governs the Group's trading and non-trading related market risk. Market risk stemming from trading activities is managed by the Group Treasurer. The management and oversight of market risk inherent within the Group's non-trading activities is the primary responsibility of the Group Asset and Liability Executive Committee, 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.

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

The Group risk management function independently monitors the regional and global trading market risk exposure through a Value-at-Risk methodology (VaR) to derive quantitative measures specifically for market risk under normal market conditions. This enables the Group to apply a constant and uniform measure across all of its trading activities and facilitates comparisons of market risk estimates, both over time and against daily trading results. VaR is calculated using a 99% "confidence level" and a holding period of ten days in line with Basel Committee guidelines.

5. RISK MANAGEMENT (Continued)

5.3.2. Monitoring of "market" risk from "trading" activities (Continued)

On a daily basis, VaR is supplemented with stress-testing to quantify market risk under extreme stress scenarios based on observed historical worst-case and in-house developed scenarios. VaR computation allows for diversification benefits at the Group level. Furthermore, the Group recognises and mitigates the correlation of other risks and processes on its market-risk monitoring process. In addition to VaR, the Group uses a structure of limits to manage and control its market risk associated with trading activities. The Group also produces stressed VAR using the same framework. Computations are based on stressed historical data.

5.3.3. Monitoring of exposures under interest-rate swap transactions

The Group risk management function independently monitors risk exposures under "interest-rate swap" transactions using the concept of Potential Future Exposure. Potential Future Exposure (PFE) is defined as the maximum exposures over a specified period of time calculated at 99% confidence level. As such, the risk is an upper bound at the selected confidence interval for future exposure and not the maximum risk exposure possible.

5.3.4. 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 showed an impact in the banking book as follows:

Table 18

KD 000's

31 December 2014	+ 5bp	-5bp	+10bp	-10bp
	1,176	(1,176)	2,351	(2,351)

The Group does not use the result of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in the scenario analysis. Such assumptions includes that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action 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 market-risk management framework governs the Group's trading and non-trading related market risk. Market risk stemming from The Group does not use the result of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in the scenario analysis. Such assumptions includes that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action 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 as at 31 December 2014 is as follows:

Table 19	KD 000s
Total Equity Investment	114,873
Of which Quoted Investments (%)	44.0%
Cumulative realized gains from sale during 2014	7,527
Cumulative net unrealized gains recognised	19,377
Capital requirement of Equity investment portfolio categorized as:	
Available for sale	13,425
Fair value through statement of income	359

The market-risk management framework governs the Group's trading and non-trading related market risk. Market risk stemming from The Group does not use the result of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in the scenario analysis. Such assumptions includes that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action 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.

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.

5.4. Counter-party Credit Risk

5.4.1. Assignment of credit limits for Counterparty Credit Exposures

Counterparty credit exposure arises from the risk that counterparties are unable to meet their payment obligations under derivative contracts. The allocation of credit limits for counterparties is provided by NBK's Institutional Banking Division following extensive research. Potential counterparties are examined according to historical financial performance and current ranking with comparable banks. Information from reputable credit agencies is taken into consideration when evaluating potential counterparties. Only those counterparties above a certain rating are considered. The location of potential counterparties is also taken into account in order to avoid any geographical risk. Using this data, credit limits are assigned to all counterparties to limit any potential risks. Those credit limits are reviewed at least once a year. Credit exposure is actively monitored for all derivatives on a daily basis and any excesses are escalated in accordance with established governance thresholds.

5.4.2 Policies for securing collateral and credit reserves

In order to reduce counterparty risk, NBK selectively enters into Credit Support Annex (CSA) to the International Swaps and Derivatives Association, Inc. ("ISDA"). In line with those standards, NBK generally accepts only cash as collateral. 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 valuations is quickly resolved with the counterparty. NBK uses an internal model to estimate potential future exposure which includes the mitigating effects of netting and collateral in valuing over-the-counter ("OTC") contracts.

5.4.3 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.

5.4.4 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.

The market-risk management framework governs the Group's trading and non-trading related market risk. Market risk stemming from The Group does not use the result of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in the scenario analysis. Such assumptions includes that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action 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.

5.4.5 General Disclosure for Counterparty Credit Risk

Table 20 — IN KD 000s

Derivative Contracts	31 December 2014
Gross Positive fair value	10,486
Counterparty netting benefit	(4,028)
Netted current credit exposure	6,458
Cash collateral	27,671
Net exposure (after netting and collateral)	34,129

5.4.6 Exposure-at-Default Methodology

NBK uses the concept of Potential Future Exposure (PFE) to estimate counterparty exposure at future time horizons. Potential Future Exposure (PFE) is defined as the maximum credit exposures over a specified period of time calculated at 99% confidence level. This maximum is not to be confused with the maximum credit exposure possible. Instead, the maximum credit exposure indicated by the PFE analysis is an upper bound at a confidence interval for future credit exposure. The simulation model projects potential values of various risk factors which affect NBK's counterparty portfolio under a large number of simulation paths, and then determines possible changes in counterparty exposure for each path by re-pricing transactions with that counterparty under the projected risk factor values.

The PFE incorporates the effects of legally-enforceable netting and collateral agreements when estimating counterparty exposure.

5. RISK MANAGEMENT (Continued)

5.4.6 Exposure-at-Default Methodology (Continued)

IN KD 000s

Table 21	31 December 2014
Potential Future Exposure on derivatives transactions	17,195

5.4.7 Notional value of credit derivatives transactions
NBK has no exposure to credit derivatives.

5.5. 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.

5.5.1. 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.

5.6. 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.

5.7. 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 4.3% to reach KD 3,198 million on 31 December 2014.

II. Composition of Capital

1. Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:
i. Common Equity Tier 1
ii. Tier 1 Capital
iii. Total 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.

The market-risk management framework governs the Group's trading and non-trading related market risk. Market risk stemming from The Group does not use the result of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in the scenario analysis. Such assumptions includes that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action 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.

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.

The below table summarizes the composition of capital and ratios:

Table 22	KD 000s
Common Equity Tier 1 capital before regulatory adjustments	2,640,418
Total regulatory adjustments to Common Equity Tier 1	(857,510)
Common Equity Tier 1 capital (CET1)	1,782,908
Additional Tier 1 capital (AT1)	8,893
Tier 1 capital (T1 = CET1 + AT1)	1,791,801
Tier 2 capital (T2)	163,176
Total capital (TC = T1 + T2)	1,954,977
Total risk-weighted assets	13,464,676
Capital ratios and buffers	
Common Equity Tier 1 (as percentage of risk-weighted assets)	13.2%
Tier 1 (as percentage of risk-weighted assets)	13.3%
Total capital (as percentage of risk-weighted assets)	14.5%
National minima	
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	8.5%
Tier 1 minimum ratio	10.0%
Total capital minimum ratio excluding CCY and D-SIB buffers	12.0%

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)

Table 23: Step 1 and 2 of Reconciliation requirements

IN KD 000s

Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31-Dec-14	31-Dec-14	
Assets			
Cash and short term funds	3,131,991	3,131,991	
Central Bank of Kuwait bonds	534,688	534,688	
Kuwait Government treasury bonds	344,529	344,529	
Deposits with banks	2,050,515	2,050,515	
Loans, advances and Islamic financing to customers	11,908,708	11,908,708	
of which General Provisions(netted above) capped for Tier 2 inclusion	151,433	151,433	a
Investment securities	2,493,693	2,493,693	
Investment in associates	119,398	119,398	
of which goodwill	47,582	47,582	b
Land, premises and equipment	203,414	203,414	
Goodwill and other intangible assets	696,416	696,416	
of which goodwill	481,712	481,712	c
of which other intangibles	214,704	214,704	d
Other assets	162,371	162,371	
Investment in an associate held for sale	138,408	138,408	
of which goodwill	34,717	34,717	e
Total assets	**21,784,131**	**21,784,131**	
Liabilities			
Due to banks and other financial institutions	6,705,717	6,705,717	
Customers deposits	11,259,736	11,259,736	
Certificates of deposit issued	675,065	675,065	
Other liabilities	273,073	273,073	
Total liabilities	**18,913,591**	**18,913,591**	
Shareholders' Equity			
Share capital	479,973	479,973	f
Proposed bonus shares	23,999	23,999	g
Statutory reserve	239,987	239,987	h
Share premium account	699,840	699,840	i
Treasury shares	(78,795)	(78,795)	j
Treasury shares reserve	14,878	14,878	k
Other Reserves	1,273,389	1,273,389	
of which Retained Earnings	1,017,780	1,017,780	l
of which Proposed Dividend	141,340	141,340	
of which Others	114,269	114,269	m
Equity attributable to shareholders of the Bank	2,653,271	2,653,271	
Non-controlling interests	217,269	217,269	
of which Limited Recognition eligible as CET1 Capital	49,692	49,692	n
of which Limited Recognition eligible as AT1 Capital	8,893	8,893	o
of which Limited Recognition eligible as Tier 2 Capital	11,743	11,743	p
Total equity	**2,870,540**	**2,870,540**	
Total liabilities and equity	**21,784,131**	**21,784,131**	

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.

The market-risk management framework governs the Group's trading and non-trading related market risk. Market risk stemming from The Group does not use the result of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in the scenario analysis. Such assumptions includes that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action 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.

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	479,973	f
2	Retained earnings	1,017,780	l
3	Accumulated other comprehensive income (and other reserves)	1,092,973	g+h+i+k+m
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	49,692	n
6	Common Equity Tier 1 capital before regulatory adjustments	2,640,418	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill	(564,011)	b+c+e
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(214,704)	d
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(78,795)	j
28	Total regulatory adjustments to Common Equity Tier 1	(857,510)	
29	Common Equity Tier 1 capital (CET1)	1,782,908	
	Additional Tier 1 capital : instruments		
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)	8,893	o
36	Additional Tier 1 capital before regulatory adjustments	8,893	
	Additional Tier 1 capital : regulatory adjustments		
44	Additional Tier 1 capital (AT1)	8,893	
45	Tier 1 capital (T1 = CET1 + AT1)	1,791,801	
	Tier 2 capital : instruments and provisions		
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)	11,743	p
50	General Provisions included in Tier 2 Capital	151,433	a
51	Tier 2 capital before regulatory adjustments	163,176	
	Tier 2 capital: regulatory adjustments		
58	Tier 2 capital (T2)	163,176	
59	Total capital (TC = T1 + T2)	1,954,977	

5. RISK MANAGEMENT (Continued)

III. Leverage

1. Leverage ratio

In October 2014, 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 2014
Tier 1 Capital (KD 000s)	1,791,801
Total Exposures (KD 000s)	23,064,834
Leverage Ratio (%)	7.8%

2. Leverage Ratio Exposures

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

Table 26

Total Exposures	KD 000s
On-balance sheet exposures	21,005,416
Derivative exposures	92,693
Off-balance sheet items	1,966,725
Total exposures	23,064,834

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

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 leverage ratio.

Summary comparison of accounting assets vs leverage ratio exposure measure

Table 27

	Item	KD 000s
1	Total consolidated assets as per published financial statements	21,784,131
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	92,693
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)	1,966,725
7	Other adjustments	(778,715)
8	Leverage ratio exposure	23,064,834

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 three non-executive Board members, where the Chairman of the Board of Directors is not a member of the Committee.
The main objective of the Committee is to carry out the nomination and remuneration responsibilities pertaining to the Directors and Executives. 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 the Group's executive team, taking into consideration the total remuneration including salaries, bonuses and other incentives.
e. Coordinate with the BRC and the Board Audit Committee, respectively, in the process of determination of Group CRO and Group Head of Audit performance evaluation criteria and remuneration.
   During the year, the BNRC engaged the services of a firm of Consultants with relevant expertise to conduct a study on the current salary and incentive levels at NBK compared with the market. The Committee reviewed the study submitted by the Consultant and raised its recommendations to the Board for review and decision.

NBK remuneration policy is developed and implemented at the Group level and covers NBK subsidiaries and foreign branches.
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 2014 is 58.

Second Category: Material Risk Takers

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

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

The number of persons in this category as of 31 December 2014 is 20.

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 2014 is 14.

5. RISK MANAGEMENT (Continued)

b) Remuneration Structure and Components

NBK's remuneration policy is in line with the strategic objectives of the Group. The policy is designed mainly to attract, retain and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring a sound risk management and sustained profitability.

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 policy aims to support the Group to operate a "total reward" philosophy taking account of 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 Employee Stock Option Plan - ESOP)

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.

The Employee Stock Option Plan (ESOP) is availed selectively to certain Eligible Employees .The Group applies a deferment approach of up to three years and final vesting of this 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 ESOP component of variable compensation.
During the year the Committee reviewed and updated the remuneration policy to reflect key decisions taken by the Board and to ensure effective alignment with the Group strategy.

The key change in the policy relates to the deferred part of remuneration which is reflected in the Employee Stock Options Plan (ESOP). The ESOP entitlement, which previously had been granted to employees at the level of Executive Manager (EM) and higher, has been decided to be granted to employees at the level of Assistant General Manager (AGM) and higher, which is one grade above EM. However, the Executive Manager grade will be granted deferred cash bonus instead of stock options. Stock options and deferred cash bonus are linked to the Group's performance as well as to the individual's performance.
The Risk Management and Compliance functions are under the Group Risk Management Department; this is an independent function 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.

c) 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 operational. The policy ensures adequate linkage between the performance and the 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 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 the Group reviewed its key risk indicators and discussed the same with the Board Risk Committee during its regular meetings. The Group applied the key risk indicators (KRIs) this year and linked them to the overall remuneration pool without significant change from last year's KRIs.

d) 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
- Non-performing loans (NPL)

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 Group's Performance Management Policy sets the methodology of linking an individual's annual performance with the Group's overall performance.
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 of approved 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.

e) 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 equity shares as per the ESOP terms.
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 3 years.

f) Types of Remuneration Components

The Group has two main remuneration components (fixed and variable). The variable component is mainly linked with performance and is subject to the deferment approach as mentioned above.

The fixed component (salaries, benefits) is on cash basis, while the variable component (bonuses and other incentives) is divided into cash basis (performance bonus) and equity (ESOP).The "other" remuneration represents performance incentives for certain business units upon achieving certain stated business targets.

The percentage between fixed and variable (cash and equity) is reviewed and approved by the Board on an annual basis.
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.

2. Quantitative Information

1. During the year, the Board Nomination and Remuneration Committee met three 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 56 persons and they represent 2.8 % of the overall NBK total staff number eligible for variable remuneration for 2014.
3. The total number of persons (Senior Management and Material Risk Takers) is 59 persons. Their total remuneration for 2014 is KD 11,285 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 2014 is KD 920 thousand; this is related to 8 persons (Senior Management and Material Risk Takers).

5. RISK MANAGEMENT (Continued)

Senior Management:

Table 28

Total salaries & remuneration granted during reported period		Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:			
-	Cash	5,505	Nil
-	ESOP	Nil	Nil
Variable remuneration:			
-	Cash	3,508	
-	ESOP		1,234
-	Others (Note 1)	369	

Material Risk Takers:

Table 29

Total salaries & remuneration granted during reported period		Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:			
-	Cash	2,700	Nil
-	ESOP	Nil	Nil
Variable remuneration:			
-	Cash	2,806	
-	ESOP		628
-	Others (Note 1)	98	

Note 1: This consists of other performance incentives

Table 30

Employees Category	Number of employees in this category	Grand Total Remuneration Fixed and Variable (KD 000's)
Senior Management	58	10,616
Material Risk Takers	20	6,232
Financial and Risk Control	14	1,961

V. Appendices

1. Regulatory Capital Composition: Common Disclosure Template

Table 31

Row Number	Common Equity Tier 1 capital:instruments and reserves	KD000s
1	Directly issued qualifying common share capital plus related stock surplus	479,973
2	Retained earnings	1,017,780
3	Accumulated other comprehensive income (and other reserves)	1,092,973
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)	49,692
6	Common Equity Tier 1 capital before regulatory adjustments	2,640,418
	Common Equity Tier 1 capital : regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	(564,011)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(214,704)
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)	(78,795)
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	

5. RISK MANAGEMENT (Continued)

V. Appendices (Continued)

1. Regulatory Capital Composition: Common Disclosure Template (Continued)

24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
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	(857,510)
29	Common Equity Tier 1 capital (CET1)	1,782,908
	Additional Tier 1 capital : instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	
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)	8,893
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	8,893
	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)	8,893
45	Tier 1 capital (T1 = CET1 + AT1)	1,791,801
	Tier 2 capital : instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
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)	11,743
49	of which: instruments issued by subsidiaries subject to phase out	-
50	General Provisions included in Tier 2 Capital	151,433
51	Tier 2 capital before regulatory adjustments	163,176
	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)	163,176
59	Total capital (TC = T1 + T2)	1,954,977
60	Total risk-weighted assets	13,464,676
	Capital ratios and buffers	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.2%
62	Tier 1 (as percentage of risk-weighted assets)	13.3%
63	Total capital (as percentage of risk-weighted assets)	14.5%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus DSIB buffer requirement expressed as a percentage of risk-weighted assets)	2.5%
65	of which: capital conservation buffer requirement	2.5%
66	of which: bank specific countercyclical buffer requirement	-
67	of which: DSIB buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	7.2%

	National minima	
69	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	8.5%
70	Tier 1 minimum ratio	10.0%
71	Total capital minimum ratio excluding CCY and D-SIB buffers	12.0%
	Amounts below the thresholds for deduction(before risk weighting)	
72	Non-significant investments in the capital of other financials	57,342
73	Significant investments in the common stock of financial entities	175,390
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)	401,357
77	Cap on inclusion of allowances in Tier 2 under standardised approach	151,433
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	

2

Table 32

	Item	KD 000s
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	21,784,131
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(778,715)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	21,005,416
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	10,848
5	Add-on amounts for PFE associated with all derivatives transactions	81,845
	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
6	(Deductions of receivables assets for cash variation margin provided in derivatives transactions) (Exempted CCP leg of client-cleared trade exposures)	
7	Adjusted effective notional amount of written credit derivatives	
8	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
9	Total derivative exposures (sum of lines 4 to 10)	92,693
	Securities financing transaction exposures	
10	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)	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	7,304,081
18	(Adjustments for conversion to credit equivalent amounts)	(5,337,356)
19	Off-balance sheet items (sum of lines 17 and 18)	1,966,725
	Capital and total exposures	
20	Tier 1 capital	1,791,801
21	Total exposures (sum of lines 3, 11, 16 and 19)	23,064,834
	Leverage ratio	
22	Basel III leverage ratio	7.8%

5. RISK MANAGEMENT (Continued)

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/A336/2014 dated 24 June 2014
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 each bank level identified as systemically important by Central Bank of Kuwait on an annual basis.
ECAI	An External Credit Assessment Institution (ECAI) recognized by Central Bank of Kuwait as Moody's Investor Service, Standard & Poor's and Fitch.
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.