NATIONAL BANK OF KUWAIT (INTERNATIONAL) PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2020

2020

Directors

Chairman
Isam Jassim Al Sager

Vice Chairman
Hamish Cameron Galbraith Marr

Directors
Shaikha Khaled Ali Al Bahar
Georges Richani (resigned 3 September 2020)
Lesley Jane Titcomb
Fawzi Adnan Dajani
Andrew Simon Richardson
Matthew Anthony Timms

Management

Managing Director
Fawzi Dajani

Executive Management
Gavin Allard
Khaled Al Omar
Sami El Labban
Paul Fuller
Paul Gospage
Paul Kennedy
Andrew Richardson
Nicholas Simmonds
Christos Sozou

Secretary
Dagmar Moravkova

Auditors
Ernst & Young LLP
25 Churchill Place
London E14 5EY

Registered Office
NBK House
13 George Street
London W1U 3QJ

Registered number	02773743
FCA registration number	171532

Strategic Report
31 December 2020

The directors present their strategic report for the year ended 31 December 2020.

Principal activities and business review

The company is an authorised bank carrying out international commercial banking, financial and related services from its London headquarters.

Throughout this Report and Financial Statements the company is referred to as "the Bank".

Key financial highlights	2020 $000	2019 $000
Profit or Loss Account:		
Operating income before expected credit losses (ECL)	43,628	58,504
(Charge) on expected credit losses	(4,030)	(645)
Operating expenses	(25,982)	(26,818)
Profit before tax	13,616	31,041
Profit after tax	11,952	25,598
Balance Sheet:		
Loans to customers	1,407,926	1,294,507
Customer deposits	1,100,981	1,205,720
Certificates of deposit	257,094	-
Shareholders' equity	435,931	424,157
Key ratios:		
Return on shareholders' equity	2.7%	6.0%
Cost income ratio	59.5%	45.8%
Return on assets	0.46%	0.97%

Operating income (before expected credit losses) was down from last year to US$ 43.6 million from US$ 58.5 million (US$ 14.9 million, 25%). The majority of this drop was net interest income US$ 12.9 million reflecting the challenging economic environment arising from the coronavirus pandemic (COVID-19), in particular systemically low interest rates. The reduction in the ability of our clients to travel to London has also impacted fees and foreign exchange income which were down by US$ 1.0 million and US$ 1.3 million respectively. Staff costs increased by US$ 0.9 million on the back of an increase in average headcount of 8%, predominantly in the support and control areas of the Bank. However, these cost increases were more than offset by lower administration costs resulting in total operating costs dropping by 3.1%. Despite lower costs the overall cost income ratio increased to 59.5%.

Expected credit losses increased by US$ 3.4 million (charge), a fivefold increase on last year, and driven by significant increase in credit risk across a number of clients combined with worsening economic scenarios. The Bank's net profit after ECL and tax is down by US$ 13.6 million (53.3%) which in turn lowered the Bank's return on equity and return on assets to 2.7% and 0.46% respectively.

Loans to customers increased 8.8% to US$ 1.4 billion compared with US$ 1.3 billion last year. There was net growth after scheduled redemptions, however, growth was restricted as property purchase deals were put on hold or cancelled. This was due to the Bank's overseas customers being unable to travel to the UK to consider investment opportunities, and the economic environment due to the pandemic. Customer deposits decreased 8.7% to US$ 1.1 billion compared with US$ 1.2 billion last year.

Strategic Report
31 December 2020

Branch activity including private banking was impacted by COVID-19 due to travel restrictions and local lockdown. The Bank has sought to diversify its funding base with US$ 257.1 million of certificates of deposit being successfully issued. The shareholders' equity has gone up by US$ 11.8 million (2.8%).

The Bank's funding and liquidity positions are satisfactory and the capital position is comfortably above minimum regulatory requirement.

Principal risks and uncertainties
Details of the financial risk management objectives and policies of the Bank and exposure of the Bank to market risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk are given in the notes to the financial statements.

Section 172 (1) statement
Section 172 (1) of the Companies Act 2006 requires a director to act in a way that they consider in good faith and would be most likely to promote the success of the company for the benefit of its members as a whole. The directors act for the long term and as noted in the directors' report have regard to the interests of its employees, customers, suppliers and other stakeholders.

The welfare of the Bank's employees was paramount in 2020 with the Bank following the COVID-19 government advice in terms of providing a safe work environment for those coming into the office and facilitating employees working from home. No staff were furloughed during 2020. Employees received regular updates on COVID-19 and mental health. 'Town hall' updates with all staff were held and shared via the IT network when employees were working from home. A staff survey is planned for 2021 to consult employees for their views on hybrid working and flexibility.

As described further in the directors' report, customers are at the heart of everything the Bank does. In particular, during 2020, the directors have actively sought to protect and support these key stakeholders from the impact of COVID-19 on their health, financial survival and sustainability. The Bank has taken COVID-19 stresses into consideration, and applied government guidelines not to downgrade both businesses and individuals as the stress in their finances was caused by COVID-19. The bank has granted a total of 69 mortgage payment deferral requests.

The bank has two shareholder-appointed representatives on its board who attend all board meetings and committees for which they are members. The meetings are at a minimum quarterly and provide a formal forum to ask questions of the other board and committee members and provide feedback.

The directors understands that the bank is required to have a transparent and cooperative relationship with the FCA, PRA and other regulators and take reasonable steps to ensure that the business of the firms is conducted in line with all relevant requirements and standards. Where information would be expected to be disclosed to the regulator in addition to anything provided via formal returns this is communicated openly and freely.

For suppliers, it is the Bank's policy in every case to comply with the terms of payment expected by suppliers. In this respect, the Bank's creditor payment practice is to pay within the agreed period from the date of the invoice.

Streamlined Energy and Carbon Reporting (SECR) Framework
The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations"), which implemented the UK government's policy on Streamlined Energy and Carbon Reporting (SECR), came into force on 1 April 2019 and applies to financial years starting on or after 1 April 2019. The regulations require the following information to be published. Despite being voluntary for the first year of reporting, the Bank has chosen to include 2019 data to allow for comparison between consecutive reporting years to assist in identifying where efficiency improvements could be made.

Strategic Report
31 December 2020

Summary of total energy consumption (kWh)

Energy	**2020**	**2019**
Total fuel consumption (kWh)	279,849.68	354,659.18
Total electricity consumption (kWh)	532,214.12	664,875.24
Total transport fuel (kWh)	0.00	0.00
Total other energy sources (kWh)	0.00	0.00
Totals	**812,063.80**	**1,019,534.43**

Summary of total GHG emissions (tCO_2e)

GHG emissions		**2020**	**2019**
Scope 1	Emissions from combustion of gas (tCO_2e)	51.73	65.20
	Emissions from combustion of fuel for transport purposes (tCO_2e)	0.00	0.00
Scope 2	Emissions from purchased electricity, location based (tCO_2e)	124.08	169.94
Scope 3	Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (tCO_2e)	0.00	0.00
Totals		**175.81**	**235.15**

Summary of carbon intensity ratios

GHG emissions normalisation	**2020**	**2019**
kg CO_2e/m^2	66.72 (-25%)	89.24

Energy efficiency actions

In 2021, a recommended action to be carried out is an air conditioning inspection in accordance with CIBSE TM44. This is designed to improve efficiency, identify any fugitive emissions, reduce energy consumption, operating costs and the carbon emissions of the cooling plant and equipment.

Methodology in disclosure calculations

This assessment was produced in line with "Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance (March 2019)" in conjunction with the methodology described in the ESOS regulations and the 2020 UK government's GHG conversion factors for company reporting. Calculations have been carried out in general accordance with ISO 14064-1:2018 Greenhouse gases – Part 1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals.

By order of the Board

Dagmar Moravkova
Secretary
10 May 2021

Directors' Report

31 December 2020

The directors have pleasure in submitting their twenty-sixth annual report together with the audited financial statements for the year ended 31 December 2020.

Directors

The names of the present directors are listed on page two.

Significant changes during the financial year and subsequently are as follows:

- Mr Nasser Musaed Abdullah Al Sayer resigned as a director and Chairman of the Board on 23 July 2020
- Mr Isam Jassim Al Sager was appointed by the Board as the Chairman of the Board on 23 July 2020, approved by the PRA with effect from 12 March 2021
- Mr Hamish Cameron Galbraith Marr was appointed as the Vice Chairman of the Board on 23 July 2020
- Mr George Richani resigned as a director on 3 September 2020
- Mr Matthew Timms was appointed as an independent non-executive director with effect from 7 December 2020
- Mr Stephen Byrne resigned as a secretary on 23 April 2020

According to the register of directors' interests, no director holding office as at 31 December 2020 had any beneficial interest in the shares of the Bank during the year.

Results and dividends

The Bank has made a profit after tax of US$ 12.0 million (2019: profit of US$ 25.6 million). The impact of lockdown in March 2020 and the consequent macroeconomic responses to the crisis (primarily lower interest rates) have conspired to create this unprecedented drop in the Bank's bottom line. The resultant challenges arising from impact on trading conditions have tightened margins and curtailed business opportunities. The outlook for 2021 is brighter as the UK exits lockdown restrictions but the Bank is cautious in its overall outlook. The directors propose no dividend for the year ending 31 December 2020 (2019: nil).

Future developments

The directors aim to continue to maintain the management policies which have resulted in a successful performance to date, despite the particular challenge presented in 2020 from the COVID-19 impact.

Following the decision by the UK regulator to discontinue the issuance of GBP LIBOR after the end of 2021 and substitute it with Sterling Overnight Indexed Average (SONIA) reference rates, the Bank has put in place a programme to manage the operational transition away from IBORs. Please see Note **23** for further detail. The programme Steering Group monitors all activities and is sponsored at executive level.

Going concern

During the first four months of 2021, the Bank has traded at a profitable level and demonstrated operational resilience despite the challenges provided by the current COVID-19 situation. The directors recognise that the Bank has gone through an unprecedented period of disruption and is still cautious about the outlook for business. The Bank has continued to protect staff, customers and business generally. The Bank is operating safely, and due regard is being paid to its operating model and, in particular, the preservation of liquidity and solvency. This will continue until more certainty returns and prospects for the future can be ascertained.

At this time it is not possible to guide with any accuracy what the impact will be, however, appropriate financial modelling has been undertaken to support the view that the Bank will continue as a going concern even with the significant uncertainty of the COVID-19 pandemic. This is further detailed in Notes **2.2** and **28**.

Charitable donations

The Bank did not make charitable donations during the year (2019: nil).

Directors' Report
31 December 2020

Employees
It is the Bank's policy to attract, retain and develop the best qualified employees to enable it to achieve its overall business objectives. Accordingly, all vacant positions are filled with the best qualified people, either from internal candidates where that is appropriate or from external recruitment. Equal treatment is offered to all applicants internally and externally with no discrimination on the grounds of ethnicity, colour, gender, nationality, marital status, disability, age, sexual orientation or religion, the criteria for selection being suitability and competence to do the job.

The Bank is committed to providing high quality training to its employees using formal courses in addition to on-the-job training. This is to ensure that employees have the required knowledge and skills to perform effectively in their present and future positions within the Bank.

Supplier's payment policy
It is the Bank's policy in every case to comply with the terms of payment expected by suppliers. In this respect, the Bank's creditor payment practice is to pay within the agreed period from the date of the invoice.

Customer policy
Customers are at the heart of everything the Bank does. Since inception, it has established professional and behavioural rules, and provides qualified staff who can optimally serve customers. We create value by providing the products and services that our customers need, and aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. We maintain trust by protecting our customers' data and information, and delivering fair outcomes for them. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers. During the year the Board also received updates and regular business reviews.

In 2020 the Bank, like the rest of the world, was faced with the unprecedented challenges caused by the COVID-19 pandemic. We have continued to serve our customers and limit disruption to their day-to-day banking activities, by maintaining the operation of our branch with limited working hours and with fewer staff members on the premises. Due to the largely non-UK resident client base, the impacts of the pandemic were less onerous compared with most UK retail banks serving the UK market. Nevertheless, the Bank has remained committed to treating its customers fairly, responded promptly to any customers who have been economically impacted by the COVID-19 pandemic, for example with mortgage payment holidays and other signposting to available debt management advice and support. COVID-19 related support remains an evolving matter and will continue to be assessed in line with any relevant published material by the PRA, FCA or any other respective overseeing authorities.

Disclosure of information to the auditors
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors
The auditors, Ernst & Young LLP, have informed the Bank that they will not seek their re-appointment for the next financial year and will cease to hold office at the end of their term of office.

A resolution for the appointment of Deloitte LLP will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board

Dagmar Moravkova
Secretary
10 May 2021

Statement of Directors' Responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Financial Reporting Standard 101 – Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Opinion

We have audited the financial statements of National Bank of Kuwait (International) PLC (the "Company") for the year ended 31 December 2020 which comprise the Statement of Income, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related Notes 1 to 28 (except for Note 27 which is marked as unaudited) including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management on a regular basis to challenge the completeness of the key factors being considered in their assessment.
- We evaluated the directors' going concern assessment which included reviewing their evaluation of long-term business plans, capital adequacy, liquidity and funding positions. Following this review, we agreed key data points on the financial performance of the Company to supporting information, and to regulatory submissions and correspondence relating to key regulatory capital requirements. We also reviewed board meeting minutes and discussed the performance of the Company, regulatory matters, and future intentions with management and the Audit Committee.
- We obtained and reviewed correspondence with the regulators and established any impact on the use of the going concern assumption. We also used regulatory correspondence to inform our consideration of the regulatory capital requirements on the Company and the surplus forecast over the going concern assessment period.
- We met with the Prudential Regulation Authority in the year to understand their perspectives on the Company, and to inform our risk assessment.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.

Independent Auditor's Report
To the members of National Bank of Kuwait (International) PLC

- We considered the key relevant going concern assumptions, including those relating to financial performance, regulatory capital and liquidity, and performed independent stress testing, including independently recalculating regulatory capital requirements and surpluses using regulatory submissions and correspondence.
- We reviewed the Company's going concern disclosures included in the report and financial statements in order to assess whether the disclosures were appropriate and in conformity with the accounting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern. Our evaluation of the directors' going concern assessment covers the period to 30 June 2022, consistent with the period assessed by the directors.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Expected credit loss provisions. • Risk of fraud in revenue recognition relating to the judgements applied in effective interest rate (EIR) accounting. • Valuation of investment in NBK France S.A.
Materiality	• Overall materiality of US$ 1.2 million which represents 5% of normalised profit before tax.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. No scope changes were introduced as a result of COVID-19, however, the risks arising as a result of the event were considered in our determination of key audit matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Expected credit loss provisions *Refer to Notes **2, 14** and **26.1** of the financial statements.* At 31 December 2020 the Company reported total gross loans of US$ 1.4 billion (2019: US$ 1.3 billion) and US$ 6.5 million (2019: US$ 2.8 million) of expected credit loss provisions. The determination of expected credit losses ("ECL") in the current pandemic environment continues to be highly subjective and judgemental particularly related to assessing the impact of the pandemic on the economy. Key judgements and estimates in respect of ECL include: • allocation of assets to stage 1, 2 or 3 using criteria in accordance with the accounting standards, including the determination of significant increase in credit risk ("SICR"); • accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • inputs and assumptions used to estimate the impact of multiple economic scenarios; • completeness and valuation of post model adjustments, and • assumptions related to the valuation of individually assessed provisions including the valuation of collateral held. The level of judgement and estimation has increased as a result of COVID-19, leading to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios and the determination of SICR. As such, the risk of material misstatement associated with expected credit loss provisions has increased. Furthermore, the inherent ability of management to override internal controls in relation to expected credit loss provisions also represents a risk of fraud.	We understood and evaluated the design effectiveness of key controls relevant to the impairment. We validated the operating effectiveness of the data input controls that we placed reliance upon. We performed testing over the completeness and accuracy of the data inputs into the IFRS 9 expected credit loss (ECL) model by agreeing data for a sample of accounts to source systems. We performed credit file reviews for a sample of loans and advances to customers allocated to each of the stages to test the appropriateness of stage allocation and to consider the reasonableness of the ECL estimate, including engaging our EY real estate valuation specialists to independently value a sample of collateral assets. We considered the impact COVID-19 had on collateral valuations and time to collect, as well as whether planned exist strategies remained viable. With the support of our EY economic specialists, we assessed the base case and alternative economic scenarios, including reviewing the appropriateness of probability weights and comparing to other scenarios from external sources, as well as EY internally developed forecasts. We assessed whether forecasted macroeconomic variables were appropriate. In order to establish the reasonableness of post model adjustments we engaged our EY credit risk modelling specialists to perform an independent ECL calculation, via a challenger model, for certain more complex exposures. With the support of our EY credit risk modelling specialists, we examined the ECL model and developed an independent challenger model to develop our own estimate of ECL provisions. We assessed the adequacy and appropriateness of disclosures made within the financial statements.	We communicated that we were satisfied that ECL provisions were reasonably estimated and in compliance with IFRS 9. We highlighted to the committee that there is increased uncertainty in determining forecast losses due to the economic uncertainties resulting from COVID-19. Following our assessment of specific provisions we concluded that the estimates of impairment were reasonably estimated, with immaterial variances. We considered the multiple economic scenarios incorporated in the ECL models to be materially appropriate. We concluded that disclosures relating to ECL were in compliance with the requirements of United Kingdom Generally Accepted Accounting Practice.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of fraud in revenue recognition relating to the judgements applied in effective interest rate (EIR) accounting *Refer to Notes **2** and **3** of the financial statements.* In the year ended 31 December 2020 interest income recorded on loans and advances was US$ 41.7 million (2019: US$ 45.6 million). Recognition of income on financial instruments using the effective interest rate involves judgemental assumptions and complexity in the recording of revenue. The majority of income recorded is low value, automatically calculated in source systems and based on the contractual terms of the financial instrument. The audit risk is focused towards income where accounting judgement is applied. As a result of COVID-19 certain customers were allowed payment deferrals which increases the risk that these adjustments are not accounted for appropriately.	We understood and evaluated the design effectiveness of key controls and tested the operational effectiveness to enable us to rely on key controls, including automated application controls in the Company's reporting system. For a sample of revenue items where our audit risk is focused, we performed an independent recalculation of the revenue recorded through obtaining and reviewing original product documentation and performing a cash flows analysis alongside relevant assumptions specific to the financial instrument. We compared our independent calculation of revenue to that recorded by the Company. For a sample of loan contracts we established the impact of payment deferrals on the recording of income, through independent recalculation and comparison to that recorded by the Company.	We communicated that we were satisfied that the selection and application of accounting polices applied to the Company's income was appropriate, including the application of effective interest rate accounting. We communicated that our risk-focused independent recalculation of income did not identify any material differences. We concluded that the introduction of payment holidays did not materially impact the recognition of interest income.
Valuation of investment in NBK France S.A. *Refer to Note **16** of the financial statements* At 31 December 2020 the value of the investment in NBK France S.A. was recorded at US$ 49.2 million (2019: US$ 49.2 million). The fair valuation of the investment in NBK France S.A. involves the selection of judgemental assumptions and estimates, including the discount rate and long-term growth rate. Given the subjective nature of the judgements involved there is a risk that the fair value of shares acquired could be subject to management bias.	We understood the methodology employed by the Company to develop the valuation estimate including the model and related assumptions. We performed procedures over inputs used in the forecasts prepared for the valuation and assessed their reasonableness by reference to NBK France S.A. approved budget, historical accuracy of the budgeting process and benchmarking against peer financial institutions. With the support of our EY valuation specialists we independently assessed the model methodology and key assumptions. This included developing our own estimate of fair value which we used to compare to that recorded by the Company.	We communicated that we are satisfied that valuation of investment in NBK France S.A. was reasonable, in compliance with IFRS 13, and that we found the valuation to be within a reasonable range of outcomes.

In the prior year, our independent auditor's report included a key audit matter related to impact of COVID-19 on the going concern assessment of the Company and the directors' conclusion of the event being a non-adjusting post balance sheet event in the disclosures to the financial statements. As a result of the revisions to ISA (UK) 570 Going Concern, effective for periods commencing on or after 15 December 2019, the procedures we have performed and resultant conclusions over going concern are now separately discussed within the 'Conclusions relating to going concern' section of our auditor's report and are not included as a key audit matter. We consider going concern to remain one of the areas of most significance for the 2020 audit, consistent with the prior year. The consideration of COVID-19 as a non-adjusting post balance sheet event is not applicable to the 2020 financial statements.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be US$ 1.2 million (2019: US$ 1.6 million), which is 5% (2019: 5%) of normalised pre-tax income (2019: pre-tax income). The COVID-19 pandemic has impacted the Company's performance primarily through increased expected credit losses and reduced interest income driven by the reduction of the Bank of England base rate to 0.1%. In order to determine materiality, we have calculated normalised pre-tax income by taking an average of the past four years of pre-tax income in order to establish a reasonable and sustainable profit before tax measure on which to base our assessment. We believe that profit before tax provides us with the most appropriate basis for materiality given the Company is a profit-orientated entity.

Starting basis
- Profit before tax US$ 13.6 million

Adjustments
- US$ 10.6 million added back to arrive at normalised pre-tax income

Materiality
- Totals US$ 24 million normalised pre-tax income
- Materiality of US$ 1.2 million (5% of normalised pre-tax income)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely US$ 0.6 million (2019: US$ 0.8 million). We have set performance materiality at this percentage due to our expectations about the likelihood of misstatements, primarily based on prior year experience.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$ 60,000 (2019: US$ 80,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report
To the members of National Bank of Kuwait (International) PLC

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are:
    - The Companies Act 2006
    - tax legislation (governed by HM Revenue and Customs)
    - Financial Conduct Authority ("FCA") regulations
    - Prudential Regulation Authority ("PRA") regulations.
- We understood how the Company is complying with those frameworks by reviewing relevant committee minutes and reports, holding discussions with the Company's compliance team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, internal audit and the Audit Committee and through an analysis of financial reporting information including areas of estimation which could be subject to manipulation.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged with the Company's regulators, who we meet with annually, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also focused our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- The Company operates in the financial services industry, which is a highly regulated environment. As such, the senior statutory auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure that the team had the appropriate competence and capabilities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Other matters we are required to address

- We were first appointed by the Company to audit the financial statements for the year ending 31 December 1992 and have audited all subsequent financial periods. Our final period for potential reappointment is for the year ending 31 December 2020. The period of total uninterrupted engagement including previous renewals and reappointments is 29 years, covering the years ending 31 December 1992 to 31 December 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Littler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 May 2021

Statement of Income

For the year ended 31 December 2020

	Notes	2020 $000	2019 $000
Interest and similar income	3	52,880	77,831
Interest and similar expense	4	(14,749)	(26,814)
Net interest and similar income		38,131	51,017
Net fees and commissions income	5	4,458	5,433
Net gains from dealing in foreign currencies and derivative income	6	667	1,945
Net investment income		11	-
Other operating income		361	109
Net operating income before ECL		43,628	58,504
(Charge) on expected credit losses	26.1.3	(4,030)	(645)
Net operating income after ECL		39,598	57,859
Administrative expenses	7	(24,333)	(25,627)
Depreciation	17	(1,649)	(1,191)
Operating expenses		(25,982)	(26,818)
Profit for the year before taxation	8	13,616	31,041
Taxation	9	(1,664)	(5,443)
Profit for the year		11,952	25,598

Notes 1 to 28 are an integral part of the financial statement.

Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 $000	2019 $000
Profit for the year	11,952	25,598
Other comprehensive income:		
Change in fair value of debt securities measured at FVOCI (net of tax)	(384)	58
Items that will be reclassified subsequently to profit or loss when specific conditions are met	(384)	58
Change in fair value of equity instruments measured at FVOCI (net of tax)	206	261
Items that will not be reclassified subsequently to profit or loss	206	261
Other comprehensive income/(expense) for the year	(178)	319
Total comprehensive income for the year	11,774	25,917

Notes 1 to 28 are an integral part of the financial statement.

Statement of Financial Position

31 December 2020

	Notes	2020 $000	2019 $000
Assets			
Cash and cash equivalents	11	343,251	438,575
Deposits with banks	12	523,000	555,201
Loans and advances to banks	13	26,809	4,362
Loans and advances to customers	14	1,407,926	1,294,507
Investment securities	15	186,090	226,602
Investment in group entity	16	49,209	49,209
Derivative assets	23	11,550	12,863
Fixed assets	17	52,270	53,095
Other assets	18	9,241	13,279
Total assets		2,609,346	2,647,693
Liabilities			
Due to banks and other financial institutions		738,937	956,908
Customer deposits		1,100,981	1,205,720
Certificates of deposit issued		257,094	-
Derivative liabilities	23	59,224	34,081
Other liabilities	19	17,179	26,827
Total liabilities		2,173,415	2,223,536
Equity			
Share capital	20	235,883	235,883
Retained earnings		197,602	185,650
Cumulative changes in fair values		2,446	2,624
Total equity		435,931	424,157
Total equity and liabilities		2,609,346	2,647,693

The financial statements were approved by the board of directors and authorised for issue on **10 May 2021**.

Fawzi Adnan Dajani

Director

10 May 2021

Notes 1 to 28 are an integral part of the financial statement.

Statement of Changes in Equity

31 December 2020

	Share capital $000	Retained earnings $000	Cumulative changes in fair values $000	Total $000
Balances as at 31 December 2018	**150,083**	**160,052**	**2,305**	**312,440**
Issue of new share capital	85,800	-	-	85,800
Profit for the year – continuing operations	-	25,598	-	25,598
Other comprehensive income for the year	-	-	319	319
Balances as at 31 December 2019	**235,883**	**185,650**	**2,624**	**424,157**
Profit for the year – continuing operations	-	11,952	-	11,952
Other comprehensive income for the year	-	-	(178)	(178)
Balances as at 31 December 2020	**235,883**	**197,602**	**2,446**	**435,931**

Notes 1 to 28 are an integral part of the financial statement.

Notes to the Financial Statements

31 December 2020

1. INCORPORATION AND REGISTRATION

The financial statements of National Bank of Kuwait (International) PLC (the "Bank") were approved by the Board of Directors on 10 May 2021. The Bank is incorporated in United Kingdom and is principally engaged in banking activities, primarily in United Kingdom. The address of registered office is NBK House, 13 George Street, London W1U 3QJ.

The Bank is a wholly-owned subsidiary of National Bank of Kuwait S.A.K.P., Kuwait. Copies of the Group financial statements of National Bank of Kuwait S.A.K.P. may be obtained from: NBK House, 13 George Street, London, W1U 3QJ. National Bank of Kuwait S.A.K.P. is the ultimate parent company.

The Bank is a public company limited by shares registered in England.

---

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of the Companies Act 2006 relating to banking companies and UK Financial Reporting Standard 101 'Reduced Disclosure Framework'. The Bank has taken advantage of the following exemptions under FRS 101:

a) IAS 1 Presentation of Financial Statements, paragraph 38, to present comparative information in respect of IAS 16 Property, Plant and Equipment, paragraph 73(e).

b) IAS 1, paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D and 111.

c) The requirements of IAS 7 Statement of Cash Flows.

d) IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraphs 30 and 31.

e) IAS 24 Related Party Disclosures, paragraph 17.

f) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

Interest income and interest expenses on derivatives are shown net to improve presentation of interest yield and cost of funds. Deferred tax assets and deferred tax liabilities have been netted in other liabilities.

2.2 Going concern

IAS 1 (Presentation of Financial Statements) requires directors to make an assessment of a company's ability to continue as a going concern, and whether it remains appropriate to adopt the going concern basis of accounting in preparing the entity's financial statements. IAS 1 states that the information should cover at least 12 months from the end of the reporting period but not be limited to that period, and Financial Reporting Council (FRC) guidelines state that the information should consider a period of at least 12 months from the date the financial statements are authorised for issue. This assessment has considered information for the period to 30 June 2022 (the 'assessment' period).

The directors have performed a detailed assessment of the uncertainties prevailing as a result of the COVID-19 pandemic as they relate to the adoption of the going concern principle. This includes increasing expected credit losses on its loans and advances to customers, pressures on customer deposits and the impact on these factors and reduced lending activity on the financial performance of the Bank and the Bank's surplus to regulatory requirements

Notes to the Financial Statements
31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

As disclosed in Note **27**, the Bank has a robust regulatory capital position and holds healthy surpluses above regulatory minima. While the COVID-19 outbreak may erode regulatory capital, the stress testing performed by management has shown that only in remote possibility scenarios are the requirements breached. As such the uncertainty relating to capital management is not considered to be material.

The Bank carefully monitors its liquidity position and management has performed a detailed forecast and stress test to consider the uncertainties arising out of the COVID-19 pandemic and the potential impact on the ability of the Bank to meet its liabilities as they fall due. In all reasonable scenarios the Bank maintains surpluses to these requirements and as such the uncertainty relating to liquidity management is not considered to be material.

Based on the assessment performed, as stated within the directors' report, the directors have a reasonable expectation that the Bank is well placed to manage its business risks and continue in operational existence from the date of approval of financial statements to 30 June 2022. Accordingly, the directors continue to consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

2.3 Changes in accounting policies

There have been no new accounting policies applied during the year. The accounting policies are consistent with those used in the previous year.

Accounting standards issued but not applicable

At the date of authorisation of these financial statements, the following new and revised IFRS standards have been issued but were not applicable to the Bank:

- Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16

The IASB has issued a number of minor amendments to IFRSs that become effective from 1 January 2021 or subsequent years, some of which have not yet been endorsed for use in the UK. These amendments are not expected to have a significant impact for the Bank.

2.4 Leases

The Bank applies the requirements of IFRS 16 using modified retrospective approach. This standard significantly changed the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use ('ROU') asset and a lease liability at commencement of all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Lease liabilities and ROU of assets were both recorded at the present value of future lease payments.

The impact of adoption of IFRS 16 on the Bank's financial statements is described below.

i) Impact of the new definition of a lease

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2020. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4. The Bank carried out an implementation project in prior year which has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

Notes to the Financial Statements
31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Impact on lessee accounting

Former operating leases

IFRS 16 changes how the Bank accounts for lease previously classified as operating lease under IAS 17 which were off balance sheet. By applying the standard, the Bank:

a) recognises ROU asset and lease liability in the Statement of Financial Position, initially measured at the present value of the future lease payment

b) recognises depreciation of ROU asset and interest on lease liability in profit or loss

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the ROU asset and lease liability whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight line basis.

Under IFRS 16, the ROU asset is tested for impairment in accordance with IAS 36. For short-term leases (lease term of 12 months or less) and leases of low value asset, the Bank will opt to recognise a lease expense on a straight line basis as permitted by IFRS 16.

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Bank recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee rather than the maximum amount guaranteed as required by IAS 17. This did not have any impact on the Bank's financial statements.

iii) Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for a lease. Under IFRS 16, a lessor continues to classify leases as either finance lease or operating lease and account for those two types of leases differently. However, it has changed and expanded the disclosures required in particular with regard to how a lessor manages the risks arising from its residual interest in leased asset.

iv) Financial impact of IFRS 16

The weighted average lessee incremental borrowing rate applied to lease liabilities recognised in the statement of financial position is 0.61%.

The Bank presents the ROU asset in 'land and premises' and lease liabilities in 'other liabilities' in the Statement of Financial Position. Further to an extension for 12 months on current building lease, the carrying value of the ROU asset and lease liabilities as at 31 December 2020 amounted to be US$ 272,453 (2019: US$ 312,749) and US$ 23,842 (2019: US$ 336,591) respectively.
Depreciation charge for the ROU asset for the year amounted to US$ 408,234 (2019: US$ 416,998) and is included in 'depreciation of premises and equipment' in the statement of income. Rent expenses included in 'other administrative expenses' are same as per IFRS 16 (2019: US$ 23,842 higher) during the period as a result of applying IFRS 16.

2.5 IFRS 9: Financial Instruments

The Bank applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Notes to the Financial Statements

31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Classification and measurement of financial assets and liabilities

Financial assets

The Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI), or
- Fair value through profit or loss (FVPL).

The classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.
Classification and subsequent measurement of debt instruments depend on:

1) the Bank's business model for managing the asset, and
2) the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note **26.1.2**. Interest income from these financial assets is included in 'interest and similar income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and loss on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognized in 'Net investment income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair value through profit or loss:** Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Notes to the Financial Statements

31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of the "other" business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI (solely payments of principal and interest): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt instruments when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets, such as basic ordinary shares.

Equity instruments are measured at FVPL. However, the Bank management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the Bank's right to receive payments is established.

On sale of equity investments, the gain/loss shall not be reclassified to profit and loss account. Also, equity assets are not required to be tested for impairment as per IFRS 9.

The following explains how applying the classification requirements of IFRS 9 changes in classification of certain financial assets and liabilities held by the Bank.

Notes to the Financial Statements

31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in debt securities designated at FVOCI

The Bank holds an investment of US$ 113,967 (2019: US$ 192,628) in a portfolio of debt securities which has been classified as investment at FVOCI. The changes in fair value of these securities will be reclassified to profit or loss when they are disposed of.

Hedged loans at FVOCI

The Bank has a portfolio of loans which is hedged using interest rate swaps. The portfolio meets two conditions under IFRS 9, i.e. business model test and cash flow characteristics test and therefore is measured at FVOCI.

Designation of equity instruments at FVOCI

The Bank has elected to irrevocably designate strategic investments of US$ 1,258,616 (2019: US$ 883,163) of equity securities at FVOCI under IFRS 9. The changes in fair value of this security will not be reclassified to profit or loss when they are disposed of.

Financial liabilities

Financial liabilities are classified as measured at amortised cost, except for:

- Financial liabilities at FVPL: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (change in fair value attributable to credit risk) and partially in profit or loss. If such presentation would create an accounting mismatch then the gain and loss attributable to change in credit risk of the liability is also presented in profit or loss.
- A financial liability arising from the transfer of financial assets which did not qualify for derecognition whereby a financial liability is recognised for the consideration received for the transfer.

b) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- the amount of the loss allowance, and
- the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

For loan commitments and financial guarantees contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Notes to the Financial Statements

31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts.

The ECL model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

As a result, the recognition and measurement of impairment are intended to be more forward-looking and the resulting impairment charge will tend to be more volatile. Further information on the measurement of the impairment allowance under IFRS 9 can be found in Note **26.1.2**.

d) Hedge accounting

The general hedge accounting requirements link with risk management strategy and permit hedge accounting to be applied to a variety of hedging instruments and risks. The Bank continues using the hedge accounting as per IAS 39 as this option is permissible under IFRS 9.

2.7 Revenue from contracts with customers

Revenue is recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cashflows with customers. The Bank has assessed the impact of the standard and does not have any material effect on the Bank's financial statements.

2.8 Foreign currencies

The Bank has a multi-currency share capital comprising two classes of ordinary shares: GB pounds sterling and US dollars. The functional and presentation currency of the Bank is US dollars and reserves are also held in US dollars.

Translation of foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and monetary liabilities in foreign currencies are translated into functional currency at rates of exchange prevailing at the reporting date. Any gains or losses are taken to the statement of income. Non-monetary items in foreign currencies that are measured in terms of historical cost are translated using the rate of exchange at the date of the transaction.

Notes to the Financial Statements
31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Interest income and expenses

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

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

The interest differential between the currencies involved in forward exchange contracts is included in the interest income and expenses.

2.10 Fees and commissions income

Fees that are an integral part of the effective interest rate (EIR) of loans are treated as an adjustment to the effective interest rate of the loans. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument. Fees can be recognised on a straight line method (SLM), where the difference between amortising fees using EIR and SLM is not material. Fees and transaction costs on financial instruments measured at fair value through profit or loss are not included in the EIR calculation and are charged to the Statement of Income as and when they are accrued/incurred.

Fee income is recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Company applies a five-step model to determine when to recognise revenue and at what amount. Depending on whether certain criteria are met, revenue is recognised:

i) over the life of the contract if the service is provided over the contract length

ii) at a point in time, when the performance obligation towards the customer is fulfilled.

2.11 Dividend income

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

2.12 Assets held for sale and discontinued operations

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and the sale is considered to be highly probable.

A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and the sale is expected to qualify for recognition as a completed sale within one year from the date that it is classified as held for sale.

Notes to the Financial Statements
31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

A non-current asset (or disposal group) and discontinued operations held for sale are measured at the lower of carrying amount and fair value less cost to sell. Assets and liabilities of a disposal group classified as held for sale and non-current assets classified as held for sale are shown separately on the face of the balance sheet.

The results of discontinued operations comprising the post-tax profit or loss account of discontinued operations and the post-tax gains or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operations are shown as a single amount on the face of the income statement.

A discontinued operation is a cash generating unit or group of cash generating units that has either been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical assets of operations, or (c) is a subsidiary acquired exclusively with a view to resale.

2.13 Pensions

The Bank operates a defined contribution pension scheme for employees in the UK. The costs of providing retirement benefits are charged to the statement of income in the period in which they are incurred.

2.14 Taxation

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date in the countries where the Bank operates and generates taxable income. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these.

Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

2.15 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Bank has access at that date.

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Bank measures assets at a bid price and liabilities at an ask price. The Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Financial Statements
31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Offsetting of financial assets and liabilities

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

2.17 Derecognition of financial assets and financial liabilities

Financial assets

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

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

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

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

2.18 Derivative financial instruments

The Bank continued using the hedge accounting as per IAS 39, as this option is permissible under IFRS 9 and does not have any significant impact on its financial position.

The Bank deals in interest rate swaps to manage interest rate risk on interest bearing assets and liabilities. Similarly the Bank deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Bank are recorded in the statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

Notes to the Financial Statements
31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised financial asset or liability or a highly probable forecast transaction. In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument is recognised immediately in the statement of income. The hedged items are adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income.

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

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

On IBOR reform, no deals were transitioned during the period and no phase 1 or phase 2 reliefs applied to date (see Note **23**). The Bank does not consider that the prospect of negative interest rates could have any particular challenges or impacts on current hedging relationships.

2.19 Trade and settlement date accounting

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

2.20 Investment in group undertaking

The Bank has an investment in entity NBK France S.A. set up in 2018, a subsidiary owned by National Bank of Kuwait S.A.K.P. The Bank has used one time irrevocable option to designate the investment at 'fair value through OCI' (FVOCI) with any gain/loss recognised in OCI.

2.21 Fixed assets

Fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Notes to the Financial Statements
31 December 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is provided on the depreciable amount of other items of premises and equipment on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of fixed assets is as follows:

Freehold property	: 50 years
Property improvements	: 15 years
Fixtures, fittings and equipment	: 5 years
Motor vehicle	: 4 years
Computer equipment	: 3 years

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

2.22 Due to banks and financial institutions, customer deposits and certificate of deposit issued

Due to banks and financial institutions, customer deposits and certificate of deposit issued are stated at amortised cost using the effective interest method.

2.23 Significant accounting judgements and estimates

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

The Bank also uses the discounted dividend model to calculate estimated cost of equity of NBK France S.A. using various parameters such as relevant discount rate, long-term growth rate. A sensitivity analysis is also performed to reflect the value of the investment being appropriate. The management business plan is extended for next three years which is further extended by a projected results for four years. See Note **16** for further detail.

Measurement of the expected credit loss (ECL) allowance

The measurement of the ECL allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note **26.1.2**, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL, and
- establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above area is set out in Note **26.1.2**.

Notes to the Financial Statements
31 December 2020

3. INTEREST AND SIMILAR INCOME

	2020 $000	2019 $000
Deposits with banks	6,890	24,063
Loans and advances	41,726	45,634
Debt investment securities	4,264	8,134
	52,880	77,831

All of the interest is recorded on effective interest rate method.

4. INTEREST AND SIMILAR EXPENSES

	2020 $000	2019 $000
Due to banks and other financial institutions	8,379	17,863
Customer deposits	2,477	7,230
Other	3,893	1,721
	14,749	26,814

Other includes a non-significant balance relating to interest expense on lease liabilities.

5. NET FEES AND COMMISSIONS INCOME

	2020 $000	2019 $000
Fees and commission income:		
Credit card fees and commissions	64	150
Retail banking customer fees	3,711	3,492
Financial guarantee contract and letter of credit fees	1,121	1,276
Real estate consulting fees	516	743
Other	30	53
	5,442	5,714
Fees and commission related expenses	(984)	(281)
Net fees and commissions income	4,458	5,433

6. NET GAINS FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVE INCOME

Net gains from dealing in foreign currencies and derivative income mainly consist of dealing profits generated from foreign currency related transactions and hedge ineffectiveness on bond and loan portfolio.

Notes to the Financial Statements

31 December 2020

7. ADMINISTRATIVE EXPENSES

	2020 $000	2019 $000
Staff costs:		
Wages and salaries	12,858	12,269
Social security costs	1,494	1,412
Pension costs	1,538	1,342
	15,890	15,023
Other administrative expenses	8,443	10,604
	24,333	25,627

The average number of employees, all engaged in banking activities during the year, was 159 (2019: 147). Other administrative expenses include occupancy, computer expenses, professional fees and various other overheads.

The Bank operates one defined contribution pension scheme. The UK scheme assets are in the form of units in a life fund.

8. PROFIT FOR THE YEAR BEFORE TAX

	2020 $000	2019 $000
This is stated after charging:		
Fees payable to the Company's auditor for the audit of annual accounts	362	303
Audit related services	20	20
Fees payable to the Company's auditor for the services provided in relation to the audit of the Company's ultimate parent	277	268
Total auditor's remuneration	659	591
Operating lease rentals – land and buildings	-	876

9. TAXATION

(a) The tax charge is made up as follows:	2020 $000	2019 $000
Current tax:		
UK corporation tax on the profit for the year	1,822	5,792
Adjustment in respect of prior years	(43)	(616)
Foreign tax	-	-
UK double tax relief	-	-
Total current tax	1,779	5,176
Deferred tax charge/(income) (Note c):		
Related to the current year	138	256
Adjustment in respect of prior years	29	37
Effect of changes in tax rates	(64)	(26)
Total deferred tax	103	267
Foreign exchange	(218)	-
Tax per income statement (Note **b**)	1,664	5,443
Other comprehensive income – deferred tax (credit)	289	(107)

Notes to the Financial Statements

31 December 2020

9. TAXATION (continued)

(b) Factors affecting tax charge for the year	2020 $000	2019 $000
Profit on ordinary activities before tax	13,616	31,041
Profit taxed at UK corporation tax Average standard rate of 19% (2019: 19%)	2,587	5,898
Effect of:		
Disallowed expenses	115	151
Disallowed income	(2)	(1)
Adjustment in respect of prior years	(14)	(579)
Tax rate changes	(64)	(26)
Others – provision written off	(740)	-
Foreign exchange	(218)	-
Total tax charge	1,664	5,443

(c) Disclosed in statement of financial position	2020 $000	2019 $000
Current tax (assets)/liabilities:		
Corporation tax receivable	(424)	2,808
Other tax provision	-	634
Total current tax (assets)/liabilities	(424)	3,442

Deferred tax liabilities/(assets)	2020 $000	2019 $000
Provision at the start of the period	(234)	(394)
Adjustment in respect of prior years	29	37
Deferred tax charge to income statement for the period	74	230
Deferred tax charge in OCI for the period	289	(107)
Total deferred tax liabilities/(assets)	158	(234)

Net temporary differences	2020 $000	2019 $000
Fixed assets	228	175
Provisions	-	(17)
Fair value change in debt securities	2,882	1,822
Fair value in hedging instruments	(2,446)	(1,502)
Fair value movement on AFS assets	-	15
Fair value movement on equity instruments	170	-
Change in basis adjustment trading	(277)	(316)
Change in basis adjustment trading – 2018	(399)	(408)
Total net temporary differences	158	(234)

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As a result, the deferred tax balances as at 31 December 2020 is measured at a rate of 19%.

Notes to the Financial Statements

31 December 2020

10. EMOLUMENTS OF DIRECTORS

	2020 $000	2019 $000
Fees and other emoluments	882	811
Pension contributions in respect of defined contribution schemes	78	73
Highest paid director	455	437

11. CASH AND CASH EQUIVALENTS MEASURED AT AMORTISED COST

	2020 $000	2019 $000
Cash on hand	375	1,118
Balances with central banks	342,876	437,458
Less: ECL	-	(1)
	343,251	438,575

12. DEPOSIT WITH BANKS MEASURED AT AMORTISED COST

	2020 $000	2019 $000
On demand and short notice	97,925	209,466
Less: ECL	-	(8)
Credit institutions	425,330	345,798
Less: ECL	(255)	(55)
	523,000	555,201

13. LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST

	2020 $000	2019 $000
Loans and advances to banks measured at amortised cost	26,911	4,375
Less: ECL	(102)	(13)
	26,809	4,362

14. LOANS AND ADVANCES TO CUSTOMERS

	2020 $000	2019 $000
Loans and advances to customers measured at amortised cost	1,322,070	1,218,664
Less: ECL	(6,390)	(2,769)
Loans and advances to customers measured at FVOCI	92,357	78,657
Less: ECL	(111)	(45)
	1,407,926	1,294,507

During the year the Bank did not repossess collateral from any customer (2019: nil).

Notes to the Financial Statements

31 December 2020

15. INVESTMENT SECURITIES

	2020 $000	2019 $000
Investments:		
Equities measured at FVOCI	1,259	883
Debt securities measured at FVPL	70,879	33,106
Debt securities measured at FVOCI	113,967	192,628
Less: ECL	(15)	(15)
	186,090	226,602

Debt securities are held on a yield-to-maturity basis, for portfolio management purposes. See Note **26** for details on valuation of investment securities.

16. INVESTMENT IN GROUP UNDERTAKING

	2020 $000	2019 $000
Investment in NBK France S.A.	49,209	49,209

NBKI holds 19.68% investments in a group company, NBK France S.A. registered at 90 Avenue des Champs-Elysees, 75008 Paris, France which is directly owned by National Bank of Kuwait S.A.K.P. This company was established on 31 December 2018. Dividend discount model is used to derive a fair value of the investment. The projected cashflows up to 2027, based on forecasted profits and required capital growth of 13% were then discounted by a range from 4.2% to 8.4%. The range of valuation was US$ 50 million–55 million and the valuation was kept as previously. Sensitivity was then applied on the growth and discount rate in the range of 5% to 10%.

Notes to the Financial Statements

31 December 2020

17. FIXED ASSETS

The Bank has finance lease arrangement as a lessor for a small portion of the property with external company and generates rental income. Total fixed assets also increased due to finance lease arrangement as a lessee (ROU) which was previously reported as operating lease under IAS 17 (see Note **2**). These arrangements have been extended for a further 12 months.

	Freehold premises and improvements $000	Building (ROU) $000	Furniture, fixtures and equipment $000	Motor vehicle $000	Computer equipment $000	Total $000
Cost						
Balance at 1 January 2020	51,112	730	4,363	73	2,517	58,795
Additions	-	388	296	-	206	890
Disposal	-	-	(6)	-	(40)	(46)
FX movement	-	5	-	-	-	5
Balance at 31 December 2020	51,112	1,123	4,653	73	2,683	59,644
Accumulated depreciation						
Balance at 1 January 2020	1,050	417	2,200	64	1,969	5,700
Charge for the year	566	408	330	9	336	1,649
Disposal	-	-	(5)	-	(39)	(44)
FX movement	-	25	9	-	35	69
Balance at 31 December 2020	1,616	850	2,534	73	2,301	7,374
Net book value:						
At 31 December 2019	50,062	313	2,163	9	548	53,095
At 31 December 2020	49,496	273	2,119	-	382	52,270

Included in depreciation there is a charge of US$ 408,234 (2019: US$ 416,998) relating to finance lease asset (ROU).

18. OTHER ASSETS

	2020 $000	2019 $000
Accrued interest receivable	7,121	11,549
Sundry debtors and prepayments	1,152	716
Deferred tax assets (Note **9**)	-	234
Corporation tax receivable (Note **9**)	424	-
Others	544	780
	9,241	13,279

Notes to the Financial Statements

31 December 2020

19. OTHER LIABILITIES

	2020 $000	2019 $000
Interest payable	7,034	13,262
Deferred income	5,746	5,482
Tax payable (Note **9**)	-	3,569
Deferred tax liabilities (Note **9**)	158	-
Lease liabilities	228	336
Others	3,371	3,598
ECL on guarantees and letters of credit (Note **24**)	642	580
	17,179	26,827

The net tax receivable in 2020 is reported with other assets. Prior year tax payable included an element of US$ 126,815 credit relating to foreign exchange.

20. SHARE CAPITAL

There are two classes of ordinary share capital issued, being in pounds sterling and US dollars:

	Ordinary Share Capital	
Authorised:	**2020 No.'000**	**2019 No.'000**
Number of shares with nominal value of £1 each	50	50
Number of shares with nominal value of US$1 each	240,000	240,000

Allotted, called up and fully paid:	**2020 $000**	**2019 $000**
Shares denominated in GBP	83	83
Shares denominated in USD	235,800	235,800

21. ORDINARY DIVIDENDS

The directors proposed no dividend for the year ending 31 December 2020 (2019: nil).

Notes to the Financial Statements

31 December 2020

22. RELATED PARTY TRANSACTIONS

Related parties comprise board members and senior officers of the Bank, their close family members and companies controlled by them or close family members, National Bank of Kuwait S.A.K.P. and its subsidiaries. Certain related parties were customers of the Bank in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. The balances related to gross exposures (excluding ECL).

	2020 $000	2019 $000
Board members and senior officers of the Bank		
Customer deposits	-	2,324
Interest expense	4	11
Loans and advances to customers	4,250	4,229
Deposits with banks	12,710	-
Interest income	98	116
Parent Company		
Deposits with banks	27,134	7,149
Other assets	142	343
Due to banks and other financial institutions	90,238	206,939
Other liabilities	17,328	13,426
Contingent liabilities	19,291	24,324
Fully owned subsidiaries of the Parent Company		
Due to banks and other financial institutions	5,075	717
Customer deposits	4,492	4,309
Contingent liabilities	183	167
Partly owned subsidiaries of the Parent Company		
Due to banks and other financial institutions	937	31,158
Deposit with banks	24,461	274
Contingent liabilities	-	4,210
Fee income	152	2

23. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to underlying economic drivers such as interest rates, foreign exchange rates, indices of prices or rates and credit rating or credit indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Bank's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Bank arising from replacing contracts with its counterparties.

Notes to the Financial Statements

31 December 2020

23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Bank deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Bank deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

Interest rate swaps used to hedge the change in fair value of the Bank's financial assets and liabilities and which qualifying as effective hedging instruments are disclosed as 'held as fair value hedges'. As at 31 December 2020, the total hedge ineffectiveness is not significant.

Forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The foreign currency risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counterparties or by other risk mitigating transactions.

Interest rate swaps

Interest rate swaps are contractual agreements between two counterparties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Bank exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity.

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date. The fair value of derivative financial instruments included in the financial statements, together with their notional amounts is summarised as follows:

	2020			2019		
	Positive fair value $000	Negative fair value $000	Notional $000	Positive fair value $000	Negative fair value $000	Notional $000
Interest rate swaps (held as fair value hedges)	-	16,177	189,136	2	11,652	178,379
Forward foreign exchange contracts	11,550	43,047	1,517,234	12,861	22,429	1,998,195
	11,550	59,224	1,706,370	12,863	34,081	2,176,574

Gain on hedged fixed income financial assets amounted to US$ 18,149 thousand (2019: US$ 12,866 thousand) accounted for through other comprehensive income.

At 31 December 2020, the Bank has GBP and USD three month LIBOR interest rate swaps of notional values of US$ 91,136 and US$ 98,000 outstanding. The weighted average maturities are 3.82 and 3.89 years. The Bank has signed up the ISDA protocol such that any outstanding LIBOR transaction will revert to fallback language should they remain outstanding at the point the LIBOR benchmark ceases being published.

Notes to the Financial Statements
31 December 2020

24. COMMITMENTS AND CONTINGENT LIABILITIES

Set out below are the notional principal amounts of off-balance sheet transactions. The notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Contingent liabilities:	2020 $000	2019 $000
Financial guarantees	219,164	211,849
Irrevocable letters of credit	10,492	11,023
ECL on guarantees and letter of credit	(642)	(580)
At 31 December	229,014	222,292
Commitments:		
Undrawn, formal standby facilities, credit lines and other commitments to lend	151,409	76,953

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are observable from market data.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuation techniques include discounted cash flow models, comparison with similar instruments for which market observable prices and recent transaction information exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Notes to the Financial Statements

31 December 2020

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value measurement hierarchy of the Bank's financial instruments recorded at fair value:

2020	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities at FVOCI	-	-	50,468	50,468
Debt securities at FVPL	-	-	70,879	70,879
Debt securities at FVOCI	113,967	-	-	113,967
Less: ECL (debt securities)	(15)	-	-	(15)
	113,952	-	121,347	235,299
Derivative financial instruments (Note **23**)	-	(47,674)	-	(47,674)

2019	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities at FVOCI	-	-	50,092	50,092
Debt securities at FVPL	-	-	33,106	33,106
Debt securities at FVOCI	192,628	-	-	192,628
Less: ECL (debt securities)	(15)	-	-	(15)
	192,613	-	83,198	275,811
Derivative financial instruments (Note **23**)	-	(21,218)	-	(21,218)

The fair values of these securities are estimated using valuation techniques with observable inputs. Derivatives are valued using valuation techniques which include forward pricing and swap models using present value calculations. The models incorporate various inputs such as foreign exchange spot and forward rates and interest yield curves. The impact of non-performance risk is not considered in the valuation as it is not significant.

The table below analyses the movement in Level 3 and the income (interest and realised gain) generated during the year.

	At 1 January 2020 $000	Additions $000	Change in fair value $000	Sale $000	At 31 December 2020 $000	Net gains in the statement of income $000
Equities at FVOCI	50,092	-	376	-	50,468	-
Debt securities at FVPL	33,106	70,879	-	(33,106)	70,879	-
	83,198	70,879	376	(33,106)	121,347	-

	At 1 January 2019 $000	Additions $000	Change in fair value $000	Sale $000	At 31 December 2019 $000	Net gains in the statement of income $000
Equities at FVOCI	49,832	-	260	-	50,092	-
Debt securities at FVPL	6,024	33,106	-	(6,024)	33,106	-
	55,856	33,106	260	(6,024)	83,198	-

Notes to the Financial Statements
31 December 2020

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Equity included in this category is a strategic equity investment which is not traded in an active market. The fair value of this equity investment is estimated using an internal valuation technique, which includes taking observable market information and applying an appropriate discount rate. Sensitivity analysis for fair value estimations on equity investments, by varying input assumptions in the range from 5% to 10% (2019: range from 5% to 10%), did not indicate any material impacts. Debt securities included in this category for year ended 31 December 2020 consists of unquoted corporate bonds issued by banks and financial institutions.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are re-priced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models (Level 3) incorporating certain assumptions such as credit spreads that are appropriate in the circumstances. Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on statement of financial position or statement of income.

26. RISK MANAGEMENT

Risk is inherent in the Bank's activities but is managed in a structured, systematic manner through policies and processes that embed risk management into business operations. Risk management direction and oversight are provided by the Board of Directors, with the support of the Board Audit Committee and Board Risk Committee. The Bank's risk management and iInternal audit functions assist executive management in controlling and actively managing the Bank's overall risk profile.

The Bank is primarily exposed to credit risk, liquidity risk, operational risk and market risk.

In accordance with sound management and with regulatory requirements, the Bank has implemented processes for the measurement and management of risk commensurate with the Bank's size and business model.

Financial transactions and outstanding exposures are quantified and compared against authorised risk limits, whereas non-financial risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action. Any breach of a risk tolerance that is defined in the NBKI Risk Appetite Statement is reported to Board.

The Bank uses interest rate swaps, forward foreign exchange contracts and other instruments to manage the financial risks resulting from changes in interest rates and foreign exchange rates.

The Bank's risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration risks.

Notes to the Financial Statements
31 December 2020

26.1 Credit risk

Credit risk is the risk of suffering loss because scheduled payments associated with a debt, or with a collection of debts, are not received in full and on time in line with agreed contractual obligations. Credit risk arises mainly from interbank placements, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (CDS), financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

Credit risk is the single largest risk for the Bank's business. All policies relating to credit risk are reviewed by the Board of Directors. The Board Risk Committee and the Board oversees credit risk on a quarterly basis.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Procedures outlined in the Bank's credit policies require that all credit proposals be subjected to detailed screening by the Credit Risk Department before submission to the Credit Approval Committee. Whenever necessary, loans are secured by acceptable forms of collateral to mitigate the related credit risks.

The Bank has an internal Credit Risk Committee ("CRC") that monitors credit exposure at a portfolio level, where CRC may take early preventative actions including further tightening of acceptable credit standards. CRC is informed by a dedicated Provisions Committee that reviews and approves the Bank's provisions for credit losses, both collective and on individually impaired facilities, in line with accounting treatments. CRC and Provisions Committee meet regularly throughout the year.

The Bank further limits credit risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored, and credit performance and ratings periodically reviewed.

26.1. 1 Credit risk measurement

The estimation of credit exposure for risk management purposes is complex and includes the use of analytic models as the credit risk will change with market conditions, expected cash flows, correlations between counterparties, and with the passage of time. The Bank measures credit risk by estimating for each exposure the (one-year) Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). These are also inputs for the estimation and modelling of Expected Credit Loss (ECL) under IFRS 9. See Note **26.1.2** for more details.

Credit risk grading

The Bank uses internal credit risk grades that reflect its assessment of the probability of default of individual counterparties. The Bank uses calibrated rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into these models. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the credit risk officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model. The performance of the analytic models used in this process are periodically reviewed and validated in line with the Bank's model governance policy.

Notes to the Financial Statements

31 December 2020

26.1 Credit risk (continued)

26.1. 2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If there is a significant increase in credit risk ('SICR') since the initial recognition identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to Note **26.1.2.1** for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to Note **26.1.2.2** for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note **26.1.2.3** for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note **26.1.2.4** includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis (Note **26.1**). The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

<--->

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition) 12-month expected credit losses	(Significant increase in credit risk since initial recognition) Lifetime expected credit losses	(Credit-impaired assets) Lifetime expected credit losses

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

26.1.2.1 Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria:

a) Significant increase in credit risk (SICR) – externally-rated portfolio

To determine if the risk of default of a financial instrument has increased significantly since initial recognition, the current risk of default at the reporting date would be compared with the risk of default at initial recognition. This assessment of whether there has been a significant increase in credit risk is required to be carried out at each reporting date. An asset can move into and out of the lifetime expected credit losses category (Stage 2 and 3) based on a predefined pattern obtained from the historical default rates or delinquency status of accounts across various internal rating grades, products or sectors.

Notes to the Financial Statements

31 December 2020

26.1 Credit risk (continued)

This portfolio includes, but is not limited to, bonds, investments, sovereign and corporate obligors that are externally rated.

There are certain portfolios for the Bank (e.g. Bonds) where external ratings are applicable and used to assist in credit decisions. Final external rating is derived using the Median logic as stipulated in the Basel guidelines.

The staging criterion for the same would require 2-Grade downgrade (without considering modifiers in the rating) for any facility that was within "investment grade" at inception. Any facility which was below "investment grade" at inception would be tagged as Stage 2 if there was a downgrade of one or more Grade in its rating.

Downgrade matrix for externally-rated portfolio

Additionally, as per IFRS 9, "a financial instrument with an external rating grade within 'investment grade' (BBB- or higher by S&P/Fitch) is an example of an instrument that may be considered to have low credit risk". Any facility without external rating at inception would be considered for staging based on the following:

Instrument with rating in "investment grade" (BBB- or better) at the reporting date would be considered in Stage 1. Instrument with rating in non-investment grade at reporting date would be considered in Stage 2.

If an instrument/exposure is 'Unrated', then the rating is considered to be the lower of the "country ceiling" (which is the sovereign rating of the country) of the exposure and Ba1 (effectively non-investment grade, thereby Stage 2). If the country is also unrated, then the exposure is classified as Stage 2.

With particular reference to cash and short-term deposits to banks, given the very short maturity of seven days, this portfolio is considered to be in Stage 1.

b) Significant increase in credit risk (SICR) – internally-rated portfolio

Post the consideration of externally-rated portfolio, internally-rated (based on MRA ratings) is evaluated.
Based on the rating migration data and historical default rates across the Bank's corporate portfolio, following criteria are fixed for determining SICR:

Downgrade matrix for internally-rated portfolio for Stage 1 and Stage 2:

Based on Grade movements (internally-rated portfolio)

Inception	Current Grade												Down Grade
	1	2	3	4	5	6	7	8	9	10	11	12	
1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	S-2	S-2	4
2	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	S-2	S-2	3
3	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	S-2	S-2	2
4	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	S-2	2
5	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	2
6	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	2
7	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	1
8	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	1
9	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	1
10	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	1
11	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	1
12	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	0

Key: S-1: Stage 1; S-2: Stage 2

Notes to the Financial Statements

31 December 2020

26.1 Credit risk (continued)

Above rating migration will be applied without considering modifiers in the ratings.

The Bank denotes the counterparty assessment as the L1 rating of the counterparty. The L1 rating is the obligor rating with no consideration of credit risk mitigation such as guarantees and collateral coverage. The effect of any bank, corporate or sovereign guarantees is captured in L2, and of collateral in L3 ratings. The assessment shown above is derived from the L1 ratings of the borrower.

Final L2 rating for any obligor will be the better of the L1 and L2 ratings. Similarly, the final L3 rating for any obligor will be the best of L1, L2 and L3 ratings.

c) Stage sssessment based on Grade downgrade matrix:

In case L1 rating is present both at inception and current, then the above downgrade matrix would be applicable to that set of borrowers considering the L1 inception and current rating levels. Note that the renewed facilities are currently assessed based on new dates in line with their renewal. The credit committee revisits each case of the renewal request.

In case L1 rating is not present either at inception or currently for the borrower and L2 ratings are present both at inception and currently, then the above downgrade matrix would be applicable to that set of borrowers considering the L2 inception and current rating levels.

In case L2 is not present either at inception or currently for the borrower and L3 rating are present at both inception and currently, then the above downgrade matrix would be applicable to that set of borrowers considering the L3 inception and current rating levels.

d) Stage assessment based on absolute rating:

In case the inception rating is not available to perform stage assessment based on the Grade downgrade matrix, stage assessment will be done based on the current rating as follows. Any facility which has a current L1 rating would be considered for staging based on the absolute L1 rating on the reporting date. Instruments with rating as 1, 2, 3, 4 and 5 (investment grade) at reporting date would be considered in Stage 1. Instruments with rating in 6, 7, 8, 9, 10, 11 and 12 grades (non-investment) at reporting date would be considered in Stage 2.

In the absence of an absolute L1 rating, the L2 rating would be used, if available, and in case only the L3 current rating is available, then the above absolute grade would be applicable to that set of borrowers at the L3 absolute rating level. The Bank is working towards reducing the extent of the unrated portfolio by having an MRA rating and subsequently will be using the L1 or L2 ratings for staging.

e) Stage assessment for unrated portfolio based on assumptions:

If an instrument/exposure is 'Unrated', then the rating applied is Moody's equivalent grade for the PD, which is the lower of the TTC PD (central tendency PD of internally-rated portfolio for country of risk) and the country's PD (based on sovereign rating of the country of risk), and if this rating is of non-investment grade (less than BBB) at the reporting date then it would be considered as Stage 2. If the TTC for the country of risk is not available, the TTC for the booking location will be applied, based on which (investment/non-investment grade) the final stage will be allocated.

Notes to the Financial Statements
31 December 2020

26.1 Credit risk (continued)

f) Significant increase in credit risk ("SICR") – DPD
Superseding the SICR criteria for the above, any facility of the Bank would be tagged as Stage 2 in case the delinquency measure of the same is 30 days past due (DPD) or more but less than 90 DPD.

IFRS 9 presumes 30 DPD criterion for Stage 2 classification. This criterion would be treated as an overlay for the overall book of the Bank (e.g. a rated instrument is classified as Stage 1 from the grade downgrade criterion, but would be tagged as Stage 2 if the delinquency is above 30 DPD).

Qualitative criteria:
a) Use of early warning indicators for SICR
Apart from the above-mentioned staging criteria based upon rating grades and DPD buckets, the following qualitative criteria are evaluated by the management to categorise a particular borrower into Stage 2 by providing appropriate reasoning for the same. Early warning signal (EWS) signals are broken into two parts.

Financial warning signals:

- Decrease in Revenue/Sales by 30% or more
- Decrease in net profit by 30% or more
- Increase in Accounts Receivables Days on hand by 30% or more
- Increase in Inventory Days on hand by 30% or more
- Decrease in Financial Payments Coverage Ratio using EBITDA by 30% or more
- Increase in balances due from/due to related parties by 30% or more
- Decrease in Cash Flow from operating activities by 30% or more

Non-financial warning signals:
- Late interest payments
- Delay in providing financial statements or other data
- Unclear company strategy
- Existence of administrative problems in the company

Governance and frequency for monitoring EWS is performed regularly as per the procedures.

b) Management of stage override mechanism
Any requests for overrides, as an exception to the staging policy are formally communicated to the relevant approving authority (Provision Committee). The final Stage allocations would be determined by this authority.

Notes to the Financial Statements
31 December 2020

26.1 Credit risk (continued)

26.1.2.2 Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

The default definition used is consistent with the one used for regulatory purposes and is defined as 90 days past due (DPD) for any facility or tagging the facility as "impaired" for internal credit management purposes. Any facility that would be tagged as default under this definition as of the reporting date would be tagged in the Stage 3 population. Additionally, the Bank will assess 'significant decrease in risk' from time to time before moving these facilities from Stage 3 (default) to Stage 2/Stage 1.

Please note that the above criterion of 90 days is fixed for corporate and retail portfolios, whereas for investments the definition of default shall be considered if the coupon or principal payment is past due for one day.

For the externally-rated portfolio, the default grade is defined as 'D' for S&P and Fitch, and 'C' for Moody's.

Qualitative criteria:

Any credit-impaired facility or stressed facility that has been restructured would also be tagged as default. This is in line with the definition of credit-impaired asset in the IFRS 9 standard. The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Bank's expected loss calculations.

The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least one year, or as determined by the Bank for consideration for tagging the facility in Stage 2/Stage 1.

The Bank has not changed or amended its credit risk policies due to COVID-19. However, it has taken COVID-19 stresses into consideration and applied government guidelines not to downgrade both businesses and individuals as the stress in their finances was caused by COVID-19. The Bank has granted a total of 69 mortgage payment deferral requests of which two remain active.

This period has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Notes to the Financial Statements
31 December 2020

26.1 Credit risk (continued)

26.1.2.3 Measuring ECL – explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking the current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band based on analysis of the Bank's recent default data.

Notes to the Financial Statements
31 December 2020

26.1 Credit risk (continued)

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies including contracted debt sales and price.

Forward looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. See Note **26.1.2.4** for explanation of forward looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change – are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

26.1.2.4 Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporated forward looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These are mainly the GDP and Equity indices for UK, Eurozone and other countries with exposures including Kuwait. The Brent Oil price is also included.

Forward looking information up to five years is incorporated by NBKI in the form of macroeconomic factors. Macroeconomic factors operate based on the country of risk of the obligor.

Currently, the Bank is using three scenarios; base line scenario (scenario 1) weighted at 40%, stronger near-term growth (scenario 2), weighted at 30% and moderate recession (scenario 3) also weighted at 30%.

26.1.3 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increase (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements, and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Notes to the Financial Statements
31 December 2020

26.1 Credit risk (continued)

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period impacted by these factors:

On Balance Sheet	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total $000
Debt securities measured at FVOCI (Note **15**)				
At 1 January 2020	15	-	-	15
Origination and acquisition	-	-	-	-
Derecognition, repayments and disposals	(1)	-	-	(1)
Changes due to change in credit risk (net)	1	-	-	1
At 31 December 2020	15	-	-	15
Central bank (Note **11**)				
At 1 January 2020	1	-	-	1
Origination and acquisition	-	-	-	-
Derecognition, repayments and disposals	(1)	-	-	(1)
Changes due to change in credit risk (net)	-	-	-	-
At 31 December 2020	-	-	-	-
Credit institutions (Note **12** & **13**)				
At 1 January 2020	75	-	-	75
Origination and acquisition	309	-	-	309
Derecognition, repayments and disposals	(47)	-	-	(47)
Changes due to change in credit risk (net)	20	-	-	20
At 31 December 2020	357	-	-	357
Loans and advances to customers (Note **14**)				
At 1 January 2020	1,169	1,520	125	2,814
Origination and acquisition	712	47	-	759
Derecognition, repayments and disposals	(192)	-	(125)	(317)
Transfer from stage 1 to 2	(191)	191	-	-
Transfer from stage 2 to 1	6	(6)	-	-
Transfer from stage 1 to 3	(3)	-	3	-
Transfer from stage 2 to 3	-	(1)	1	-
Changes due to change in credit risk (net)	373	1,061	1,811	3,245
At 31 December 2020	1,874	2,812	1,815	6,501
TOTAL on Balance Sheet	2,246	2,812	1,815	6,873

Notes to the Financial Statements
31 December 2020

26.1 Credit risk (continued)

Off Balance Sheet	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total $000
Commitments and contingent liabilities (Note **19** & **24**)				
At 1 January 2020	580	-	-	580
Origination and acquisition	116	-	-	116
Derecognition, repayments and disposals	(95)	-	-	(95)
Changes due to change in credit risk (net)	41	-	-	41
At 31 December 2020	642	-	-	642
GRAND TOTAL	2,888	2,812	1,815	7,515

The net movement of US$ 4,030,272 (2019: US$ 645,141) is accounted for through the profit or loss account.

26.1.4 Maximum exposure to credit risk

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

Financial assets by instrument and by counterparty sector: financial assets at FVOCI

2020	Carrying amount $000	Gross carrying amount $000			Accumulated impairment $000		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	Significant increase in credit risk	Credit-impaired			
General government	66,183	66,188	-	-	(5)	-	-
Financial corporations	47,769	47,779	-	-	(10)	-	-
(Note **15**)	113,952	113,967	-	-	(15)	-	-
Hedged loans (Note **14**)	92,246	89,703	2,654	-	(80)	(31)	-
Financial assets at FVOCI	206,198	203,670	2,654	-	(95)	(31)	-

Notes to the Financial Statements
31 December 2020

26.1 Credit risk (continued)

2019	Carrying amount $000	Gross carrying amount $000			Accumulated impairment $000		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	Significant increase in credit risk	Credit-impaired			
General government	145,459	145,465	-	-	(6)	-	-
Financial corporations	47,154	47,163	-	-	(9)	-	-
(Note **15**)	192,613	192,628	-	-	(15)	-	-
Hedged loans (Note **14**)	78,612	78,657	-	-	(45)	-	-
Financial assets at FVOCI	271,225	271,285	-	-	(60)	-	-

Financial assets by instrument and by counterparty sector: financial assets at amortised cost

2020	Carrying amount $000	Gross carrying amount $000			Accumulated impairment $000		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	Significant increase in credit risk	Credit-impaired			
Cash and cash equivalents (Note **11**)	343,251	343,251	-	-	-	-	-
On demand and short notice (Note **12**)	97,925	97,925	-	-	-	-	-
Credit institutions (Note **12** & **13**)	451,884	452,241	-	-	(357)	-	-
Loans and advances (Note **14**)	1,315,680	1,096,259	203,442	22,369	(1,984)	(2,595)	(1,811)
Financial assets at amortised cost	2,208,740	1,989,676	203,442	22,369	(2,341)	(2,595)	(1,811)

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in Note **26.1.2** 'Expected credit loss measurement'.

Notes to the Financial Statements

31 December 2020

26.1 Credit risk (continued)

2019	Carrying amount $000	Gross carrying amount $000			Accumulated impairment $000		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	Significant increase in credit risk	Credit-impaired			
Cash and cash equivalents (Note **11**)	438,575	438,576	-	-	(1)	-	-
On demand and short notice (Note **12**)	209,458	209,466	-	-	(8)	-	-
Credit institutions (Note **12** & **13**)	350,105	350,173	-	-	(68)	-	-
Loans and advances (Note **14**)	1,215,895	1,166,997	50,412	1,254	(1,123)	(1,520)	(125)
Financial assets at amortised cost	2,214,033	2,165,212	50,412	1,254	(1,200)	(1,520)	(125)

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note **26.1.2** 'Expected credit loss measurement'.

Financial assets subject to impairment that are past due

2020	Carrying amount									
	Stage 1 Assets with no significant increase in credit risk $000				Stage 2 Assets with significant increase in credit risk but not impaired $000			Stage 3 Credit-impaired assets $000		
DAYS	Not past due	≤ 30	> 30 ≤ 90	> 90	≤ 30	> 30 ≤ 90	> 90	≤ 30	> 30 ≤ 90	> 90
Debt securities (Note **15**)	113,952	-	-	-	-	-	-	-	-	-
On demand and short notice (Note **12**)	97,925	-	-	-	-	-	-	-	-	-
Credit institutions	451,884	-	-	-	-	-	-	-	-	-
Loans and advances	1,157,950	8,109	-	-	196,670	24,648	-	20,549	-	-
TOTAL	1,821,711	8,109	-	-	196,670	24,648	-	20,549	-	-

The balances in < 30 days within Stage 2 includes balances with no past due of US$ 132,920 and within Stage 3 includes balances with no past due of US$ 20,549.

Notes to the Financial Statements

31 December 2020

26.1 Credit risk (continued)

2019	Carrying amount									
	Stage 1 Assets with no significant increase in credit risk $000				Stage 2 Assets with significant increase in credit risk but not impaired $000			Stage 3 Credit-impaired assets $000		
DAYS	Not past due	≤ 30	> 30 ≤ 90	> 90	≤ 30	> 30 ≤ 90	> 90	≤ 30	> 30 ≤ 90	> 90
Debt securities (Note **15**)	192,613	-	-	-	-	-	-	-	-	-
On demand and short notice (Note **12**)	209,458	-	-	-	-	-	-	-	-	-
Credit institutions	350,105	-	-	-	-	-	-	-	-	-
Loans and advances	1,235,824	8,661	-	-	48,646	246	-	-	-	1,129
TOTAL	1,988,000	8,661	-	-	48,646	246	-	-	-	1,129

The balances in < 30 days within Stage 2 also includes balances with no past due of US$ 44,787.

The following disclosures highlight the diversity of exposures.

An analysis of loans and advances to banks and customers and contingent liabilities before and after taking account of collateral held or other credit enhancements, is as follows:

	2020		2019	
	Carrying amount $000	Net exposure $000	Carrying amount $000	Net exposure $000
Deposit with banks	523,000	523,000	555,201	555,201
Other assets	9,241	9,241	13,045	13,045
Loans and advances to banks	26,809	26,809	4,362	4,362
Loans and advances to customers	1,407,926	35,169	1,294,507	143,173
Contingent liabilities	380,423	379,354	299,245	298,242

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collateral are performed independently of the business units.

Notes to the Financial Statements

31 December 2020

26.1 Credit risk (continued)

26.1.5 Risk concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty. This risk is managed by diversification of the portfolio. The Bank's internal limit is 22.5% of capital to any single obligor group. The ten largest loans and advances to customers outstanding as a percentage of gross loans and advances to customers as at 31 December 2020 is 36% (2019: 41%).

The Bank's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

2020 Geographic region	MENA $000	North America $000	Europe $000	Asia $000	Others $000	Total $000
Balances with central banks	-	-	342,876	-	-	342,876
Deposits with banks	330,489	4,497	183,008	4,387	874	523,255
Loans and advances to banks	-	-	26,911	-	-	26,911
Loans and advances to customers	293,781	8,431	871,585	-	240,630	1,414,427
Investments securities	47,779	66,188	-	-	-	113,967
Investment in group entity	-	-	49,209	-	-	49,209
Derivatives assets	-	-	11,550	-	-	11,550
Other assets	-	-	8,089	-	-	8,089
	672,049	79,116	1,493,228	4,387	241,504	2,490,284
Commitments and contingent liabilities (Note **24**)	27,748	3,886	349,431	-	-	381,065
	699,797	83,002	1,842,659	4,387	241,504	2,871,349

Notes to the Financial Statements

31 December 2020

26.1 Credit risk (continued)

2019 Geographic region	MENA $000	North America $000	Europe $000	Asia $000	Others $000	Total $000
Balances with central banks	-	-	437,458	-	-	437,458
Deposits with banks	143,726	4,788	393,284	4,635	89	546,522
Loans and advances to banks	-	-	-	-	4,375	4,375
Loans and advances to customers	286,678	-	740,442	-	270,427	1,297,547
Investments available-for-sale	47,163	64,977	80,488	-	-	192,628
Investment in group entity	-	-	49,209	-	-	49,209
Derivatives assets	-	-	12,863	-	-	12,863
Other assets	-	-	12,563	-	-	25,426
	477,567	69,765	1,726,307	4,635	274,891	2,553,165
Commitments and contingent liabilities (Note **24**)	30,260	-	152,760	-	-	183,020
	507,827	69,765	1,879,067	4,635	274,891	2,736,185

The Bank's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

Industry sector	2020 $000	2019 $000
Manufacturing	117,808	68,156
Banks and other financial institutions	1,092,510	1,164,782
Construction	90,877	46,188
Real estate	1,253,472	1,173,555
Retail	4,989	8,763
Government	68,426	145,698
Others	243,267	129,043
	2,871,349	2,736,185

26.1.6 Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity, and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year 31 December 2020 was US$ nil (2019: US$ 15,000,000).

Notes to the Financial Statements
31 December 2020

26.2 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources and manages its assets with liquidity in mind. The Bank ensures that it has sufficient liquidity even in stress scenarios, and liquidity adequacy is monitored daily. The Bank's Treasury manages the daily liquidity and cash flows in accordance with best market practice as set out in its ILAAP. The Treasury relies on diversified wholesale funding from the local and international markets and is active in those markets with limited reliance on Group funding. Funding is raised via cash deposits and issuance of its certificate of deposit programme. The Bank has a mixture of direct and broker-introduced relationships. The table below summarises the maturity profile of Bank's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2020	Up to 3 months $000	3 to 12 months $000	Over 1 year $000	Total $000
Assets				
Cash and cash equivalents	339,354	3,897	-	343,251
Deposits with banks	522,957	-	43	523,000
Loans and advances to banks	-	-	26,809	26,809
Loans and advances to customers	141,584	183,321	1,083,021	1,407,926
Investment securities	-	118,658	67,432	186,090
Investment in group entity	-	-	49,209	49,209
Fixed assets	-	272	51,998	52,270
Derivatives assets	11,550	-	-	11,550
Other assets	8,581	529	131	9,241
	1,024,026	306,677	1,278,643	2,609,346
Liabilities and equity				
Due to banks and other financial institutions	386,744	350,693	1,500	738,937
Customer deposits	998,451	102,530	-	1,100,981
Certificates of deposit issued	257,094	-	-	257,094
Derivative liabilities	59,224	-	-	59,224
Other liabilities	16,255	86	838	17,179
Share capital and reserves	-	-	435,931	435,931
	1,717,768	453,309	438,269	2,609,346

Notes to the Financial Statements
31 December 2020

26.2 Liquidity risk (continued)

2019	Up to 3 months $000	3 to 12 months $000	Over 1 year $000	Total $000
Assets				
Cash and cash equivalents	435,782	2,793	-	438,575
Deposits with banks	555,201	-	-	555,201
Loans and advances to banks	-	4,362	-	4,362
Loans and advances to customers	181,307	114,128	999,072	1,294,507
Investment securities	47,601	65,992	113,009	226,602
Investment in group entity	-	-	49,209	49,209
Fixed assets	-	313	52,782	53,095
Derivative assets	12,863	-	-	12,863
Other assets	12,739	434	106	13,279
	1,245,493	188,022	1,214,178	2,647,693
Liabilities and equity				
Due to banks and other financial institutions	784,765	172,143	-	956,908
Customer deposits	1,118,875	86,845	-	1,205,720
Certificate of deposits issued	-	-	-	-
Derivative liabilities	34,081	-	-	34,081
Other liabilities	7,609	822	18,396	26,827
Share capital and reserves	-	-	424,157	424,157
	1,945,330	259,810	442,553	2,647,693

The liquidity profile of financial liabilities of the Bank summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

2020	Up to 3 months $000	3 to 12 months $000	Over 1 year $000	Total $000
Financial liabilities				
Due to banks and other financial institutions	386,906	256,524	1,507	644,937
Customer deposits	992,723	102,650	-	1,095,373
Certificates of deposits	257,096	-	-	257,096
	1,636,725	359,174	1,507	1,997,406
Contingent liabilities and commitments				
Contingent liabilities	47,071	34,646	147,939	229,656
Irrevocable commitments	3,886	37,500	110,023	151,409
	50,957	72,146	257,962	381,065
Derivatives				
Interest rate swaps (net interest)	617	3,915	12,208	16,740
	617	3,915	12,208	16,740

Notes to the Financial Statements

31 December 2020

26.2 Liquidity risk (continued)

2019	Up to 3 months $000	3 to 12 months $000	Over 1 year $000	Total $000
Financial liabilities				
Due to banks and other financial institutions	571,764	148,328	-	720,092
Customer deposits	1,113,946	87,414	-	1,201,360
Certificates of deposits	-	-	-	-
	1,685,710	235,742	-	1,921,452
Contingent liabilities and commitments				
Contingent liabilities	51,296	48,460	123,116	222,872
Irrevocable commitments	2,959	51,440	22,554	76,953
	54,255	99,900	145,670	299,825
Derivatives				
Interest rate swaps (net interest)	294	1,937	9,812	12,043
	294	1,937	9,812	12,043

26.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. Also see Note **23** for the Bank's exposure to IBOR reform.

26.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank is not excessively exposed to interest rate risk. Most exposures arising on medium-term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board of Directors and adjusted where necessary, to reflect the changing market conditions.

Interest rate sensitivity

Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes undrawn loan commitments. The sensitivity on equity is the impact arising from changes in interest rate on fair value of available-for-sale investments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Notes to the Financial Statements

31 December 2020

26.3 Market risk (continued)

Based on the Bank's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Bank's profit and equity as follows:

		2020	2019
Currency	Movement in basis points	Effect on profit $000	Effect on profit $000
GBP	+25	1,990	1,146
USD	+25	(1,622)	(1,634)
EUR	+25	111	(77)

26.3.2 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through monitoring against limits pre-established by the Board of Directors on currency position exposures. In general, assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures or are covered by forward foreign exchange contracts. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The Bank does not have significant net open positions in any foreign currencies and accordingly there is no significant impact on the income statement or equity as a result of foreign exchange rate fluctuations.

26.4 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank. Operational risk management is overseen by the Risk Management Department, which ensures compliance with policies and procedures and monitors operational risk as part of overall Bank risk management.

Notes to the Financial Statements

31 December 2020

27. CAPITAL MANAGEMENT (unaudited)

A key objective of the Bank is to maximise shareholders' value within board risk tolerances, whilst maintaining a strong capital base to support the development of its business and comply with internal and external capital requirements.

Capital adequacy is monitored on a regular basis against both regulatory and internal capital requirements. The Bank ensures that it has adequate capital even in stress scenarios through the Individual Capital Adequacy Assessment Process.

	2020 $000	2019 $000
Risk weighted assets	1,826,103	1,440,960
Capital available		
Common Equity Tier 1 capital	420,436	377,103
Tier 1 capital	420,436	377,103
Tier 2 capital	-	-
Total capital	420,436	377,103
Common Equity Tier 1 capital adequacy ratio	23.02%	26.17%
Tier 1 capital adequacy ratio	23.02%	26.17%
Total capital adequacy ratio	23.02%	26.17%

28. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, there continues to be uncertainty in the economic outlook in the UK and around the world as a consequence of the COVID-19 pandemic and disruption to trade flows following the UK exit from the EU. Business confidence has received a boon from supportive measures taken by governments as well as the accelerating roll-out of vaccination programmes. An upturn in UK economic output is now expected but there may be rises in unemployment as a result of business closures especially as government furlough and support schemes wind down in 2021. At the current time it is not possible to estimate the impact on the Bank of these post balance sheet events.

National Bank of Kuwait Group

Group Head Office
National Bank of Kuwait SAKP
Sharq Area
Al Shuhada Street
Block 7, Plot 1
PO Box 95, Safat 13001, Kuwait
Tel: + 965 2242 2011
Fax: + 965 2243 1888
Website: www.nbk.com
Email: webmaster@nbk.com

Overseas Branches, Subsidiaries,
Associates and Representatives

UK
National Bank of Kuwait (International) PLC
13 George Street
London W1U 3QJ, UK
Tel: + 44 20 7224 2277
Fax: + 44 20 7224 2101
Email: info@nbki.com

7 Portman Square
London W1H 6NA, UK
Tel: + 44 20 7224 2277
Fax: + 44 20 7486 3877
ATM location:
7 Portman Square, London W1H 6NA

Abu Dhabi
National Bank of Kuwait SAKP
Sheikh Rashed Bin Saeed
Al Maktoom Road
(Old Airport Road)
PO Box 113567
Abu Dhabi
United Arab Emirates
Tel. +971 2 419 9555
Fax. +971 2 222 2477

Bahrain
National Bank of Kuwait SAKP
Bahrain Branch
GB Corp Tower, Block 346
Road 4626, Building 1411
PO Box 5290, Manama
Kingdom of Bahrain
Tel: + 973 1715 5555
Fax: + 973 1710 4860

China
National Bank of Kuwait SAKP
Shanghai Branch
Suite 1501–1502, AZIA Center
15th Floor
1233 Lujiazui Ring Road
Shanghai 200120
China
Tel: + 86 21 8036 0800
Fax: + 86 21 8036 0801

Egypt
National Bank of Kuwait Egypt SAE
Plot No. 155, City Center,
First Sector 5th Settlement,
New Cairo, Egypt
PO Box 229, Postal Code 11835
Tel: + 202 26149300
Fax: + 202 26135864

France
National Bank of Kuwait France SA
Paris Branch
90 Avenue des Champs-Elysées
75008 Paris, France
Tel: + 331 5659 8600
Fax: + 331 5659 8623

Iraq
Credit Bank of Iraq
Street 9, Building 187
Al Sadoun Street
District 102
Alwiya Building
PO Box 3420
Baghdad, Iraq
Tel: + 964 782 879 2981
Fax: + 964 7191944

Jordan
National Bank of Kuwait SAKP
Head Office
Um Uthaina
Mecca Street
Building #19
PO Box 941297
Amman 11194
Jordan
Tel: + 962 6 580 0400
Fax: + 962 6 580 0441

National Bank of Kuwait Group

Overseas branches, subsidiaries, associates and representatives

Lebanon

National Bank of Kuwait (Lebanon) SAL
Sanayeh Head Office
BAC Building, Justinian Street
Sanayeh, PO Box 11-5727
Riad El Solh 1107 2200
Beirut, Lebanon
Tel: + 961 175 9700
Fax: + 961 174 7866

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District, Al Mukhmal Tower
PO Box 15385
Jeddah 21444
Saudi Arabia
Tel: + 966 12 603 6300
Fax: + 966 12 603 6364

Singapore

National Bank of Kuwait SAKP
9 Raffles Place #44-01
Republic Plaza
Singapore 048619
Tel: + 65 6222 5348
Fax: + 65 6224 5438

Turkey

Turkish Bank
Head Office
Valikonagi, Avenue No.1
PO Box 34371
Nisantasi
Istanbul, Turkey
Tel: + 90 212 373 6373
Fax: + 90 212 225 0353

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Unit 1 (Ground 8 Mezz)
Latifa Tower
Sheikh Zayed Road
PO Box 9293, Dubai
Tel: + 971 4 316 1600
Fax: + 971 4 388 8588

USA

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York
NY 10171, USA
Tel: + 1 212 303 9800
Fax: + 1 212 319 8269

Kuwait

Watani Financial Brokerage Co.
Abdullah Al-Ahmed Street
Al-Naqi Building, Office 17
PO Box 21350
Safat 13074, Kuwait
Tel: + 965 2259 5102
Fax: + 965 2224 6979

NBK Capital
25th Floor
Arraya II Building
Al Shuhada Street, Sharq
Block 6
PO Box 4950
Safat 13050, Kuwait
Tel: + 965 2224 6900
Fax: + 965 2224 6904/5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Finance Center
Sheik Zayed Road
PO Box 506506, Dubai
United Arab Emirates
Tel: + 971 4 365 2800
Fax: + 971 4 365 2805

National Bank of Kuwait Group

Switzerland

NBK Banque Privee (Suisse)
21 Quai du Mont Blanc
PO Box 1923
CH 1211 Geneva
Switzerland
Tel: + 41 22 906 4343
Fax: + 41 22 906 4399