NATIONAL BANK OF KUWAIT (INTERNATIONAL) PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2017

2017

Directors

Chairman
Nasser Musaed Abdullah Al Sayer

Vice Chairman
Isam Jassim Al Sager

Directors
Ghassan Ahmed Saoud Al Khaled
Hamad Abdul Aziz Al Sagar
Shaikha Al Bahar
Georges Richani
Sir Michael Craig-Cooper CBE, TD, DL, FCIArb. (resigned 31.01.2017)
Sir David William Brewer KG CMG CVO (resigned 31.01.2018)
Hamish Cameron Galbraith Marr
Fawzi A. Dajani
Lesley Jane Titcomb (appointed 01.01.2017)
Andrew Simon Richardson (appointed 05.06.2017)

Management

LONDON

Managing Director
Fawzi Dajani

Executive Managers
Paul Kennedy
Sami El Labban
Sally Norman
Nicholas Simmonds

PARIS

General Manager
Sabeur Sassi

Secretaries
Stephen George Byrne
Andrew Simon Richardson

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

Registered Office
NBK House
13 George Street
London W1U 3QJ

Registered No.
02773743

Strategic Report

31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

Principal activities

The company is an authorised bank carrying out international commercial banking, financial and related services from its London headquarters and branch located in Paris. Throughout this Report and Financial Statements the company is referred to as "the Bank".

Key financial highlights

	2017 $000	2016 $000
Operating income	46,768	45,102
Profit before tax	5,873	20,286
Taxation	(986)	(3,902)
Profit after tax	4,887	16,384
Total Assets	3,025,045	2,315,302
Dividends – proposed	-	1,500
Shareholder's equity	300,619	296,805
Return on shareholder's equity	1.6%	5.5%

Operating income was up on last year by US$ 1.7 million (3.7%). Net interest income at US$ 39.3 million increased year on year by US$ 4.9 million (14.4%) partly offset by lower fee income and lower gains from dealing in foreign exchange in 2017. Return on shareholder's equity is lower due to higher loan loss provision arising from a single obligor.

The Bank's cost income ratio at 55.6% remained broadly at the same level as 55.2% last year.

The asset base of the Bank increased 30.7% to US$ 3.0 billion compared to US$ 2.3 billion last year. Loans to customers also increased 45.1% to US$ 1.4 billion compared to US$ 1.0 billion last year. Customer deposits increased 14.9% to US$ 1.3 billion compared to US$ 1.1 billion last year. The bank also started the certificate of deposits (CDs) issuance programme during the year. As at 31 December 2017, it had $15m of CDs outstanding.

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.

By order of the Board

S. G. Byrne
Secretary

20 April 2018

Directors' Report

31 December 2017

The directors have pleasure in submitting their twenty fifth annual report together with the audited financial statements for the year ended 31 December 2017.

Directors

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

Significant changes during the year and subsequently are as follows:

- Lesley Jane Titcomb was appointed on 1 January 2017.
- Andrew Simon Richardson was appointed on 5 June 2017.
- Sir Michael Craig-Cooper CBE, TD, DL, FCIArb resigned as a director on 31 January 2017.
- Sir David William Brewer KG CMG CVO resigned as a director on 31 January 2018.

According to the register of directors' interests, no director holding office as at 31 December 2017 had any beneficial interest in the shares of the Bank during the year or at year end.

Results and dividends

The Bank has made a profit after tax of US$ 4,887 thousand (2016 – profit of US$16,384 thousand). The lower profit is due to a large provision against a corporate exposure. The directors proposed no dividend for the year ending 31 December 2017 (2016 – US$ 1,500 thousand).

Future developments

The directors aim to maintain the management policies which have resulted in a successful performance to date. The Bank's presence in two major European financial centres provides strategically important locations both for the optimisation of client service and market participation. In addition, the Bank is well-placed to benefit from the growth in Middle Eastern economies, especially through trade finance business and the structuring and execution of transactions in conjunction with the wider NBK Group.

NBKI management have completed a Brexit Impact Assessment and submitted this to its Board. The Board has concluded that the most appropriate course of action is to establish a separate entity in France by converting its current Paris branch into a subsidiary. The subsidiary will have a majority ownership by National Bank of Kuwait SAKP ("NBK SAKP") and this has been approved by the NBK SAKP Board. The NBKI Board are satisfied that there will be no major impact on operating profitability, capital adequacy or liquidity on the remaining UK entity. The subsidiary is expected to commence operations in 2019.

With effect from 30 March 2017 the Bank has successfully launched a certificate of deposit programme which has been well received in the market. This programme is designed to further stabilise the Bank's sources of funding and optimise cost of funding.

Going concern

The management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the ability of the Bank to continue as a going concern. The directors concur with the management's assessment and therefore the financial statements continue to be prepared on a going concern basis.

Charitable donations

The Bank made charitable donations of US$ 1,008 (2016 – US$ 1,850) during the year.

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, preferably internally where that is possible, and before recruiting externally. Equal treatment is offered to all applicants internally and externally with no discrimination on the grounds of race, colour, sex, nationality, marital status or disability, 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.

Directors' Report

31 December 2017

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.

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

At the Annual General Meeting on 20 April 2018, a resolution to reappoint Ernst & Young LLP was passed.

By order of the Board

S. G. Byrne
Secretary

20 April 2018

Statement of Directors' Responsibilities

The directors are responsible for preparing the 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. 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 judgments 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;
- 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 Auditors' 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 "Bank") for the year ended 31 December 2017 which comprise of the Statement of Income, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 24 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 Bank's affairs as at 31 December 2017 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 below. We are independent of the Bank 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.

Use of our report

This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

- We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditors' Report

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

Overview of our audit approach

Key audit matters	• Risk of material misstatement in the revenue recognition of interest income on loans and advances, calculated using the Effective Interest Rate (EIR) method • Estimation uncertainty with respect to impairment on loans advanced
Materiality	• Overall materiality of USD$ 959,000 which represents 5% of the three year average of normalised pre-tax income

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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of material misstatement in the revenue recognition on loans and advances, calculated using the Effective Interest Rate (EIR) method Interest income USD$ 32 million (2016: USD$ 31 million) Fee income from loans USD$ 0.4 million (2016: USD$ 1.2 million) *Refer to Accounting policies (page 16) and Note 3 of the Financial Statements.* Interest income on loans and advances is the major revenue stream for the Bank. There is a risk that certain fees and commissions are inappropriately included or excluded from the EIR calculation or that method of EIR calculation is not applied correctly by management. This could result in the misstatement of net interest income and net fee and commission income for the period.	We examined the internal control framework and performed testing on the design and operating effectiveness of relevant controls around the booking of fees to be amortised across the life of the loan as opposed to recognised upfront. We compared management's policy and application of the EIR method to the requirements of IAS 39, and tested the relevant inputs used by the management for completeness and accuracy. We tested that the fees and commissions were appropriately included in the effective interest rate calculations in accordance with the accounting standards. We involved EY valuation specialists to assess whether judgement was applied correctly when determining the EIR method. We tested the existence and measurement for a sample of new fees and commissions recognised in 2017. We tested the amortisation of the fees and commissions received during 2017 on a sample basis and reconciled them with the underlying agreements.	We communicated to the Audit Committee that no material issues were identified when executing the audit procedures over revenue recognition on loans and advances calculated using the Effective Interest Rate (EIR) method.

Independent Auditors' Report

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Estimation uncertainty with respect to impairment on loans advanced Loans and advances to customers USD$ 1,400 million (2016: USD$ 973 million) Provision USD$ 15.3 million (2016: USD$ 0.4 million) *Refer to Accounting policies (page 18) and Note 13 of the Financial Statements.* Loans and advances is the major asset on the balance sheet of the Bank. Accounting policy adopted by the management is that loans and advances are stated at amortised cost less any amounts written off and provision for impairment. There is limited history of losses and as such the provisions made against the loan portfolio involved judgement which could result in the risk of material misstatement in the provision for the loan portfolio. The risk has increased for the portfolio of loans collateralised by property in the current year as valuations in the London property market have decreased in comparison to 2016. This affects the recoverability of loans in case of credit loss event which impacts the specific provisioning and collective provisioning model. The risk has increased for the portfolio of uncollateralised loans during 2017. An unsecured loan facility with single borrower of USD$ 15 million was fully provided against in the year	We examined the internal control framework and performed testing on the design and operating effectiveness of relevant controls around specific and collective loan loss provisioning. We determined that we could rely on controls for the purpose of our audit. With the use of EY data analytics we performed a loan loss review across the portfolio. Using a risk based sample selection we identified loans with higher risk features and assessed if the specific provision is calculated appropriately. We tested the collateral valuations for a sample of loans collateralised by property with the assistance, when required, of the real estate specialists. We performed an independent review of the borrowers' financial position for a sample of uncollateralised loans. We performed subsequent event procedures to identify adjusting post balance sheet developments in the loan portfolio which would materiality affect the year end provisioning value. For collective provision, with the assistance of EY valuation specialists we tested the inputs, methodology and assumptions used within the Bank's collective provisioning model. We tested the completeness and accuracy of the data used within the collective provisioning model in accordance with the Bank's policy.	We communicated to the Audit Committee that no material issues were identified when executing the audit procedures over the estimation uncertainty with respect to impairment on loans advanced.

Our auditor's report did not include any key audit matters in the prior year as such disclosure was not required.

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 Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team

Independent Auditors' Report

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

Our application of materiality

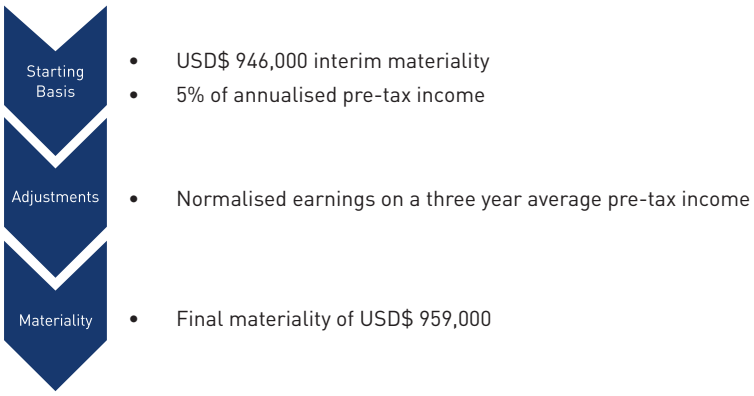
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is 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 Bank to be USD$ 946,000 at the planning stage (2016: USD$ 1,014, 000), which is 5% of annualised pre-tax income (2016: 5% of pre-tax income). We believe that pre-tax income to be the most appropriate measurement basis for determining our materiality. The primary stakeholders of the financial statements are the parent company, National Bank of Kuwait S.A.K.P. and Prudential Regulation Authority who regard the operating performance, particularly pre-tax income, as the most relevant measure as this reflects profits available for distribution to shareholders or to be retained as retained earnings and forming part of the Bank's equity.

During the course of the audit we identified a material one-off event, being the full provision for a single unsecured loan facility of USD$ 15 million. We reassessed planning materiality and concluded it reasonable to recalculate our materiality levels based upon a three year average of normalised earnings.



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 Bank's overall control environment, our judgement was that performance materiality was 50% (2016: 50% of our planning materiality), namely USD$ 479,000 (2016: USD$ 507,000). 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 USD$ 47,000 (2016: USD$ 51,000), 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 Auditors' Report

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

Other information

The other information comprises the information included in the Strategic report and Directors' report set out on pages 3 to 5, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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 Bank 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 6, 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' 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.

The objectives of our audit, in respect to fraud, are to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are the Companies Act 2006, Financial Services and Markets Act 2000 (FSMA), Financial Services Act 2012 and other relevant Financial Conduct Authority ('FCA') and Prudential Regulation Authority ('PRA') regulations.
- We understood how the Bank is complying with these legal and regulatory framework and made enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies; reviewed minutes of the Board and Audit & Risk Committee; and gained an understanding of the Bank's approach to governance, demonstrated by the Board's approval of the Bank's governance framework and the Board's review of the Bank's risk management framework and internal control processes.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries with legal counsel and senior management, and focused testing, as referred in the Key Audit Matters section above.
- The Bank operates in the banking industry which is a highly regulated environment. As such the senior statutory auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of experts where appropriate.

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 Auditors' Report

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

Other matters we are required to address

- We were first appointed as auditors by the Bank to audit the financial statements for the year ending 31 December 1992 and have audited all subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 25 years, covering the years ending 31 December 1992 to 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

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.

Rhys Taylor (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 April 2018

Statement of Income

For the year ended 31 December 2017

	Notes	2017 $000	2016 $000
Interest and similar income	3	55,463	43,845
Interest and similar expense	4	(16,116)	(9,444)
Net interest and similar income		39,347	34,401
Net fees and commissions income	5	6,099	7,393
Net gains from dealing in foreign currencies	6	1,307	1,482
Net investment income	14	-	1,597
Other operating income		15	229
Total operating income		46,768	45,102
Administrative expenses	7	(25,533)	(24,470)
Depreciation		(481)	(438)
Operating expenses		(26,014)	(24,908)
Operating profit before impairment provision		20,754	20,194
Net (charge to) / release of credit provision	13	(14,881)	92
Profit for the year before taxation	8	5,873	20,286
Taxation	9	(986)	(3,902)
Profit for the year		4,887	16,384

Notes 1 to 24 are an integral part of the financial statement.

Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 $000	2016 $000
Profit for the year	4,887	16,384
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Change in fair value of investments available-for-sale (net of tax)	427	(1,815)
Other comprehensive income/(loss) for the year re-classifiable to statement of income	427	(1,815)
Total comprehensive income for the year	5,314	14,569

Notes 1 to 24 are an integral part of the financial statement.

Statement of Financial Position

31 December 2017

	Notes	2017 $000	2016 $000
Assets			
Cash and cash equivalents	11	366,212	118,825
Deposits with banks		982,433	803,221
Loans and advances to banks	12	17,500	20,000
Loans and advances to customers	13	1,383,302	953,390
Investment securities	14	260,417	383,596
Fixed assets		1,682	1,628
Other assets	15	13,499	34,642
Total assets		3,025,045	2,315,302
Liabilities			
Due to banks and other financial institutions		1,356,327	847,345
Customer deposits		1,303,904	1,134,454
Certificates of deposit issued		15,000	-
Other liabilities	16	49,195	36,698
Total liabilities		2,724,426	2,018,497
Equity			
Share capital	17	150,083	150,083
Retained earnings		147,582	144,195
Cumulative changes in fair values		2,954	2,527
Total equity		300,619	296,805
Total equity and liabilities		3,025,045	2,315,302

The financial statements were approved by the board of directors and authorised for issue on 20 April 2018.

Nasser Al Sayer
Director

20 April 2018

Notes 1 to 24 are an integral part of the financial statement.

Statement of Changes in Equity

31 December 2017

	Share capital $000	Retained earnings $000	Cumulative changes in fair values $000	Total $000
Balances as at 31 December 2015	150,083	127,811	4,342	282,236
Profit for the year	-	16,384	-	16,384
Other comprehensive (loss) for the year	-	-	(1,815)	(1,815)
Total comprehensive income / (loss) for the year	-	16,384	(1,815)	14,569
Balances as at 31 December 2016	150,083	144,195	2,527	296,805
Dividend paid	-	(1,500)	-	(1,500)
Profit for the year	-	4,887	-	4,887
Other comprehensive income for the year	-	-	427	427
Total comprehensive income for the year	-	3,387	427	3,814
Balances as at 31 December 2017	150,083	147,582	2,954	300,619

Notes 1 to 24 are an integral part of the financial statement.

Notes to the Financial Statements

31 December 2017

1. INCORPORATION AND REGISTRATION

The financial statements of National Bank of Kuwait (International) PLC (the "Bank") were approved by the Board of Directors on 20 April 2018. The Bank is incorporated in United Kingdom and is principally engaged in banking activities, primarily in United Kingdom and France. 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 SAKP, Kuwait. Copies of the Group financial statements of National Bank of Kuwait SAKP may be obtained from: NBK House, 13 George Street, London, W1U 3QJ. National Bank of Kuwait SAKP 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 available-for-sale. 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.

The financial statements have been prepared on a going concern basis in accordance with UK Financial Reporting Standard 101.

2.2 Change in accounting policies

The accounting policies applied are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Bank.

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2018 have not been early adopted in the preparation of the Bank's financial statements. None of these are expected to have a significant impact on the financial statements of the Bank except the following:

Notes to the Financial Statements

31 December 2017

IFRS 9: Financial Instruments

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

The Bank has determined the Date of Initial Application for IFRS 9 to be 1 January 2018. The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening statement of financial position at 1 January 2018. The Bank will not restate the comparatives as permitted by IFRS 9.

a. Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

Equity instruments are measured at fair value through profit or loss. However, the Bank may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through other comprehensive income, with no subsequent recycling to the statement of income. This designation is also available to non-trading equity instrument holdings on date of transition.

The adoption of this standard will not have a significant impact on the classification and measurement of Bank's financial assets and financial liabilities.

b. Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The Bank will adopt accounting requirements of hedge accounting requirements as per IFRS 9 and does not expect any significant impact on its financial position.

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 IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

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 the 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 than under IAS 39 and the resulting impairment charge will tend to be more volatile.

Notes to the Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Bank has completed the development and testing of operating models and methodologies for the calculation of ECL. The Bank has also performed parallel runs during the year to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The Bank continues to revise, refine and validate the impairment models and related process controls.

d. Transition impact:
Upon adoption of IFRS 9 the Bank expects certain changes in classification of financial assets and related reclassifications between retained earnings and fair value reserve. The Bank does not expect a material impact on equity due to changes in classification of financial assets.

The Bank has determined the potential impact of the expected provision for credit losses in accordance with IFRS 9 as of 31 December 2017, the transition adjustment with regard to ECL is expected to be USD 4.9m, which will be a transitional adjustment to equity.

e. Financial instruments: disclosures (IFRS 7)
IFRS 7 Financial Instruments: Disclosures has been amended to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

IFRS 15: Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard 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 IFRS 15. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Bank's financial statements.

IFRS 16: Leases

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

2.3 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. The exchange rate used to convert GB pounds sterling to US dollars is 1.35 per GB pounds sterling for the statement of financial position.

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 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 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 is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Fees which are considered an integral part of the effective yield of a financial asset are recognised using 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.

2.5 Fees and commissions income

Fees that are an integral part of the effective interest rate of loans are treated as an adjustment to the effective interest rate of the loans. Fees income earned from services provided over a period of time are recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

2.6 Dividend income

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

2.7 Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since their initial recognition although the decrease cannot be identified with the individual financial assets in the group.

If such evidence exists, any impairment loss is recognised in the statement of income.

a. Assets carried at amortised cost

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Notes to the Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 IMPAIRMENT OF FINANCIAL ASSETS (continued)

b. Assets classified as available-for-sale

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

2.8 Impairment of non-financial assets

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

2.9 Leases

Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership to the lessee. The Bank has entered into operating leases where rentals payable are charged to the statement of income on a straight-line basis over the lease term.

2.10 Pensions

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

2.11 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.

2.12 Recognition of financial assets and financial liabilities

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

2.13 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and current account balances with central banks.

2.14 Deposits with banks

Deposits with banks are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment.

2.15 Loans and advances to Banks and Loans and advances to customers

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

Notes to the Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 LOANS AND ADVANCES TO BANKS AND LOANS AND ADVANCES TO CUSTOMERS (continued)

Carrying value

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

Renegotiated loans

In the event of a default, the Bank seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to an individual or collective impairment assessment.

2.16 Investments available-for-sale

Investments available-for-sale are those investments which are designated as available-for-sale or investments that do not qualify to be classified as fair value through the statement of income, held to maturity, or loans and advances. After initial recognition, investments which are classified as available-for-sale are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in the statement of income for the period. In case of a reversal of previously recognised impairment losses for equity investments, such changes will not be recognised in the current statement of income but will be recorded as an increase in the reserve for cumulative changes in fair values.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of income. The portion of any fair value changes relating to an effective hedging relationship is recognised directly in the statement of income. The interest income from debt securities classified as available-for-sale is recorded in interest income and the dividend income from equities are recorded in dividend income.

2.17 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 maximize the use of relevant observable inputs and minimize 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 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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.

2.19 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.

2.20 Derivative financial instruments

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.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised financial asset or liability or a highly probable forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised immediately in the 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

Notes to the Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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.

2.21 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.

2.22 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.

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 premises and equipment are as follows:

Leasehold improvements	: term of lease
Other tangible fixed assets	: 3-5 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.

2.23 Due to Banks and Financial Institutions, Customer deposits & Certificate of deposit issued

Due to Banks and Financial Institutions, Customer Deposits & Certificate of deposit issued are stated at amortised cost using the effective interest method.

2.24 Financial guarantees

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

Notes to the Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Significant accounting judgements and estimates

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

Accounting Judgments

Classification of investments

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

Estimation uncertainty and assumptions

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

Provision for credit losses

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

Valuation of unquoted financial assets

Fair value of unquoted financial assets is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The determination of the cash flows and discount factors requires significant estimation.

3. INTEREST AND SIMILAR INCOME

	2017 $000	2016 $000
Deposits with banks	19,387	11,342
Loans and advances	32,192	30,512
Debt investment securities	3,528	1,944
Other	356	47
	55,463	43,845

4. INTEREST AND SIMILAR EXPENSES

	2017 $000	2016 $000
Due to banks and other financial institutions	13,124	6,667
Customer deposits	2,620	2,660
Other	372	117
	16,116	9,444

Notes to the Financial Statements

31 December 2017

5. NET FEES AND COMMISSIONS INCOME

	2017 $000	2016 $000
Fees and commission income:		
Lending related fees	423	1,216
Retail banking customer fees	1,958	1,853
Financial guarantee contract & letter of credit fees	3,166	3,885
Other	792	707
	6,339	7,661
Fees and commission related expenses	(240)	(268)
Net fees and commissions income	6,099	7,393

6. NET GAINS FROM DEALING IN FOREIGN CURRENCIES

Net gains from dealing in foreign currencies mainly consist of dealing profits generated from foreign currency related transactions

7. ADMINISTRATIVE EXPENSES

	2017 $000	2016 $000
Staff costs:		
Wages and salaries	10,897	9,806
Social security costs	2,153	2,073
Pension costs	987	915
	14,037	12,794
Other administrative expenses	11,496	11,676
	25,533	24,470

The average number of employees, all engaged in banking activities during the year was 142 (2016 – 132). Other administrative expenses include occupancy, computer expenses, professional fees and various other overheads.

8. PROFIT FOR THE YEAR BEFORE TAX

		2017 $000	2016 $000
This is stated after charging:			
Auditors' remuneration	– audit service	546	381
	– non-audit service	152	60
Operating lease rentals	– land and buildings	1,774	1,804

Notes to the Financial Statements

31 December 2017

9. TAXATION

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2017 $000	2016 $000
Current tax:		
UK corporation tax on the profit for the year	706	3,986
UK double tax relief	(124)	(271)
Foreign tax	257	508
Adjustment in respect of prior years	673	(225)
Total current tax	1,512	3,998
Deferred tax charge/(income) (Note c)		
Adjustment in respect of prior years	(609)	-
Related to the current year	83	(96)
Total taxation (Note b)	986	3,902

(b) Factors affecting tax charge for the year

	2017 $000	2016 $000
Profit on ordinary activities before tax	5,873	20,286
Profit taxed at UK corporation tax		
Average standard rate of 19.25% (2016 – 20.00%)	1,130	4,057
Effects of:		
Disallowed expenses	6	8
Foreign tax net of double tax relief	133	237
Depreciation net of capital allowances	34	(77)
Adjustment in respect of prior years	64	(225)
Others	(381)	(98)
Total tax charge	986	3,902

Notes to the Financial Statements

31 December 2017

9. TAXATION (CONTINUED)

(c) Deferred tax

Disclosed in statement of financial position	**2017 $000**	**2016 $000**
Deferred tax liabilities		
Capital allowances and depreciation	124	111
Revaluation of available-for-sale securities net of FRS 101 transition adjustments	2,719	3,239
	2,843	3,350
Deferred tax assets		
Disallowed provisions	20	21
Revaluation of fair value hedges (interest rate swaps) net of FRS 101 transition adjustments	2,115	2,574
Deferred tax asset on FRS 101 Transition adjustment – prior year adjustment	536	-
	2,671	2,595
Deferred tax liabilities – Net (Note 16)	172	755

Reconciliation of deferred tax liabilities – Net	**2017 $000**	**2016 $000**
As at 1 January	755	1,102
Charged to statement of income:		
Accelerated capital allowances and depreciation	14	(92)
Revaluation of loan hedges taxed during the year	(4)	(4)
Adjustment in respect of prior years	(609)	-
Deferred tax asset on FRS101 Transition adjustment	73	-
Charged to statement of comprehensive income		
Deferred tax movement arising from movement in net revaluation of available-for-sale securities and associated hedges	(57)	(251)
	172	755

Deferred tax is computed at the rate expected to apply when the underlying temporary differences eventually reverse. Based on the announced changes in the corporation tax rates coming into effect in future years, the corporation tax rate of 20% has reduced to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020.

Paris branch deferred tax assets totalling **US$ 827 thousand** (2016: US$ 140 thousand) in respect of UK taxation timing differences have not been recognised or UK capital allowances claimed on the basis that it is unlikely there will be any UK tax payable on the branch profits in the foreseeable future.

Notes to the Financial Statements

31 December 2017

10. EMOLUMENTS OF DIRECTORS

	2017 $000	2016 $000
Fees and other emoluments	746	429
Pension contributions in respect of defined contribution schemes	57	37
Highest paid director	425	368

11. CASH AND CASH EQUIVALENTS

	2017 $000	2016 $000
Cash on hand	2,722	2,306
Balances with central banks	363,490	116,519
	366,212	118,825

12. LOANS AND ADVANCES TO BANKS

	2017 $000	2016 $000
Loans and advances to banks	17,500	20,000
	17,500	20,000

13. LOANS AND ADVANCES TO CUSTOMERS

	2017 $000	2016 $000
Loans and advances to customers	1,398,569	953,776
Less: provision for credit losses	(15,267)	(386)
	1,383,302	953,390
These amounts include:		
Due from group undertakings	10,812	9,854

The larger provision is primarily due to a significant provision arising from a single obligor.

Provisions for credit losses are as follows:

	Specific provision		Collective provision		Total	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Balance at beginning of the year	16	63	370	414	386	477
Amounts written off net of exchange movement	-	1	-	-	-	1
Charge (release) during the year	15,000	(48)	(119)	(44)	14,881	(92)
Balance at end of the year	15,016	16	251	370	15,267	386

Non-performing loans and advances to customers and the related specific provisions are as follows:

	2017 $000	2016 $000
Loans and advances to customers	15,016	16
Specific provisions	15,016	16

Notes to the Financial Statements

31 December 2017

14. INVESTMENT SECURITIES

	2017 $000	2016 $000
Investments available-for-sale		
Equities	558	397
Debt securities	259,859	383,199
	260,417	383,596

Debt securities are held on a yield-to-maturity basis, for portfolio management purposes. See Note 22 for details on valuation of investment securities.

No debt securities are pledged as security (2016 – US$ 368 thousand).

In 2016, the Bank received cash consideration amounting to US$ 1,114 thousand, deferred cash payment amounting to US$ 118 thousand (which will be paid on completion of third anniversary) and 725 Series B Visa Inc. preferred stock. During the year, the Bank did not dispose of any Visa Europe shares (2016 - gain on disposal of Visa Europe shares amounting to US$ 1,597 thousand).

15. OTHER ASSETS

	2017 $000	2016 $000
Accrued interest receivable	7,875	6,164
Sundry debtors and prepayments	1,296	2,404
Derivative assets (Note 20)	1,739	25,315
Others	2,589	759
	13,499	34,642

16. OTHER LIABILITIES

	2017 $000	2016 $000
Interest payable	5,320	4,931
Deferred income	6,636	4,617
Derivative liabilities (Note 20)	32,760	17,627
Tax payable	606	3,023
Deferred tax liabilities (Note 9)	172	755
Others	3,701	5,745
	49,195	36,698

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17. SHARE CAPITAL

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

Authorised at 31 December 2016 and 2017	Ordinary share capital	
Nominal value	£1 each	$1 each
Number of shares	50,000	182,910,000

Allotted, called up and fully paid at 31 December 2016 and 2017:

	£000	$000	Total $000
Currency amounts at 31 December 2016 and 2017	50	150,000	
US dollar equivalent at 31 December 2016 and 2017	83	150,000	150,083

18. ORDINARY DIVIDENDS

The directors proposed no dividend for the year ending 31 December 2017 (2016 – US$ 1,500 thousand).

19. 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. 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. There are no provisions for credit losses against loans and advances to related parties as at 31 December 2017 and 31 December 2016.

	2017 $000	2016 $000
Board members & senior officers of the Banks		
Customer deposits	5,886	7,692
Interest expense	16	15
Loans and advances to customers	4,318	-
Interest income	26	-
Parent Company		
Deposits with banks	18,602	6,012
Other assets	1,000	540
Due to banks and other financial institutions	371,955	83,771
Other liabilities	12,656	13,932
Contingent liabilities	37,578	43,140
Fully owned subsidiaries of the Parent Company		
Loans and advances to customers	10,812	9,854
Other assets	58	1
Due to banks and other financial institutions	5,370	477
Customer deposits	16,074	13,770
Contingent liabilities	165	158
Partly owned subsidiaries of the Parent Company		
Due to banks and other financial institutions	4,649	3,152
Contingient liabilities	429	27,752
Interest expenses	45	28
Fee income	3	336

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20. DERIVATIVES FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to 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.

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 qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. 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:

	2017			2016		
	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)	797	11,981	160,872	333	14,660	165,640
Forward foreign exchange contracts	942	20,779	1,515,624	24,982	2,967	1,288,003
	1,739	32,760	1,676,496	25,315	17,627	1,453,643

Gain on hedged fixed income financial assets amounted to **US$ 14,541** thousand (2016: US$ 17,244 thousand) accounted for through other comprehensive income.

Notes to the Financial Statements

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21. 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.

	2017 $000	2016 $000
Contingent liabilities:		
Acceptances and endorsements	6,249	-
Guarantees	357,823	380,314
Irrevocable letters of credit	106,551	40,987
At 31 December	470,623	421,301
Commitments:		
Undrawn, formal standby facilities, credit lines and other commitments to lend	79,106	76,119

Operating lease commitments – Bank as a lessee

The Bank has entered into commercial leases on land and building and computer and other equipment. The leases include a renewal option at the end of their term. There is no restriction placed upon the lessee by entering into the lease.

At the year-end, annual commitments under non-cancellable operating leases were:	2017 $000	2016 $000
Expiring:		
Within one year	1,873	1,707
In one to five years	6,547	6,336
More than 5 years	5,671	6,506
	14,091	14,549

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22. 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.

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

2017	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	2	-	556	558
Debt securities	259,859	-	-	259,859
	259,861	-	556	260,417
Derivative financial instruments (Note 20)	-	(31,021)	-	(31,021)

2016	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	1	-	396	397
Debt securities	372,931	10,267	1	383,199
	372,932	10,267	397	383,596
Derivative financial instruments (Note 20)	-	7,688	-	7,688

Debt securities included in level 2 consists of unquoted corporate bonds issued by banks. 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.

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22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At 1 January 2017 $000	Additions $000	Change in fair value $000	Sale $000	Exchange rate movements $000	At 31 December 2017 $000	Net gains in the statement of income $000
Equity	396	-	160	-	-	556	-
Debt securities	1	-	-	(1)	-	-	-
	397	-	160	(1)	-	556	-

	At 1 January 2016 $000	Additions $000	Change in fair value $000	Sale $000	Exchange rate movements $000	At 31 December 2016 $000	Net gains in the statement of income $000
Equity	1,373	363	33	(1,373)	-	396	1,597
Debt securities	6,594	-	-	(6,593)	-	1	13
	7,967	363	33	(7,966)	-	397	1,610

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% (2016: range from 5% to 10%), did not indicate any material impacts. The impacts on statement of financial position or statement of income, ranged from US$ 27 thousand to US$ 55 thousand (2016: US$ 18 thousand to US$ 36 thousand). Debt securities included in this category for year ended 31 December 2017 consists of unquoted corporate bonds issued by banks and financial institutions, these have subsequently matured.

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.

23. RISK MANAGEMENT

Risk is inherent in the Bank's activities but is managed in a structured, systematic manner through risk management policies which embed comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors with the support of the Board Audit and Risk Committee. The Bank's Risk Management and Internal Audit functions assist Executive Management in controlling and actively managing the Bank's overall risk profile.

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

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

Notes to the Financial Statements

31 December 2017

23. RISK MANAGEMENT (continued)

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.

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.

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

23.1 CREDIT RISK

Credit risk is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk arises in the Bank's normal course of business.

All policies relating to credit risk are reviewed by the Board of Directors. The Board Audit and Risk Committee and the Board oversee 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, all 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 making adjustments to credit policy. CRC's governance responsibilities have been expanded to include the approval of provisions, both collective and on individually impaired facilities, in line with changes to accounting treatments. CRC meets 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 based on a periodical review of the credit performance and account rating.

23.1.1 MAXIMUM EXPOSURE TO CREDIT RISK

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:

	2017		2016	
	Gross Exposure $000	Net Exposure $000	Gross Exposure $000	Net Exposure $000
Deposit with banks	982,433	982,433	803,221	803,221
Other assets	11,760	11,760	9,327	9,327
Loans and advances to banks	17,500	17,500	20,000	20,000
Loans and advances to customers	1,383,302	178,588	953,390	112,600
Contingent liabilities	549,729	548,342	497,420	495,987

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 independent of the business units.

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31 December 2017

23 RISK MANAGEMENT (CONTINUED)

23.1 CREDIT RISK (CONTINUED)

23.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

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 2017 is **40%** (2016: 37%).

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:

2017 Geograpic Region	Middle East and North Africa $000	North America $000	Europe $000	Asia $000	Others $000	Total $000
Balances with central banks	-	-	363,490	-	-	363,490
Deposits with banks	344,471	15,727	616,683	5,552	-	982,433
Loans and advances to banks	-	-	-	-	17,500	17,500
Loans and advances to customers	290,915	-	664,451	-	427,936	1,383,302
Investments available-for-sale	49,575	67,049	143,235	-	-	259,859
Other assets	998	2	11,203	-	-	12,203
	685,959	82,778	1,799,062	5,552	445,436	3,018,787
Commitments and contingent liabilities (Note 21)	144,953	75,063	329,713	-	-	549,729
	830,912	157,841	2,128,775	5,552	445,436	3,568,516

2016 Geograpic Region	Middle East and North Africa $000	North America $000	Europe $000	Asia $000	Others $000	Total $000
Balances with central banks	-	-	116,519	-	-	116,519
Deposits with banks	369,165	5,639	415,602	12,815	-	803,221
Loans and advances to banks	-	-	-	-	20,000	20,000
Loans and advances to customers	205,731	-	443,531	-	304,128	953,390
Investments available-for-sale	50,828	68,770	263,601	-	-	383,199
Other assets	406	1,602	27,806	2,424	-	32,238
	626,130	76,011	1,267,059	15,239	324,128	2,308,567
Commitments and contingent liabilities (Note 21)	75,204	-	410,898	-	11,318	497,420
	701,334	76,011	1,677,957	15,239	335,446	2,805,987

Notes to the Financial Statements

31 December 2017

23 RISK MANAGEMENT (CONTINUED)

23.1 CREDIT RISK (CONTINUED)

23.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

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	2017 $000	2016 $000
Manufacturing	184,921	250,453
Banks and other financial institutions	1,607,967	1,109,826
Construction	107,639	55,368
Real Estate	1,219,196	854,108
Retail	6,061	21,739
Government	244,133	396,608
Others	198,599	117,885
	3,568,516	2,805,987

23.1. 3 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

In managing its portfolio, the Bank utilises ratings and other measures and techniques which seek to take account of all aspects of risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to customers and banks with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of financial assets for statement of financial position lines, based on the Bank's credit rating system.

	Neither past due nor impaired		Past due and	Past due and	
	High	Standard	not impaired	impaired	Total
2017	$000	$000	$000	$000	$000
Balances with central banks	363,490	-	-	-	363,490
Deposits with banks	744,508	237,925	-	-	982,433
Loans and advances to banks	-	17,500	-	-	17,500
Loans and advances to customers	687,432	690,203	4,393	1,274	1,383,302
Debt securities	259,859	-	-	-	259,859
Derivative assets	1,739	-	-	-	1,739
Other assets	11,760	-	-	-	11,760
	2,068,788	945,628	4,393	1,274	3,020,083
2016					
Balances with central banks	116,519	-	-	-	116,519
Deposits with banks	637,750	165,471	-	-	803,221
Loans and advances to banks	-	20,000	-	-	20,000
Loans and advances to customers	729,743	218,852	5,164	17	953,776
Debt securities	372,931	10,268	-	-	383,199
Derivative assets	24,450	865	-	-	25,315
Other assets	9,327	-	-	-	9,327
	1,881,393	415,456	5,164	17	2,311,357

Notes to the Financial Statements

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23. RISK MANAGEMENT (continued)

23.2 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 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.

2017 Assets	Up to 3 Months $000	3 to 12 Months $000	Over 1 Year $000	Total $000
Cash and cash equivalents	366,212	-	-	366,212
Deposits with banks	935,049	47,384	-	982,433
Loans and advances to banks	-	-	17,500	17,500
Loans and advances to customers	102,102	251,176	1,030,024	1,383,302
Investment securities	128,388	14,846	117,183	260,417
Fixed assets	-	-	1,682	1,682
Other assets	11,642	862	995	13,499
	1,543,393	314,268	1,167,384	3,025,045
Liabilities and equity				
Due to banks and other financial institutions	843,035	513,292	-	1,356,327
Customer deposits	1,174,595	129,309	-	1,303,904
Certificates of deposit issued	-	15,000	-	15,000
Other liabilities	31,070	1,210	16,915	49,195
Share capital and reserves	-	-	300,619	300,619
	2,048,700	658,811	317,534	3,025,045

2016 Assets	Up to 3 Months $000	3 to 12 Months $000	Over 1 Year $000	Total $000
Cash and cash equivalents	118,825	-	-	118,825
Deposits with banks	746,635	56,586	-	803,221
Loans and advances to banks	-	20,000	-	20,000
Loans and advances to customers	49,969	134,017	769,404	953,390
Investment securities	136,519	137,348	109,729	383,596
Fixed assets	-	-	1,628	1,628
Other assets	30,748	3,561	333	34,642
	1,082,696	351,512	881,094	2,315,302
Liabilities and equity				
Due to banks and other financial institutions	302,449	544,896	-	847,345
Customer deposits	985,307	149,147	-	1,134,454
Other liabilities	7,427	10,846	18,425	36,698
Share capital and reserves	1,500	-	295,305	296,805
	1,296,683	704,889	313,730	2,315,302

Notes to the Financial Statements

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23. RISK MANAGEMENT (continued)

23.2 LIQUIDITY RISK (continued)

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.

2017 Financial Liabilities	Up to 3 Months $000	3 to 12 Months $000	Over 1 Year $000	Total $000
Due to banks and other financial institutions	843,141	517,337	-	1,360,478
Customer deposits	1,189,112	115,430	-	1,304,542
Certificates of deposits	-	15,234	-	15,234
	2,032,253	648,001	-	2,680,254
Contingent liabilities and commitments				
Contingent liabilities	85,074	255,816	129,733	470,623
Irrevocable commitments	5,868	4,800	68,438	79,106
	90,942	260,616	198,171	549,729
Derivatives				
Interest rate swaps (net interest)	340	2,578	14,858	17,776
	340	2,578	14,858	17,776

2016 Financial Liabilities	Up to 3 Months $000	3 to 12 Months $000	Over 1 Year $000	Total $000
Due to banks and other financial institutions	302,594	550,335	-	852,929
Customer deposits	985,440	149,896	-	1,135,336
	1,288,034	700,231	-	1,988,265
Contingent liabilities and commitments				
Contingent liabilities	99,556	162,756	158,989	421,301
Irrevocable commitments	1,216	6,621	68,282	76,119
	100,772	169,377	227,271	497,420
Derivatives				
Interest rate swaps (net interest)	399	3,319	20,160	23,878
	399	3,319	20,160	23,878

23.3 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.

Notes to the Financial Statements

31 December 2017

23. RISK MANAGEMENT (continued)

23.3 MARKET RISK (continued)

23.3.1 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.

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:

		2017		2016	
Currency	Movement in basis points	Effect on Profit $000	Effect on Equity $000	Effect on Profit $000	Effect on Equity $000
GBP	+25	789	-	1,102	-
USD	+25	(1,917)	-	(656)	-
EUR	+25	2,002	-	1,289	-

23.3.2 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.

Notes to the Financial Statements

31 December 2017

23. RISK MANAGEMENT (continued)

23.4 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.

24. CAPITAL MANAGEMENT

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.

The Bank's regulatory capital and capital adequacy ratios as reported to the Prudential Regulatory Authority are shown below:

	2017 $000	2016 $000
Risk Weighted Assets	1,715,439	1,303,500
Capital available		
Common Equity Tier 1 capital	294,983	279,845
Tier 1 capital	294,983	279,845
Tier 2 capital	-	-
Total capital	294,983	279,845
Common Equity Tier 1 capital adequacy ratio	17.2%	21.5%
Tier 1 capital adequacy ratio	17.2%	21.5%
Total capital adequacy ratio	17.2%	21.5%

National Bank of Kuwait Group

Group Head Office
National Bank of Kuwait SAKP
Abdullah Al Ahmad Street
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

France
90 Avenue des Champs-Elysées
75008 Paris, France
Tel: + 331 5659 8600
Fax: + 331 5659 8623
Email: nbkparis@wanadoo.fr

Abu Dhabi
National Bank of Kuwait SAK
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 SAK
GB Corp Tower, Block 346
Road 46261, Building 1411
PO Box 5290, Manama
Kingdom of Bahrain
Tel: + 973 1715 5555
Fax: + 973 1710 4860
Email: nbkbah@nbk.com

China
National Bank of Kuwait SAK
Representative Office
Suite 1501-1502 15th Floor, AZIA Center
1233 Lujiazui Ring Road
Shanghai 200120
People's Republic of China
Tel: + 86 21 8036 0800
Fax: + 86 21 8036 0801
Email: joelyong@nbksh.com.cn

Egypt
National Bank of Kuwait Egypt
Plot No. 155, City Center,
First Sector 5th Settlement,
New Cairo, Egypt
PO Box 229, Postal Code 11835
Tel: + 202 26149300
Fax: + 202 26133978

Iraq
Credit Bank of Iraq
PO Box 3420, Elwiyah Post
Sa'adoun Street No 9, District 102
Elwiyah Building No 187, Baghdad, Iraq
Tel: + 964 1 717 2874
Fax: + 964 1 717 0156
Email: cbi@nbk.com

Jordan
National Bank of Kuwait SAK
PO Box 941297
Um Uthaina
Mecca Street
PO Box 941297
Amman 11194
Jordan
Tel: + 962 6 580 0400
Fax: + 962 6 580 0441

Lebanon
National Bank of Kuwait (Lebanon) SAL
BAC Building, Justinian Street
Sanayeh, PO Box 11-5727
Riad El Solh 1107 2200
Beirut, Lebanon
Tel: + 961 175 9700
Fax: + 961 174 7866
Email: info@nbk.com.lb
Website: www.nbk.com.lb

National Bank of Kuwait Group

Overseas Branches, Subsidiaries, Associates and Representatives

Saudi Arabia

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

Singapore

National Bank of Kuwait SAK
9 Raffles Place 44-01
Republic Plaza
Singapore 048619
Tel: + 65 6222 5348
Fax: + 65 6224 5438
Email: nbk_general@nbksg.com.sg

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

UAE

National Bank of Kuwait SAK
Ground & Mezzanine floor
Latifa Tower
Sheikh Zayed Road
PO Box 9293, Dubai
Tel: + 971 4 316 1600
Fax: + 971 4 388 8588

USA

National Bank of Kuwait SAK
299 Park Avenue, 17th Floor
New York
NY 10171, USA
Tel: + 1 212 303 9800
Fax: + 1 212 319 8269
Email: nbkusa@nbkny.com

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

Kuwait

NBK Capital
Arraya II
Alshuhada Street
Block 6, Sharq
PO Box 4950
Safat 13050, Kuwait
Tel: + 965 2224 6901
Fax: + 965 2224 6904/5

United Arab Emirates

NBK Capital Limited
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