Building our Digital Future

Annual Report 2019

HH Sheikh

Sabah Al-Ahmad Al-Jaber Al-Sabah

Emir of the State of Kuwait

HH Sheikh

Nawaf Al-Ahmad Al-Jaber Al-Sabah

Crown Prince of the State of Kuwait

At a glance

4
Continents

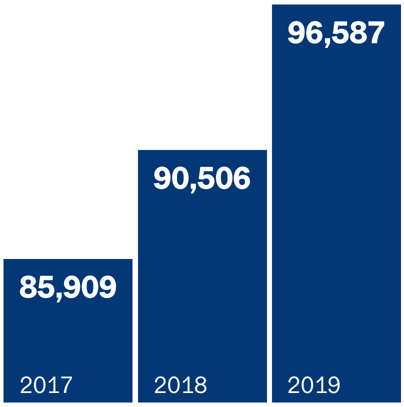
6,970
Global Employees

1.10%
NPL Ratio

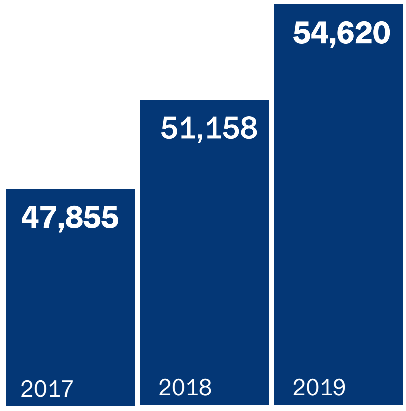
12.3%
Return on Average Equity

96.6
USD Billion Total Assets

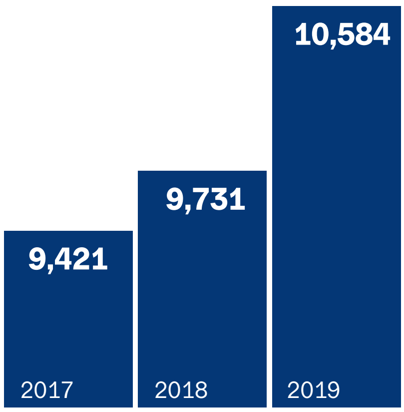
17.8%
Capital Adequacy Ratio



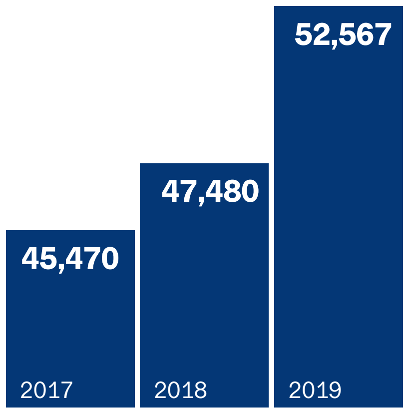
Total Assets (USD million)



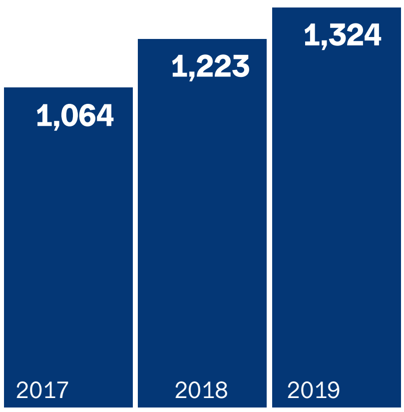
Loans, Advances and Islamic Financing (USD million)



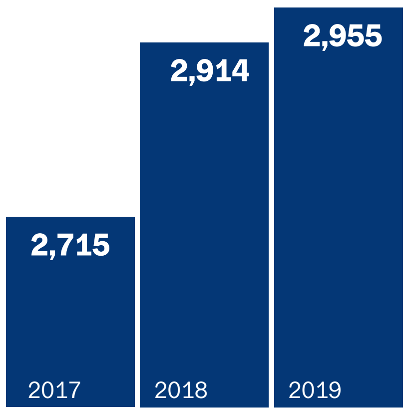
Total Equity (USD million)



Customer Deposits (USD million)



Net Profit Attributable to Shareholders (USD million)



Net Operating Income (USD million)

About NBK

Founded in Kuwait City in 1952, the National Bank of Kuwait S.A.K.P. ('NBK' or the 'Bank') is the country's longest serving local bank – and the first shareholding company in Kuwait and the Gulf Cooperation Council ('GCC'). Over 67 years, NBK has established itself as Kuwait's leading financial institution, extending its franchise across the Middle East and beyond, to global markets. Today, NBK has more than 150 branches in 15 countries across 4 continents.

The Bank has a reputation for experienced and stable management, with a clear strategy for strengthening its core business and expanding into new segments and markets. It has consistently achieved a highly competitive level of profitability, leading to robust shareholder returns, supported by high quality assets and a strong level of capitalisation. NBK offers customers a comprehensive range of financial products and investment services, with solutions for individuals, corporates and financial institutions. NBK is Kuwait's leading banking group in terms of assets, customer deposits, and customer loans and advances.

Ownership

Established by a group of leading Kuwaiti merchants, NBK has retained its core shareholder base since inception. Its shares have been listed on the Kuwait Stock Exchange since 1984, with a single shareholder (the Public Institution for Social Security) owning more than 5% of the share capital (5.53% as at 31 December 2019). NBK's market capitalisation as at 31 December 2019 was USD 22.8 billion.

Operations

With an international footprint, NBK's operational focus is on the Middle East and North Africa ('MENA') region. The Group also has a presence in China, France, Singapore, Switzerland, Turkey, the United Kingdom and the United States. NBK's main business segments are:

1. Consumer and private banking
2. Corporate banking
3. Islamic banking (through subsidiary Boubyan Bank)
4. Investment banking and asset management (through subsidiary NBK Capital)

Vision

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

Mission

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

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

To support the communities in which we operate

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

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

Values

Passion

Integrity

Conservatism

Knowledge

Contents

1 Strategic Review

2 Governance

3 Financial Statements

Building our digital future

NBK's priorities simultaneously shift with market forces. The Bank has established a 5-year digital road map that will solidify its leadership position for innovative financial services in Kuwait and across the Middle East, better meeting the changing needs of customers. The journey to achieving this leadership is already underway, with the road map built on 3 execution streams: customer facing initiatives, internal initiatives to transform processes, and digital culture and execution capacity. More information on how we are 'building our digital future' can be found on p. 10.

Strategic Review

The objective of our strategy is to achieve consistently superior returns for shareholders. The strategy is built on 3 cornerstones that guide the priorities we set for our business units and internal functions. They are to defend our leadership in core businesses, to grow outside the core, and to improve profitability.

Chairman's statement

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

"NBK delivered another set of healthy results, strengthening profitability while investing in business growth in various geographies, and executing against an ambitious digitisation roadmap."

On behalf of the Board of Directors, it is my pleasure to introduce National Bank of Kuwait's 2019 Annual Report. Navigating market headwinds, NBK delivered another set of healthy results, strengthening profitability while investing in business growth in various geographies, and executing against an ambitious digitisation roadmap. We remain a highly diverse banking group, and this plays a significant role in protecting and enhancing the quality of our income. The Bank is on the right path to future growth, and the pages that follow will offer in-depth analysis of our activities and performance for the year, with an informative view on the years to come.

Operating environment

Geopolitical tensions and the ongoing US-China trade war have proved disruptive to global growth and in MENA the continuation of a low oil price environment and political instability has put pressure on oil exporting economies. GDP growth in Kuwait was below expectation in 2019, due to lower oil output resulting from compliance with OPEC-imposed production cuts.

Although Kuwait's near-term growth outlook remains modest, there has been a good deal of positive news concerning structural reforms and business conditions. Kuwait jumped 8 places to 46th (out of 141 countries) in global competitiveness rankings compiled by the World Economic Forum, thanks to significant improvements in sub-categories including ICT, health and labour markets. Perhaps most pleasingly, Kuwait ranked joint first in the world for 'macro stability', thanks to low inflation and healthy debt dynamics.

No. 1
Kuwait's ranking for macroeconomic stability (World Economic Forum).

More than
150
branches
15
countries

NBK still benefits from a stable macroeconomic operating environment and will continue to contribute to its growth and stability during the coming years.

Institutional strength

With a 67-year history as a national champion in Kuwait, the strength of the foundations of our institution are what provide us with such a solid platform for growth. Having expanded our franchise to over 150 branches in 15 countries across 4 continents, we have a truly diverse global presence; and with operations across consumer and private banking, corporate banking, Islamic banking and investment banking and asset management, we have a genuinely wide-reaching portfolio of services. This diversity further supports the robust character of our institution.

In 2019, our institutional strength was confirmed by the world's 3 top credit rating agencies – Moody's, Standard & Poor's and Fitch Ratings – who reaffirmed their strong credit ratings for NBK with stable long-term outlooks. The assurance provided by these agencies is further demonstrated by the trust that customers and shareholders place in the Bank, and we have made it our mission to continue earning it.

Commitment to stakeholders

The Board of Directors continued to perform its duties in 2019, providing advice and feedback to Management. NBK's General Assembly meeting for 2018 was held in March 2019, at which there was a quorum of 79.97%. The AGM approved the Board of Directors' recommendation to distribute a cash dividend of 35 fils per share, representing 35.0% of the nominal share value in addition to 5% bonus shares. The Board and its Committees held a total of 54 meetings during 2019. The Board of Directors will recommend a dividend distribution of KD 226.4 million for 2019 equivalent to 35 fils per share at the Annual General Meeting that will be held in March 2020. The proposed cash dividend represents 56.4% of NBK Group's Net Profit for 2019. The Board will also recommend the distribution of 5% bonus shares. As at 31 December 2019, the Bank's total market capitalisation was KD 6.9 billion.

A robust and comprehensive Corporate Governance framework is essential for establishing and maintaining the trust we seek from stakeholders. Healthy governance is, as such, the cornerstone of a sustainable bank. We continue to build on our governance processes and practices, with scheduled review and enhancement of the Board Charter and Corporate Governance policies, in addition to Board Effectiveness Evaluation.

We are of the belief that our Board is staffed by members possessing the correct range and balance of expertise and professional qualities – challenging and supporting executive management in the appropriate manner.

Gratitude

On behalf of the Board of Directors, our thanks are due to NBK's Executive Management, as they consistently delivered on their role of pursuing the Bank's strategic objectives and creating new opportunities for growth.

We would also like to extend our sincerest gratitude to NBK's customers in Kuwait and around the world, for the commitment that they have shown to our Bank; and our thanks are equally due to the staff who serve them.

We are grateful to the Central Bank of Kuwait and the Capital Markets Authority, for their efforts in making our country and our industry attractive to investors.

Finally, we thank our shareholders for the trust they have placed in our business. We will continue to earn this trust in the years to come.

"We have a genuinely wide reaching portfolio of services, and this diversity supports the robust character of our institution."

Year in review

January

- NBK Wins "Best Bank in Liquidity Management Middle East" and "Best Treasury and Cash Management in Kuwait" Awards by Global Finance for 2019
- Five cohorts completed the Moody's Credit Curriculum Programme, graduating from an 18-month course covering topics from financial analysis to structure risk and credit challenges

February

- Global Finance awarded NBK "Best Private Banking Services" in Kuwait
- NBK Wins "Best Retail Bank in Kuwait" at Service Hero Awards 2018
- NBK implemented a Collective Executive Development Program with INSEAD
- NBK celebrated the graduation of its Leadership Development Programme candidates, held in partnership with Harvard Business School

March

- The Group established NBK France SA, a fully fledged banking business in Paris, after completing the process of converting NBK (International) PLC into a full subsidiary – an important step in strengthening the Bank's presence in international markets
- NBK's Annual General Meeting took place with a quorum of 79.97%, with all resolutions proposed by the Board of Directors approved by shareholders

April

- In a commitment to supporting small and medium enterprises through banking services tailored to their needs, the Business Banking Group at National Bank of Kuwait held a talk at Al Shaheed Park to showcase the success stories of its business customers, discussing their challenges and the services offered by the Bank to help them overcome these obstacles to their growth

May

- In line with its commitment to bring innovative banking solutions that cater to customers and their diverse lifestyles, National Bank of Kuwait and Mastercard have launched the NBK Multicurrency Prepaid Card that allows travelers and students living abroad to have the money they need at their convenience without the need to carry cash

June

- NBK launched Go Business + service in partnership with Mastercard, providing an advanced banking experience available for its Business Banking customers who benefit from a range of offers and discounts. NBK is the first Bank in Kuwait to launch this service

July

- NBK was selected for inclusion as a constituent of the FTSE4Good Index Series – the only bank in Kuwait to have been added to the prestigious global sustainability index

August

- NBK named the "Best Consumer Digital Bank" and the "Best in Mobile Banking" in Kuwait by Global Finance for 2019

September

- NBK awarded as Best Corporate for Investor Relations – Kuwait (MEIRA)
- NBK participated in the 'Rise of the Bots' panel discussion at Global Finance's 'Digital Bank and Innovators 2019' conference

October

- An NBK delegation – comprising the Chairman of the Board, the Group CEO, the Deputy Group CEO and the CEO of International Banking Group – attended the annual meetings of the World Bank Group (WBG) and the International Monetary Fund (IMF) in Washington, D.C.
- NBK was acknowledged by Global Finance Magazine as one of the World's 50 Safest Banks, making NBK the only Kuwaiti bank on the list

November

- NBK issued USD 750 million RegS/144A Perpetual Non-Call 6-year Tier 1 capital securities

December

- NBK integrated its FX, money and capital markets business with Murex's MX.3 platform
- NBK hosted its 'Walkathon', to promote an active lifestyle

Institutional strength

Credit ratings

NBK is a robust financial institution, as demonstrated by the trust that our customers and shareholders have placed in us, as well as our long-term credit ratings.

Rating agency	Long-term rating	Standalone rating	Outlook
Moody's	Aa3	a3	Stable
Standard & Poor's	A+	a-	Stable
FitchRatings	AA-	a-	Stable

Awards and accolades

Global Finance

- Best Bank in Kuwait
- Best FX Provider in Kuwait
- Best FX Provider in the Middle East
- Best Trade Finance Provider in Kuwait
- Best Private Banking Services in Kuwait
- Best Bank in Liquidity Management Middle East
- Best Treasury and Cash Management in Kuwait
- Best Bank in Real Time End-To-End Payment Tracking
- Best Consumer Digital Bank, Kuwait
- Best in Mobile Banking, Kuwait
- World's 50 Safest Banks
- Best Emerging Markets Bank

middle east investor relations association IR AWARDS 2019

Best Corporate for Investor Relations in Kuwait

FTSE4Good

Constituent of the FTSE4Good Index Series

Brand Finance®

Number 1 Banking Brand in Kuwait

The Banker

Bank of the Year – Kuwait

Group CEO's message

Isam J. Al-Sager
Group Chief Executive Officer

"There is a broad expectation that 2020 will bring positive operating conditions, as healthy appetite for credit in the oil sector continues to improve, and the infrastructure projects pipeline regains momentum."

In a challenging global economic environment, with geopolitical tension affecting business sentiment and credit growth, Kuwait has been a beacon of stability. Although, the hydrocarbon based economy relies heavily on government spending, which was not as extensive as anticipated, consumer credit proved resilient. NBK fared well and delivered the strong results that its stakeholders have come to expect. We remain deeply committed to our digital agenda, and the diverse and reliable earnings we generate across geographies and businesses have provided us with the strength to further pursue it. There is a broad expectation that 2020 will bring positive operating conditions, as healthy appetite for credit in the oil sector continues to improve, and the infrastructure projects pipeline regains momentum.

Building our digital future

In 2019, we accelerated our drive towards 'building our digital future'. The Bank is placing a heavy emphasis on both proprietary and third party technology, in an effort to develop a leadership position in the region. We continue to heavily invest in this process as we consider it essential for our future success. In the course of the year, we introduced Robotic Process Automation (RPA) and we are investing in organising our data to build AI capabilities, which will help cap future growth in costs, in the longer-term.

At the front-end, we have made significant progress in improving the online platforms available to our customers – making them faster, easier to use, and more secure – and we were very proud to be recognised in awards and rankings confirming these developments. This is evidence that we are making meaningful strides forward.

With 'mobile only' replacing 'mobile first' as our approach to digital platforms, we recognised the need to make fundamental changes to our operating model. As such, in 2019 we launched NBK's Digital Factory – a purpose-built unit staffed by the market's sharpest and most capable FinTech minds, from app developers to user experience specialists. The Digital Factory is quickly growing in both scale and influence and is symbolic of our approach to embracing the future, instead of chasing it.

Our bank, our people

As a national champion, our commitment to employees is undimmed. This year we invested significant time and resources in senior level training and succession planning, ensuring that the Bank has a cadre of talented executives who are both intellectually and technically exceptional and, most importantly, ready to take on new challenges. The programme was delivered in partnership with first-class international business schools. Meanwhile, we continue to seek out and develop Kuwait's most capable graduates, with our development programmes producing talented new recruits every year. Graduates come from all academic disciplines, bringing diverse skills to the Bank, which are of considerable value to business units throughout the Group – including the Digital Factory.

Group performance

The Group was successful in defending the dominant market share that it has built for itself in Kuwait, while continuing to extend and strengthen its foothold in regional and international markets. Total Assets reached KD 29.3 billion, as compared to KD 27.4 billion in 2018, increasing by 6.7%, with Customer Deposits increasing by 10.7% to reach KD 15.9 billion and Customer Loans and Advances growing by 6.8% to KD 16.6 billion. Net Profit for the year was KD 401.3 million, increasing by 8.2% year-on-year.

International operations accounted for 28% of Net Profit, providing vital revenue diversification for the Group. Further diversification and income risk mitigation is delivered by Boubyan Bank, our Islamic subsidiary, whose Total Assets by the end of the year stood at KD 5.3 billion, increasing by 22.0% on the previous year, with Net Profit of KD 62.6 million improving by 11.7% year-on-year.

In November, we issued USD 750 million RegS/144A perpetual Non-Call 6-Year Tier 1 capital securities, offering a 4.5% coupon rate – the lowest for GCC Tier 1 issuance amongst both conventional and Sharia compliant issuances. The capital securities were more than three times oversubscribed with a peak order book of USD 2.3 billion. The issuance was well received by fixed income investors and financial institutions around the world, reflecting our well established reputation and robust investor confidence. The proceeds will be used to boost the Banks' capital base in compliance with Basel III and Central Bank of Kuwait regulation.

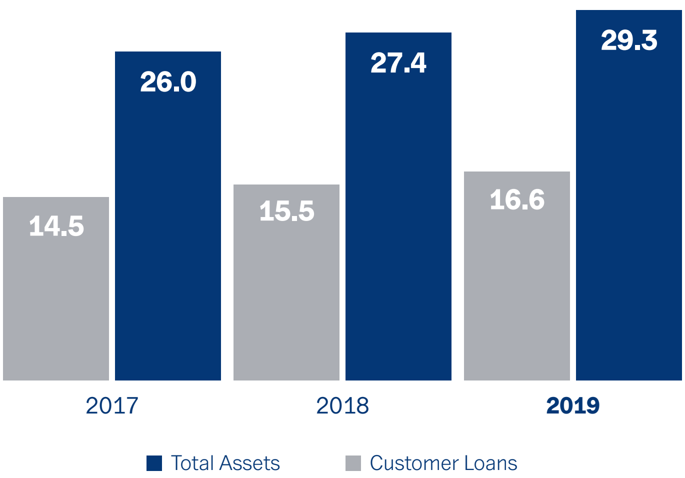
The path ahead

NBK's strategy for 2020 will not deviate from its current trajectory. The Bank will maintain its commitment to execution against its digitisation roadmap which will become one of its most potent competitive advantages in the near future. We will continue to increase the diversity of our income across geographies and segments. As evidenced in markets from New York to Egypt and Saudi Arabia, and in customers from corporate to HNWI accountholders, the Group has a compelling value proposition.

I would like to personally thank all management and staff for their unwavering commitment to our journey, and for the efforts they make on a daily basis to build our future as an institution. I would, at the same time, like to thank the Board of Directors for their wise counsel and guidance. Most importantly, I wish to state my personal thanks, on behalf of NBK, to our customers at home and abroad. We look forward to serving you in 2020 and beyond.

Total Assets & Customer Loans

(KD billion)



The Bank will maintain its commitment to execution against its digitisation roadmap which will become one of its most potent competitive advantages in the near future.

Building our digital future

The Bank has demonstrated its commitment to a digital future, keeping ahead of the curve as market forces shift.

Egypt

We are building digital platforms to complement the traditional branch-based sales and service model.

Digital Factory

A diverse group of talented individuals from web developers to app designers and UX specialists.

In 2019, NBK made significant progress in building its digital future. Defining and launching a 5-year roadmap for achieving a leadership position for innovation in the region, the Bank has demonstrated its commitment to a digital future, keeping ahead of the curve as market forces shift.

Digitalisation efforts are taking place across markets. In Kuwait, we have launched a digital transformation that includes enhancing customer touchpoints, improving internal processes and building digital capabilities. We already made excellent headway in migrating a vast number of transactions and services to digital platforms. The launch of our state-of-the-art Data Centre in Kuwait was a critical milestone in 2019. This year, we have also adopted an agile development framework to remove friction and improve time-to-market for innovative new ideas. We are now offering proprietary and third-party digital payment solutions across customer groups. Our recent achievements have been recognised by Global Finance who named NBK Best Bank for Real Time End-To-End Payment Tracking, Best Consumer Digital Bank in Kuwait, and Best for Mobile Banking in Kuwait. At the back-end, our cyber security framework continues to grow in scale and sophistication, keeping pace with the new technologies that are being introduced and the risks associated with it.

In parallel, we have kicked off building a disruptive digital proposition in Saudi Arabia employing new back- and front-end solutions jointly with new technology partners. In Egypt, where we already have a retail presence, we are building digital platforms to complement the traditional branch-based sales and service model.

In essence, a 'digital culture' is being embedded in the organisation – across units and markets. In this respect, we have placed heavy emphasis on attracting and retaining highly qualified talent, nurturing the human capital that is critical to deliver our long-term ambitions.

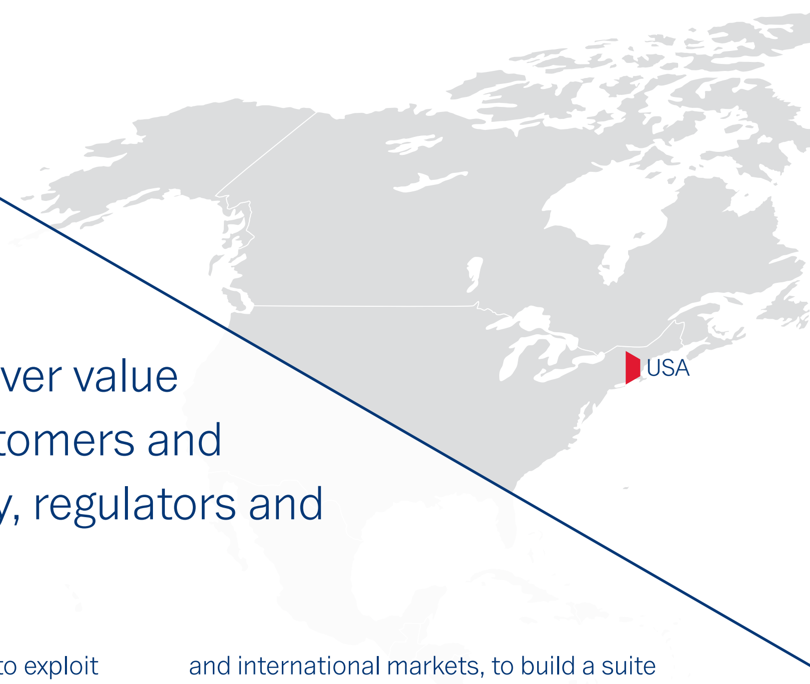
Case study: **The Digital Factory**

NBK's 'Digital Factory', established in 2019, is playing a vital role in the Bank's progress towards a digital future – particularly when it comes to culture and people. The Digital Factory employs a diverse group of talented individuals from web developers to application designers, digital architects and UX specialists. The Factory is a conceptualisation and execution powerhouse that has full ownership of the digital value chain, while enhancing the impact of work with third-party specialists.

The Digital Factory team are handpicked from both Kuwait and the world's brightest and best in the FinTech space, and all have a critical role in driving forward the digital roadmap. Our vision is not simply to achieve leadership as a bank with good digital channels, but to maintain this leadership with people who are capable of and committed to innovation.

At the centre of the work of the Digital Factory is the customer. The team works with internal and external resources to study customer needs and study the most recent digital trends across industries. Our challenge is to design touchpoints and experiences that appeal to the customers whose demand is vastly shaped by the global leaders in the digital space.

Business model



The business model strives to deliver value to all key stakeholders – from customers and employees to the local community, regulators and shareholders.

NBK's business model is designed to exploit the extensive resources that are available to the Group, including a strong brand, international reach, a high level of financial strength, and a powerful corporate culture. We focus our operations and initiatives on a wide range of customer types, across local and international markets, to build a suite of products and services that will meet and exceed their expectations. The business model strives to deliver value to all key stakeholders – from customers and employees to the local community, regulators and shareholders.

Resources

- **Strong brand** with a strong bond and reputation among our clientele as well as international recognition as a trusted institution and a regional leader
- **International reach** bridging capital and trade flows within MENA and the global markets
- **Financial strength** enabling us to support our clientele with significant transactions
- **Strong corporate culture** that values passion, integrity, conservatism and knowledge

Business focus

- Dominant banking franchise in Kuwait, delivering world class products and highest service quality to retail and wholesale clients
- Expanding footprint and establishing regional clientele in MENA
- Playing an active role in trade flows between MENA and the rest of the world
- Building a global Private Banking and Asset Management franchise serving regional customer base

Value for Stakeholders

- **Clients:** Delivering positive outcomes to clients and enabling them to protect their wealth
- **Employees:** Providing opportunities for workforce to learn, innovate and transform into valued assets
- **Shareholders:** Delivering consistent returns and long-term value
- **Regulators and Governments:** Responsible growth, ensuring transparency and robust governance
- **Communities:** Positive change, supporting social and sustainable economic development

Digital Transformation

NBK is embracing the changing business environment and evolving customer demands resulting from technological advances by launching a digital transformation plan.

Strategy

Our strategy is built on 3 cornerstones, which guide the priorities we set for each business unit and function.

These are 1) to defend our leadership in core businesses; 2) to grow outside of the core; and 3) to improve profitability.

Our core business is conventional retail and wholesale banking in Kuwait and constitutes about two thirds of NBK's bottom line. Outside the core we pursue diversification through i) growth in Islamic Finance within and outside of Kuwait (through our subsidiary Boubyan Bank); ii) continuous expansion of our presence and customer base in MENA; and iii) building a global network facilitating our customers' trade, investments and wider banking needs.

Strategic cornerstones

The cornerstones of our corporate strategy remain unchanged while the "HOW" reflects the way NBK adapts to the changing context

The third strategic cornerstone is to improve profitability balancing our focus between delivering against absolute targets and maintaining key ratios. The ultimate aim of the strategy is to achieve consistently superior returns for shareholders.

While the cornerstones of our strategy remain unchanged, we have adopted a two-pronged approach overlaying our digital roadmap to execute our strategy.

1. **Digital Transformation of the Core** is a comprehensive programme to transform our operations in Kuwait to deliver the best experience on a continuous basis to our customers. It constitutes three workstreams: i) Customer facing initiatives to enhance all touchpoints, ii) Internal initiatives to transform processes at the back-end so that we can deliver against the customer promise, and iii) Building digital culture and execution capacity.

2. **Business Diversification Leveraging Digital Disruption** encompasses all our efforts outside the core-scaling up our Islamic franchise with a digital enabled approach, building a disruptive digital proposition in Saudi Arabia, transforming our retail franchise in Egypt with enhanced digital capabilities, and building a regional powerhouse in wealth management.

Our strategy is conceived and adjusted in accordance with the current five-year strategic plan, which is revisited by management and the Board of Directors on a bi-annual basis.

Digital transformation of the core

Execution streams

Over the next 5-years, we aim to transform our business and deliver the best customer experience. Actions will be executed across 3 streams

Customer facing initiatives

Internal initiatives to transform processes

Digital culture and execution capacity

Business diversification leveraging digital disruption

Business diversification priorities

Building digital disruptive businesses

Building a regional powerhouse in wealth management

Scaling up Islamic Banking via Boubyan Bank

Transforming the retail business in Egypt

Key performance indicators

The delivery of our strategy is measured against a set of Key Performance Indicators (KPIs), which enable management and the Board to monitor progress towards strategic goals. The KPIs are categorised as 'financial' and 'non-financial'. The table summarises our overarching KPIs and provides an overview of performance in 2019.

	Dimension	KPIs	Objectives	Performance 2019
Financial	Profitability	Return on Assets	Gradually improve	
		Return on Equity	Gradually improve	
		Cost-to-Income ratio	Gradually improve	
	Growth	Core asset growth	Outperform home market	
	Resilience	% of FX, fees and commissions to total income	Maintain current level	
		% of income from international business	Gradually improve	
Non-financial	Customer perception	Attitude and behaviour survey results	Maintain perception as leading bank in Kuwait	
	Market perception	Ratings assigned by credit agencies	Maintain high credit ratings	
	Maintenance of Kuwait leadership position	Market share of salaried Kuwaitis	Gradually improve	
		Market share of corporate assets in Kuwait	Maintain current level	

***Note:** The objectives for the Bank's KPIs assume the execution of the Government of Kuwait's development plans towards the long-term goals defined in New Kuwait 2035. They also depend on gradual improvements in the political and economic stability of the MENA region, provisions returning to pre-financial crisis level and no major acquisitions.*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Economic scene and outlook

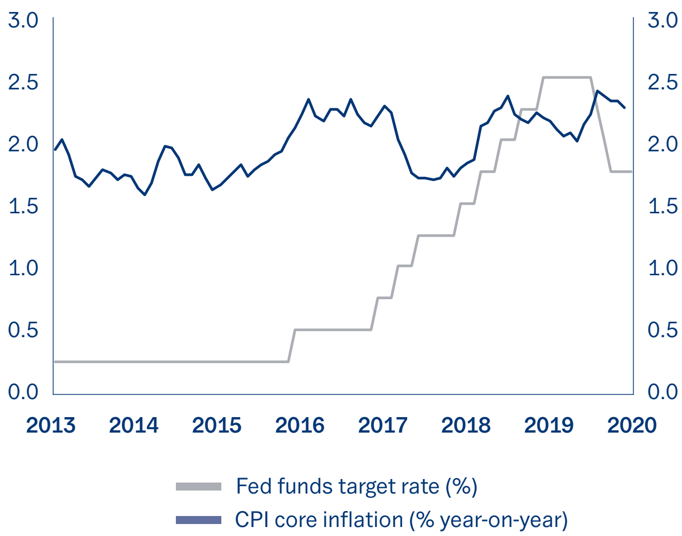
The economic scene in 2019 was dominated by the US-China trade war and geopolitical tensions that increased uncertainties.

3.3%
IMF's global growth forecast for 2020

23%
Brent crude benchmark's strongest annual gain since 2016

The economic scene in 2019 was dominated by the US-China trade war and geopolitical tensions that increased uncertainties, weighed on trade flows and investment sentiment and disrupted regional supply chains. However, financial markets began to improve in the third and fourth quarters as the US Fed cut interest rates and the US and China signed a 'phase one' trade agreement, reducing some of the pessimism over growth. Following the October 2019 rate cut, US Fed Chair Jerome Powell indicated that the 'mid-cycle adjustment' in rates was over, implying no further cuts in the near term with US GDP growth reaching a decent 2.3% in 2019. The consensus view is that rates will be kept on hold in 2020, with a possible cut later in the year. A rate cut could take place if inflation starts to show some persistent upward trend toward its set target of 2%.

US inflation and policy interest rates



In Europe, trade wars and Brexit concerns weighed on growth. Germany narrowly avoided recession and Eurozone growth slowed to 1.2% in 2019 compared to 1.9% in 2018. The European Central Bank shifted back into policy easing mode, cutting deposit rates further into negative territory and restarting asset purchases despite some internal dissent over the effectiveness and desirability of the policy. Under the leadership of Christine Lagarde, the ECB will undertake a strategic review of its policy this year. A decisive December election result in the UK provided some clarity on Brexit, and the UK finally left the European Union at the end of January 2020, albeit with long-term trading arrangements still uncertain.

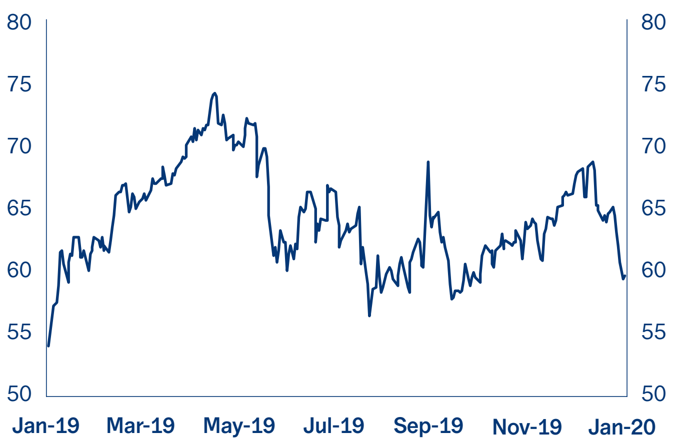
In Japan, the central bank adjusted its forward guidance in Q4 2019, suggesting it is willing to pull its policy rate further into negative territory to prop up the economy and reach its 2% inflation target. Growth is estimated at 1% in 2019, weighed down by weaker global demand, not least because of US-China trade tensions. China's export sector faced headwinds as the effects of trade tensions with the US were compounded by a slowdown in the global economy. Chinese growth slowed to a near 30-year low of 6.1% in 2019, though it appeared to stabilise towards the end of the year helped by government stimulus measures. The outbreak of the Coronavirus in China and its spread early in 2020 is casting doubt on China's growth and economic performance. While it is too early to assess the impact of the virus on the rest of the world, as it depends on how quickly it will be contained, the global economy will be affected by reduced travel and tourism as well as through supply chain effects, and global growth may be impacted.

The IMF revised down its global growth forecast for 2020 to 3.3%, an improvement on 2019 at 2.9%. This improvement is mostly accredited to the easing of trade tensions and the resolution of Brexit, which will reduce uncertainty and encourage more trade, consumption and investment. The downward revision (from 3.4% in October) reflects weakening economic activity in India, and softening growth and social unrest in some emerging markets. Downside risks to the outlook remain dominant, including rising geopolitical tensions, a re-escalation of the US-China trade war, trade tensions between the US and its main trade partners, policy uncertainty ahead of the US presidential election and a possible tightening of financial conditions. These risks could hit investment and expose vulnerabilities of highly indebted corporates and sovereigns.

Oil markets

A mix of worries over global growth, trade wars, oversupply and geopolitical tensions resulted in a volatile year for oil prices. However, prices turned around in the fourth quarter to reach near 3-month highs of around USD 66/bbl. by year-end, and Brent crude posted its strongest annual gain, 23%, since 2016. One idiosyncratic event was a drone strike on Saudi Aramco's Abqaiq-Khurais oil processing facility, which saw prices spike in September, but Saudi crude production was restored to normal levels relatively quickly, dispelling geopolitical risk premia.

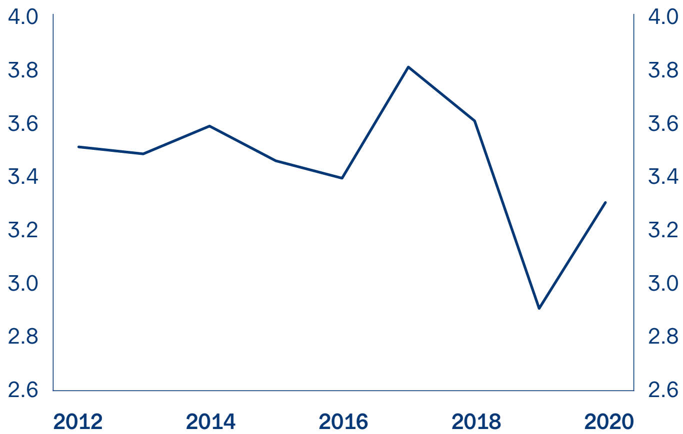
Brent crude oil prices, $/bbl



The upbeat end to the year for oil prices was due to progress on the US-China trade discussions and the announcement of deeper OPEC+ production cuts, effective from January 2020. Meanwhile, anxieties over US shale led oversupply and stock increases have been temporarily de-emphasized, but not dissipated. Other complicating factors are the spread of Coronavirus in January 2020, which could weigh on oil prices although this may be short lived, and OPEC+ getting ready to extend the oil production agreement, currently due to expire in March, at least until June 2020.

The International Energy Agency expects oil demand growth for 2020 at a moderate 1.2 mb/d, versus 1.0 mb/d in 2019. Further ahead, OPEC's World Oil Outlook 2040 has predicted that oil demand will grow by a modest 1.0 mb/d in the medium-term, while US shale production would see a 40% increase by 2025. OPEC anticipates a decline in its own market share from 35% to 32% by 2025.

World GDP growth (%)

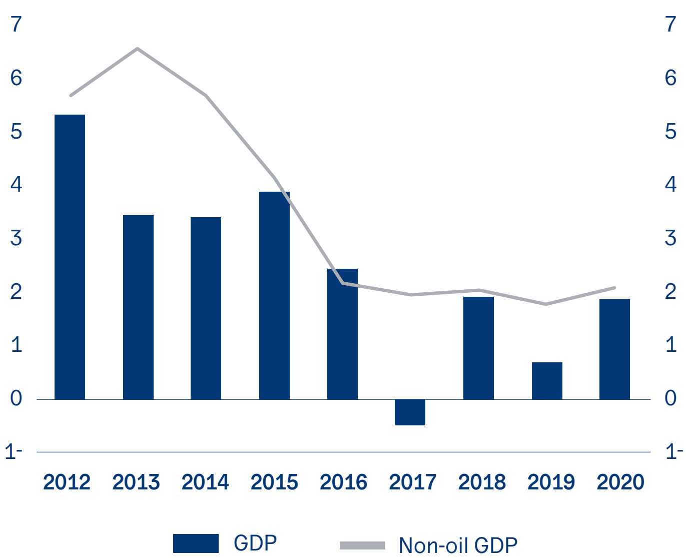


Middle East

GCC

Economic performance across the GCC continued to be affected by subdued oil prices in 2019, which weighed on growth and kept fiscal balances in most countries in deficit. GCC economic growth slowed to an estimated 0.7% in 2019 from 1.9% a year earlier, pushed down by cuts in oil output, while non-oil growth stood at 1.8%, slightly below the 2.0% of 2018. The aggregate GCC fiscal deficit at 4% of GDP was unchanged from 2018 – much reduced from previous years but implying further work ahead to improve fiscal sustainability. Most GCC countries followed the US Federal Reserve in cutting benchmark interest rates.

GCC GDP growth (%)



In Saudi Arabia, non-oil growth is estimated to have picked up slightly in 2019 to 2.7%, helped by government stimulus and diversification efforts. In its 2020 budget, the Ministry of Finance lowered its forecasts for revenue, expenditure and economic growth for 2020-2022. The budget deficit for 2019 is expected to be 4.7% of GDP and widen to 6.4% in 2020 before dropping to 5.0% in 2021. The changes reflect both lower oil prices and lower royalty rates on Aramco's oil sales, which necessitate lower budgeted spending. Aramco's IPO yielded USD 29.4 billion (for around a 1.7% stake, 1.5% plus 15% of that due to the exercise of the over allotment option), which has been transferred to the Public Investment Fund (PIF). This IPO and any additional sales in the future will deprive the budget of some oil revenues but would likely be compensated by PIF investment toward boosting private sector activity and non-oil growth. Saudi Aramco, meanwhile, has been listed on the Saudi stock exchange. While there are improving trends in non-oil GDP growth, the Kingdom's economic growth forecasts were also cut for 2019 to 0.4% and for 2020-22 to 2.2-2.3% per year.

For the UAE, subdued non-oil growth continued in 2019 as a result of prolonged geopolitical tensions and the decline in real consumption and investment in 2018. However, non-oil growth is expected to improve to 1.7% in 2020 from an estimated 1% in 2019 as the impact of structural reforms, fiscal stimulus, and Expo 2020 begin to be realised. On the other hand, the oil sector continued to support overall growth with an estimated 3.5% increase in 2019. But the extension of the OPEC+ agreement will put downward pressure on the sector going forward.

Bahrain's fiscal balance should continue to see gradual improvement, in line with the Kingdom's Fiscal Balance Program (FBP). While the FBP aims to balance the budget by 2022, Bahrain has signalled that it may take longer. Oman's fiscal position remains precarious, with foreign currency reserves depleted and the progress and pace of the reform programme behind schedule. Activity in Qatar has slowed but fresh plans to lift LNG production should help revive growth over coming years. Towards year-end there were glimmers of a thawing in relations between Qatar and its neighbours, which bodes well for improved economic unity in the region.

Egypt

The Egyptian economy continued to perform strongly, gathering further momentum in the roll out of the wide reaching economic reform programme that was introduced in 2016. GDP growth stood at 5.6% in FY18/19 and is expected to reach around 5.5% in FY19/20, according to NBK Research. Importantly, Egypt's foreign exchange reserves have more than doubled since 2016, with the tourism industry rebounding, and inward remittances increasing. Unemployment is on a healthy downward trajectory and the Egyptian pound is strengthening, reflecting increased capital inflows and more demand for the currency, while the budget deficit is shrinking.

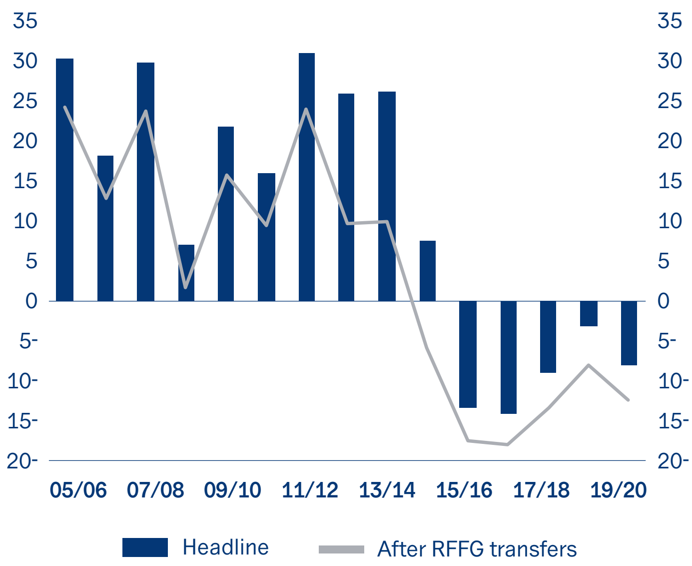
Egyptian credit growth was fairly subdued in 2019, with lending activity likely to pick up after recent interest rate cuts, stimulating greater appetite from borrowers. The policy rates were cut by 450 basis points in 2019 and will decline further in 2020 if inflation continues to fall. The central bank issued regulations in 2019 forcing banks to allocate a minimum of 20% of their loan book to SME lending, in a bid to stimulate growth in the sector.

Kuwait

GDP growth for Kuwait is estimated to have slowed to 0% in 2019 from 1.2% in 2018, due to lower oil production as the country complied with OPEC production cuts. Non-oil growth is estimated at a moderate 2.5% in 2019, supported by elevated government spending (especially on wages), a solid job market to underpin consumer spending, and accommodative monetary policy. Non-oil growth is forecast to be unchanged in 2020, while overall GDP could rebound 1.8% thanks to a steadier contribution from the oil sector. Inflation averaged 1.1% in 2019 and is expected to inch higher but remain below 2% in 2020. Moderate growth, small wage increases, and a strong Kuwaiti dinar will probably help keep price pressures in check.

Based on a Brent crude oil price of USD 63/bbl., and spending unchanged year-on-year, the fiscal deficit is expected to increase to 8% of GDP in FY2019-2020, from a deficit of 3.0% the previous year. This translates into a post-transfers deficit of around KD 5 billion or 12% of GDP, which will be financed by the General Reserve Fund in the absence of a new debt law. These figures exclude returns on the government's investments abroad, which are worth more than 10% of GDP per year.

Kuwait fiscal balance
(% of GDP)

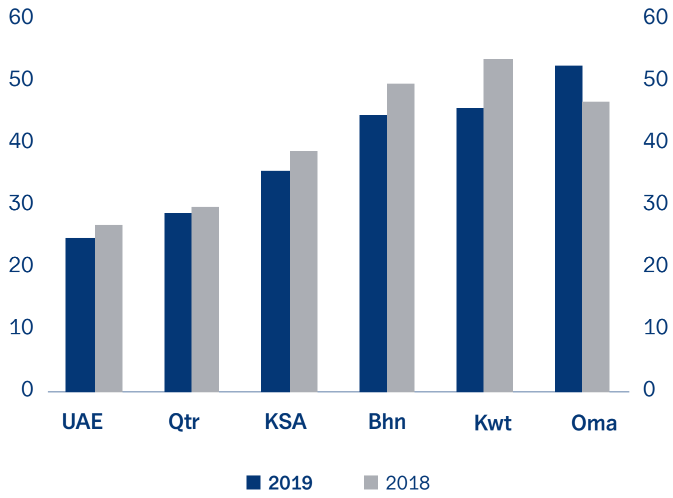


In Q4 2019, consumer spending registered a robust 13% year-on-year growth, driven partly by an acceleration in online transactions. Healthy employment growth and strong personal consumption lending remains a positive for the consumer spending outlook. Elsewhere, real estate sales sustained most of the gains made in 2018 (which reached a 4-year high). House prices are trending higher, but apartment prices remain soft amid market oversupply.

Project awards fell to around KD 1.1 billion in 2019 from KD 1.7 billion in 2018, mostly from the construction sector. Awards in 2019 were short of expectations on account of administrative and technical delays. In 2020, large awards are anticipated in the power, petrochemical and construction sectors. MEED's total planned project estimate for 2020 currently stands at around KD 8 billion, but judging by recent trends, this figure appears to be optimistic.

While Kuwait's near-term growth outlook remains modest, there was good news on structural reforms with the latest release of two influential global reports on business conditions. Kuwait improved its Doing Business Ranking from 97 to 83 (out of 190 countries) and moved up 8 places to 46 (out of 141 countries) in the Competitiveness Rankings compiled by the World Economic Forum, thanks to significant improvements in the sub-categories of ICT adoption, health, product and labour markets. Kuwait ranked first for 'macro stability', thanks to low inflation and healthy debt dynamics.

WEF competitiveness rankings
(Rank out of 141 countries, 1=best)



Operating environment: Kuwait's banking sector

The sector comprises 23 banks including 11 domestic banks (5 conventional, 5 Shariah compliant and 1 specialised) and branches of 12 international banks (11 conventional and 1 Islamic). The sector is well regulated by the Central Bank of Kuwait, with a number of regulations and supervisory norms that go beyond Basel III requirements to ensure the safety of the banking sector, including through strict supervision and imposition of prudential ratios, such as lending limits and concentrations, investment limits, liquidity and capital adequacy.

The Kuwait banking sector faced a challenging environment in 2019, and 2020 could be as challenging. Moderate non-oil economic growth, further possible softness in project awards and execution and a cut in government capital expenditures (to keep the deficit under control) that normally trickle down to other economic activities, may have an adverse impact on banks' operations. In addition, in a low interest rate environment, which is not anticipated to change in 2020, net interest income may remain subdued.

But the sector has shown an ability to deal with uncertainties and geopolitical tensions, and has demonstrated resilience over the past 10-years, while at the same time remaining sound, liquid and profitable. The sector is well capitalised, with the average Capital Adequacy Ratio at 17.6% in 2019, compared with a statutory minimum of at least 13%. The non-performing loans to total ratio for the sector remained low by regional and international standards, standing at 1.8% as of September 2019.

Domestic private credit growth was 4.3% year-on-year by December 2019 and is likely to grow at about the same pace in 2020 due to moderate growth in corporate lending and housing loans, and rapidly growing personal consumption lending, which increased by 36% year-on-year in December 2019 due mainly to the CBK's relaxation of household lending restrictions. Deposit growth eased to around 0% year-on-year as a result of softness in private deposits. Government deposits had been volatile but were up 11% on the previous year.

> "Kuwait's banking sector has shown an ability to deal with uncertainties, and has demonstrated resilience, remaining sound, liquid and profitable."

Group CFO's review

Jim Murphy
Group Chief Financial Officer

"In a challenging environment characterised by intense competition, margin compression and rising costs, the robustness and resilience of NBK's earnings model was clearly evident."

We are pleased to have delivered strong earnings growth of 8.2% in 2019. In a challenging environment characterised by intense competition, margin compression and rising costs, the robustness and resilience of NBK's earnings model was clearly evident. Interest rate conditions created a strong headwind serving to curtail growth in interest income, whilst the imperative to invest heavily in the Group's fast evolving digital banking agenda put additional strain on the income statement. Fortunately NBK's leadership in its domestic market and its unique positioning as a player in both conventional and Islamic banking, together with its well diversified international footprint, provides the Group with an ability to mitigate the adverse impacts of the challenges facing the global banking sector.

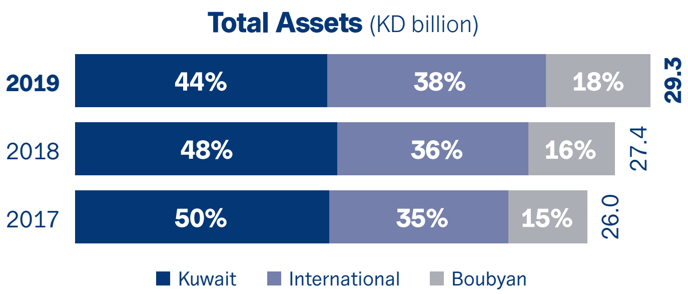
The Group maintained a commitment to continuously advancing its digital capabilities in line with industry best practice and developments in banking technologies. It is in this context that NBK is acutely aware of the need to stay relevant in today's rapidly evolving FinTech space. A programme of significant investment is underway to this effect. This is a rolling programme of investment into the future resilience of the Group, designed to preserve and enhance earnings in the years ahead.

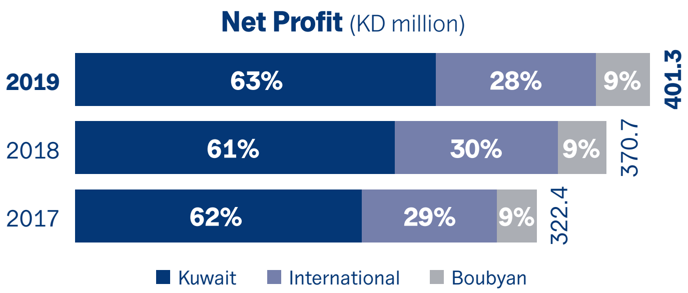
Healthy and reliable profitability is complemented by an unwavering commitment to asset quality and prudent capital management. As part of its capital management plan, in the fourth quarter of 2019 NBK issued USD 750 million RegS/144 perpetual non-call 6 year Tier 1 capital securities, with a 4.5% coupon. This was the lowest rate for any GCC bank issuance, a compelling testimony to NBK's standing in international markets. The securities were more than 3 times oversubscribed with a peak order book of USD 2.3 billion.

Overall, the Group stands well positioned to deliver solid and sustainable financial performance in the periods ahead.

Financial performance

The Group reported Net Profit of KD 401.3 million for the year ended 31 December 2019, an increase of 8.2% on 2018. The Operating Surplus (Net Operating Income less Operating Expenses) contracted by 2.6% to KD 591.2 million, due primarily to tighter margins and elevated levels of spending, as outlined above. Growth in business volumes was satisfactory, with Total Assets growing by 6.7%, to KD 29.3 billion. Loans and Islamic Financing grew by 6.8% to KD 16.6 billion, whilst Customer Deposits grew by 10.7%, to KD 15.9 billion. The tighter net interest margin served largely to negate the earnings impact of higher business volumes, thereby stifling growth in Net Interest Income. Non-Interest Income, however, grew by a significant 7.0%, noting that the vast bulk of the Group's Non-Interest Income derives from core operating banking activities.





Diversification of earnings remains an important competitive advantage for the Group, with international operations contributing 25% to Group operating income, compared to 24% in 2018. Our Islamic subsidiary, Boubyan Bank, continued to perform strongly, delivering Net Profits of KD 62.6 million, an increase of 11.7% on the previous year.

Total Costs increased by 10.1%, to KD 304.3 million. As mentioned earlier, this increase reflects in part the Group's elevated investment levels in respect to its progressive digital banking agenda, but also reflects selective added investment into our traditional banking footprints. The cost-to-income ratio, therefore, at 34.0% is somewhat higher than the previous year's 31.3%.

With regards to the Group's cost of risk, we were pleased to see a material fall this year, from 1.08% in 2018, to 0.74% in 2019. This lower cost of risk was naturally supportive to bottom line growth.

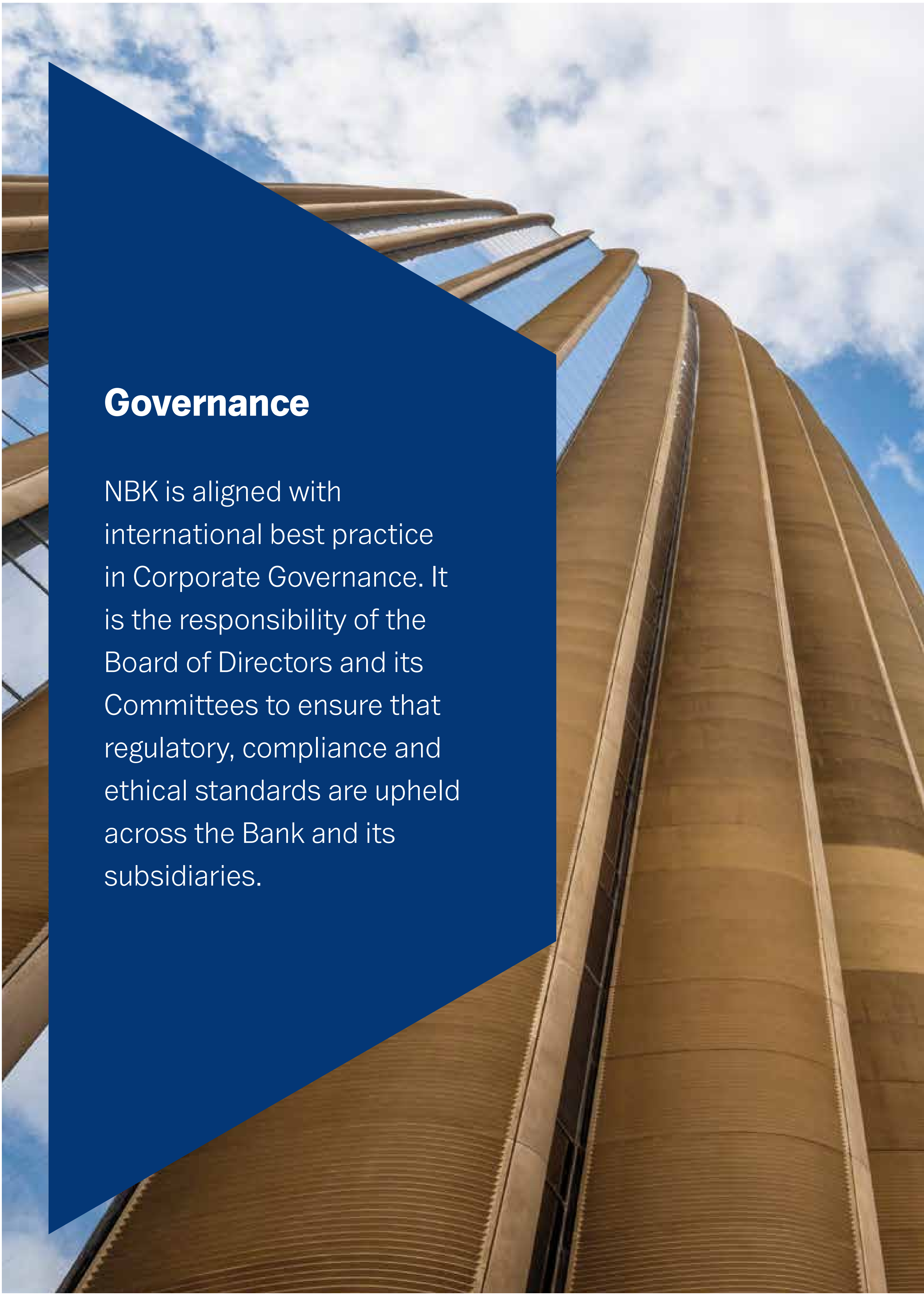
Other profitability metrics improved, with return on average equity at 12.3% compared to 12.0% in 2018, and return on average assets at 1.42% as compared to 1.38% in 2018.

Key ratios (%)	**2019**	2018	2017
Return on Average Assets	**1.42**	1.38	1.28
Return on Average Equity	**12.3**	12.0	10.8
Net Interest Margin	**2.56**	2.69	2.61
Non-interest Income % Total income	**23.0**	21.8	23.5
Cost to Income	**34.0**	31.3	32.3
NPL Ratio	**1.10**	1.38	1.42
Loan Loss Coverage Ratio	**272.2**	228.1	287.5
Capital Adequacy Tier 1 Ratio	**15.9**	15.3	15.8
Capital Adequacy Ratio	**17.8**	17.2	17.8

NBK maintained healthy levels of capitalisation, supported by the new AT1 issuance, with a capital adequacy ratio of 17.8% at year-end (17.2% in 2018). This level of capitalisation is aligned with the Group's risk appetite and is comfortably in excess of our Basel 3 capital adequacy requirement as determined by the Central Bank of Kuwait. The Group reported a Basel 3 leverage ratio of 10.2% (9.2% in 2018) and a Basel 3 liquidity coverage ratio of 159.7% (163.0% in 2018). Asset quality is strong, with the Bank's ratio of non-performing loans to gross loans at 1.10% (1.38% in 2018) and coverage at 272.2% (228.1% in 2018).

The Board of Directors has recommended a cash dividend of 35 fils per share (35 fils in 2018) and 5% bonus shares (5% bonus shares in 2018). Earnings per Share (EPS) increased in 2019 to 60 fils per share (55 fils in 2018), with Equity Attributable to Shareholders of the Bank increasing to KD 3.21 billion (KD 2.95 billion in 2018). NBK's market capitalisation as at 31 December 2019 was KD 6.9 billion (KD 5.1 billion in 2018).

"NBK maintained healthy levels of capitalisation, supported by the new AT1 issuance, with a capital adequacy ratio of 17.8% at year-end."



Governance

NBK is aligned with international best practice in Corporate Governance. It is the responsibility of the Board of Directors and its Committees to ensure that regulatory, compliance and ethical standards are upheld across the Bank and its subsidiaries.

Board of Directors

Mr. Nasser Musaed Abdullah Al-Sayer
Group Chairman

Mr. Al-Sayer has been a Board Member of NBK since 1980. He was appointed as the Board Vice-Chairman in 1993 and Board Chairman in August 2014. Mr. Al-Sayer has been a Board Member of the Kuwait Banking Association since 1999, where he was also Chairman from 1999 to 2006. He has served as a member of the Supreme Council for Planning & Development (chaired by H.E. the Prime Minister of Kuwait). Mr. Al-Sayer was Deputy Director-General (1973- 1978) and a Board Member of the Kuwait Fund for Arab Economic Development from 1994 to 2000. He brings to NBK's Board considerable experience in banking, investment, strategic planning and governance in both the private and public sectors. Mr. Al-Sayer holds Bachelor degree in Economics from the University of Oklahoma, USA.

Mr. Ghassan Ahmed Saoud Al-Khaled
Vice-Chairman

Mr. Al-Khaled has been a Board Member of NBK since 1987 and Vice-Chairman since August 2014. He is also Chairman of the Board Risk Committee and member in the Board Audit Committee. Mr. Al-Khaled is Vice-Chairman and Managing Director at ACICO Industries Co. and has a rich background in Corporate Banking, Trade Finance, Credit and the Retail sector. He holds a Bachelor of Science degree in civil engineering from West Virginia University, USA.

Mr. Hamad Abdul Aziz Al-Sager
Board Member

Mr. Al-Sager was originally a Board Member of NBK from 1975 to 1976, re-joining the Board in 1983. He is also a Member of the Board Credit Committee and Board Corporate Governance Committee. In addition to his position on NBK's Board, Mr. Al-Sager is a Board Member at Al Kout Industrial Projects Co., Kuwait. He has extensive experience in the banking industry, particularly in Corporate Credit. Mr. Al-Sager holds a Bachelor of Arts degree in Economics from Ireland.

Mr. Yacoub Yousef Al-Fulaij

Board Member

Mr. Al-Fulaij has been a Board Member at NBK since 1998 and was General Manager at the Bank from 1983 to 1998. He is also a Member of the Board Credit Committee and Board Corporate Governance Committee. Mr. Al-Fulaij has broad experience of banking activities, including Risk Management and Internal Controls. He holds a Bachelor of Arts degree in business administration from the University of Miami, USA.

Mr. Hamad Mohamed Al-Bahar

Board Member

Mr. Al-Bahar has been a Board Member of NBK since 2005. He is also Chairman of the Board Audit Committee and Chairman of the Board Nomination and Remuneration Committee. Mr. Al-Bahar sat on the Board of the Kuwait Investment Company from 1981 to 1991, where he served as Chairman and Managing Director. He also served as Managing Director of the Bank of Bahrain and Kuwait. He has extensive experience in Investment Banking and Asset Management, in addition to internal controls. Mr. Al-Bahar holds a Bachelor of Arts degree in Economics from Alexandria University, Egypt.

Mr. Muthana Mohamed Ahmed Al-Hamad

Board Member

Mr. Al-Hamad has been a Board Member of NBK since 2007. He is also a Member of the Board Credit Committee, Board Corporate Governance Committee and the Board Nomination and Remuneration Committee. Additionally, Mr. Al-Hamad is the Vice-Chairman of Alwatyah United Real Estate Company and was Chairman of Future Communication Company International from 2005 to 2014. He was previously a Board Member of the Arab European Company for Financial Management (AREF) from 1987 to 1993, and served on the Board of the Commercial Bank of Kuwait from 1993 to 1997, as well as the United Bank of Kuwait from 1996 to 1997. He has considerable experience in Finance and Business Economics. Mr. Al-Hamad holds a Bachelor of Arts degree in Economic and Political Science from Kuwait University.

Board of Directors (continued)

Mr. Haitham Sulaiman Hamoud Al-Khaled
Board Member

Mr. Al-Khaled has been a Board Member at NBK since 2010. He is also a Member of the Board Audit Committee, Board Risk Committee and the Board Corporate Governance Committee. Mr. Al-Khaled has been a Board Member of Al Shall Investments Holding Co. since 2006 and Al Arjan International Real Estate Company since 2010, where he has been Chairman since 2014. Mr. Al-Khaled is also a Board member of Rasameel Investments Co. since 2016 and Kuwait Insurance Co. since 2019. Mr. Al-Khaled previously held the following positions at the leading telecom operator, Zain: Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer, amongst other responsibilities. He has extensive experience in strategic planning, investments, mergers and acquisitions, corporate governance and internal controls. Mr.. Al-Khaled holds a Bachelor of Science degree in Electronic Engineering from Kuwait University.

Mr. Emad Mohamed Al-Bahar
Board Member

Mr. Al-Bahar joined NBK as a Board Member in August 2014, following the death of the former Chairman, Mr. Mohamed Abdul Rahman Al-Bahar. He is also a Member of the Board Nomination and Remuneration Committee and the Board Credit Committee. Mr. Al-Bahar is a Member of the Executive Board of Al-Bahar Group, one of the oldest trading conglomerates in Kuwait and the Middle East. In addition to his role on the Executive Board and in the strategic decision-making team at Al-Bahar, he is a Board Member of Al Ahlia Insurance Company Kuwait and of other overseas companies. Mr. Al-Bahar holds a Management degree from the American University of Washington, USA.

Mr. Talal Jassim Al-Kharafi
Board Member

Mr. Al-Kharafi has been a Board member since March 2019. He is a member of the Board Risk Committee and the Board Nomination and Remuneration Committee. Mr. Al-Kharafi has been the chief executive officer of Kuwait British Readymix Company since 2015 and a board member of Kuwait Egyptian Holding Company since 2015. He was a board member of Asia Investment Company from 2005 till 2018 and a member in Mobile Telecommunication Company (Zain) in 2017 in addition to being a board member in other companies in Kuwait. He has been a board member of the Kuwait Chamber of Commerce since 2008. He has considerable experience in finance and business economics. Mr. Al-Kharafi holds a Bachelor's degree in Political Sciences from Kuwait University, Kuwait
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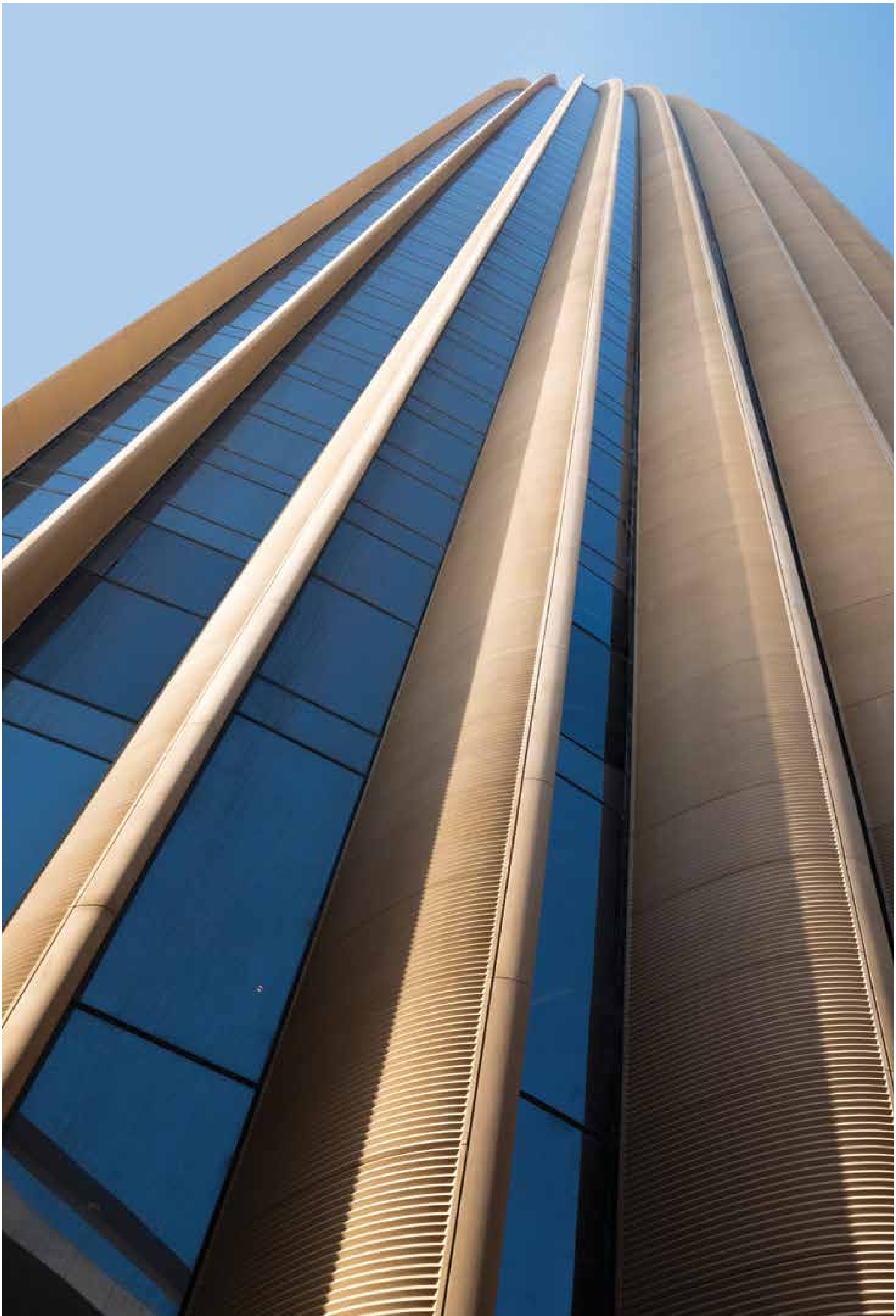


Executive Management

Mr. Isam J. Al-Sager
(Group Chief Executive Officer)

Mr. Al-Sager joined NBK in 1978, and has been the Group Chief Executive Officer since March 2014. He is a member of various Management Committees. Mr. Al-Sager was Chairman of National Bank of Kuwait – Egypt until May 2019. He serves on the Board of Directors of NBK (International) PLC, United Kingdom, Watani Wealth Management Co. (KSA), NBK Properties (Jersey) Limited. He holds a Bachelor of Science degree in Business Administration from California State Polytechnic University, USA.

Ms Shaikha K. Al-Bahar
(Deputy Group Chief Executive Officer)

Ms Al-Bahar joined NBK in 1977 and has been the Deputy Group Chief Executive Officer since March 2014. She is a member of various Management Committees. Ms Al-Bahar is the Chairperson of National Bank of Kuwait (Lebanon), NBK Egypt, NBK France and NBK Capital. Ms Al Bahar serves on the Board of NBK (International) PLC, United Kingdom, NBK Global Asset Management Limited, and The Turkish Bank, Turkey. She has been a member of Kuwait's Supreme Council for Planning since August 2017. Ms Al-Bahar has extensive experience in privatization, project finance, advisory services, bond issues, Build/Operate/Transfer financing, Initial Public Offerings, Global Deposit Receipts programmes and private placements. She holds a Bachelor of Science degree in International Marketing from Kuwait University, and has attended specialized programmes at Harvard Business School, Stanford University and Duke University (USA).

Mr. Salah Y. Al-Fulaij

(Chief Executive Officer – Kuwait)

Mr. Al-Fulaij joined NBK in 1985 and now he is the Chief Executive Officer – Kuwait. He is a member of various Management Committees. Mr. Al-Fulaij serves on the board of NBK France, NBK Capital and Watani Financial Brokerage Company. He was the Chief Executive Officer of NBK Capital from 2008 to 2014, and previously Group General Manager of Treasury and Investments Services. Mr. Al- Fulaij is a graduate of the University of Miami, where he received his Bachelor degree in Industrial Engineering and his MBA in Business Management. He has participated in a number of executive programmes at Harvard Business School, Stanford Graduate School of Business, and Duke University (USA).

Mr. Sulaiman Barrak Al-Marzouq

(Deputy Chief Executive Officer – Kuwait)

Mr. Al-Marzouq joined NBK in 2002 and now he is the Deputy Chief Executive Officer – Kuwait. He moved to the Central Bank of Kuwait from 2012 to 2015, where he headed the Department of Foreign Operations, before moving back to NBK as Group Treasurer. Mr. Al-Marzouq serves on the board of NBK Capital and Hayat Investment Company. Mr. Al-Marzouq has extensive experience in Investment and Wealth Management, in addition to his experience in Treasury and Banking Operations. He has served as a Board Member for several banks and companies in Kuwait. Mr. Al-Marzouq holds a Bachelor degree in Economics from Portland State University, USA.

Executive Management (continued)

Mr. Georges Richani
(CEO International Banking Group)

Mr. Georges Richani joined NBK in 1987 and has been Head of International Banking Group since 2012. He is also a member of various Management Committees. Mr. Richani's former NBK appointments include Head of Group Treasury and of the Asset Liability Management. He is a board member of NBK (International) PLC, NBK Lebanon, Watani Wealth Management Co. (KSA), NBK France and Credit Bank of Iraq. He has extensive experience in Treasury, Funding and Liquidity Management, Balance Sheet management and Market Risk management (foreign exchange and interest rate risks) in addition to investment management and capital markets, including global fixed income markets. Mr. Richani holds a Bachelor of Science degree from the American University of Beirut- Lebanon and a Master degree in Business Administration in Finance, with distinction, from the City of London Business School (UK). He has participated in a number of executive programmes at Harvard Business School, Stanford Graduate School of Business, and Duke University (USA).

Mr. Jim Murphy
(Group Chief Financial Officer)

Mr. Murphy joined NBK in 1999 and has been the Group Chief Financial Officer since 2010. He is also a member of various Management Committees. Mr. Murphy serves on the boards of Turkish Bank and NBK Overseas (Netherlands) BV. Prior to joining NBK, Mr. Murphy was Head of Management Accounting for Ireland and the UK at AIB Bank. He has extensive experience in Finance and Banking. Mr. Murphy is a Chartered Management Accountant (UK) and Chartered Secretary (UK), and holds a Graduate ship in Marketing (Ireland).

Mr. Parkson Cheong
(Group Chief Risk Officer)

Mr. Cheong joined NBK in 1993 and has been the Group Chief Risk Officer since 2008. He is Chairman or a member of several management level Supervisory Committees at the Bank. Mr. Cheong has extensive experience in Commercial Banking, Syndication Lending, Investment Banking and Corporate Finance. He holds Bachelor of Science degree in Economics from the University of Wales (UK) and a Master degree in Business Administration (MBA) in Finance from the Wharton School, University of Pennsylvania (USA).

Mr. Emad Al-Ablani

(General Manager – Group Human Resources)

Mr. Al-Ablani joined NBK in March 2003 and was appointed as General Manager – Group Human Resources in 2014. He is also a member of various Management Committees. Former appointments at NBK include Deputy General Manager, Head of Human Resources – Kuwait and Assistant General Manager – Recruitment & HR Operations. He has more than 25 years of experience in Human Resources. Mr. Al-Ablani holds an Executive Master's degree in Business Administration (EMBA), from the American University of Beirut (Lebanon) and a Bachelor of Arts degree in Educational Psychology from Kuwait University.

Mr. Malek Khalife

(Deputy CEO – Head of Global Private Banking)

Mr. Khalife joined NBK in 2005 and has been General Manager, Private Banking Group – Kuwait since 2008 and Head of Global Private Banking for NBK Group since June 2018. He is a Board Member of NBK Lebanon, NBK France and Watani Wealth Management Co. (KSA). He is also a member of various Management Committees. Mr. Khalife's last tenure, prior to his current position, was as Director of the Private Banking Representative Office at American Express Bank Limited in Lebanon. He has over 34 years of experience in Private Banking and Financial Markets in the Middle East and Gulf region. Mr. Khalife holds a Master degree in economic sciences from Saint Joseph University, Lebanon.

Mr. Mohammed Al Othman

(General Manager – Consumer Banking Group)

Mr. Mohammed Al Othman joined NBK Group in 2006 and has been Head of Consumer Banking Group since April 2018. He is also a member of various Management Committees. Mr. Al Othman has been the Chairman of the Shared Electronic Banking Services Company (K-Net) since 2015 and a member since 2014. Mr. Al Othman has extensive expertise in retail banking, personal banking payment services and banking products. Mr. Al-Othman holds a Bachelor degree in Philosophy from Kuwait University and has attended several training programs at Harvard Business School.

Executive Management (continued)

Mr. Dimitrios Kokosioulis

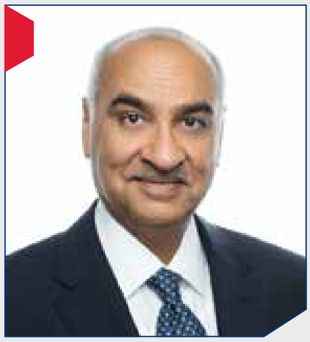
(Deputy CEO - IT & Operations Group)

Mr. Kokosioulis joined NBK in 2013 as General Manager, Operations Group. He is a member of various Management Committees at NBK. Former appointments include Chief Operating Officer; Deputy Chief Operating Officer; Head of International Consumer Finance Operations; Vice President and Head of Retail & Cards Operations at various local and international banks in south eastern and central-eastern Europe. He has extensive experience in Operations Management, Financial Planning & Analysis, Project Management, 'Green Field' operations set-up, M&A activities and restructuring. Mr. Kokosioulis holds a Master of Business Administration degree in Finance from DePaul University, Chicago (USA), as well as a Bachelor of Arts degree in Economics from the University of Rochester, (USA).

Mr. Ahmed Bourisly

(General Manager - Corporate Banking Group)

Mr. Bourisly joined NBK in 1998 and has been General Manager, Domestic Corporate Banking at NBK since June, 2019. He served on the Board of NBK Capital until January 2015. He serves on the Board of Boubyan Takaful. He is also a member of various Management and Credit Committees. Mr. Bourisly has extensive experience in all areas of Credit and Corporate Banking Management. He holds a Bachelor degree in Business Administration with a concentration in Marketing from University of the Pacific, CA. He attended numerous training courses and seminars at Harvard University (USA) and INSEAD, France.



Mr. Pradeep Handa

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

Mr. Handa joined NBK in 1980 and has been General Manager - Foreign Corporate, Oil and Trade Finance Group since 2012. He is also a member of various Management Committees. Former appointments at NBK include Assistant General Manager, Executive Manager and Senior Manager at Corporate Banking Group - Kuwait. He has more than 31 years' experience in handling Foreign Corporate Banking and Oil and Trade Finance matters. Mr. Handa holds a Master degree from the University of Delhi, India.

Dr. Soliman Abdel-Meguid

(General Counsel to the Executive Management)

Dr. Abdel-Meguid joined NBK in 2001 as General Counsel heading the Legal Affairs Group of the Bank. He started his career in the Egyptian judiciary system and lectured at various universities. He has more than 37 years of experience in legal affairs at Kuwaiti banks. Dr. Abdel-Meguid holds a Ph.D. in Law, with distinction, from Cairo University (Egypt). He has been granted the Award of the Egyptian Society of International Law. Dr. Abdel-Meguid was repeatedly recognized as one of the top lawyers in the Middle East by the Legal 500 GC Powerlist which highlights the world's most innovative and influential lawyers. He has also authored several academic legal publications.

Mr. Mohammed Al Kharafi

(General Manager – Head of Operations)

Mr. Mohammed Al Kharafi joined NBK Group from 2001 till 2008 where he progressed to the position of Branch Manager. He re-joined NBK again in 2010 where he assumed many leadership roles and he is currently the General Manager of Operations Group. Additionally, he is a board member of the Credit Information Network Company (Ci-Net).
He has extensive experiences in Retail Banking and Operations.
Mr. Mohammed Al Kharafi has a Bachelor's Degree in Business Administration from the Arab Open University. He has participated in a number of Executive Education Programmes at Harvard Business School, Chicago Booth School of Business and American University of Beirut.

Mr. Mohammed Al Khonaini

(General Manager – Head of Administration Services)

Mr. Mohammed Al Khonaini joined NBK Group in 1979 and has been General Manager Administration Group since 2007. Mr. Al-Khonaini assumed many roles in different departments and mostly in Consumer Banking. He has extensive experience in Consumer Banking and Administration. Mr. Al-Khonaini has a Bachelor's Degree in Political Sciences from Kuwait University. He has participated in a number of the Executive Education Programs at Harvard Business School and many training programs.

Executive Management (continued)

Mr. Carl Ainger
(Group Chief Internal Auditor)

Mr. Ainger joined NBK in 2009 and has been Group Chief Internal Auditor since 2012. Former appointments include Deputy Chief Internal Auditor at NBK and Head of Internal Audit at a regional bank in Bahrain. He has extensive experience in Internal Audit across the international banking industry and External Audit/Consulting in the United Kingdom. Mr. Ainger holds a Master degree in Business Administration from the University of Strathclyde (UK).

Dr. Saade Chami
(Group Chief Economist)

Dr. Saade Chami joined NBK Group in 2018; he is currently Group Chief Economist and a member of various Management Committees, in addition to his extensive expertise in economic analysis and capital markets. Prior to joining NBK Group, Dr. Chami was the Secretary General, Capital Markets Authority in Lebanon for several years. He also served with the International Monetary Fund (IMF) for over 20 years, and served as the advisor for both the Prime Minister's Office and the Ministry of Finance in Beirut, Lebanon. Dr. Chami holds a Bachelor and Master degrees in Economics from the University of Ottawa, Canada, as well as a PhD from McMaster University, Canada.

Mr. Ezzat Hallal
(Chief Engineer)

Engineer / Ezzat Hallal joined NBK Group in 2003. He is the Head of Engineering Dept. and works in developing and expanding the banks' network of branches local and overseas. He is also the Engineer in Charge of the NBK New Headquarters project. Prior to joining NBK Group, Eng. Hallal had several leading positions in Kuwaiti and US engineering and construction companies. He has extensive experiences in Construction and Project Management Consultancy. Eng. Hallal holds a Bachelor and a Master degrees in Construction Management from the University of Oklahoma, in addition to a Master in Civil Engineering from the University of Villanova (USA). He attended executive management and leadership programmes at Harvard Business School , Wharton School and Dale Carnegie.

Mr. Mahmoud Ezzedine

(General Manager – Head of Private Banking Kuwait)

Mr. Mahmoud Ezzedine joined NBK Group in 2011 and has been the General Manager for Private Banking Group – Kuwait since 2018. He is a member of various Credit Committees at the Group. Prior to joining NBK Group, Mr. Ezzedine was the head of Private Banking Dept. in a leading Bank in Lebanon and a financial consultant in Merrill Lynch Bahrain. He has extensive experience in Private Banking, Investments Products, Credit and Financial Management. Mr. Ezzedine has a Bachelor's Degree in Business Studies from the Lebanese American University (LAU) in Beirut and a Master's degree in Business Administration from the University of Hull in the United Kingdom. He attended many executive management and leadership training.

Mr. Nikolaos Sfikas

(General Manager – Chief Information Officer)

Mr. Sfikas joined NBK in 2015. He is currently the Head of IT, Information Technology Group.
Prior to joining NBK Group, Mr. Sfikas was the senior manager of ATMs and Cards at Piraeus Bank Group.
He has wide experience of more than 20 years in the field of Information Technology in the banking sector.
Mr. Sfikas holds a Master in Business Administration from University of Macedonia - Greece and a Master in Engineering (Electronic and Computer Engineering) from Aristotle University of Thessaloniki-Greece.

Dr. Galal Wafaa

(General Counsel – Head of Legal Affairs Group)

Dr. Galal joined NBK Group in 2015. He is currently the General Counsel and head of the Legal Affairs Group of the Bank. Prior to joining NBK Group, Dr. Galal was the Senior Legal Counsel at the Capital Markets Authority in the State of Kuwait and Legal Counsel and Head of the Anti-Money Laundering Unit in the Industrial Bank of Kuwait. Dr. Galal is also a Professor of Commercial and Maritime law in Alexandria University. He has wide experience in legal consultations for corporations, banks as well as financial institutions in addition to being a member of a number of legal committees in the state of Kuwait. Dr. Galal holds a Bachelor of Laws Degree from Alexandria University, a Master's Degree in Commercial Law from New York University and a Doctorate Degree in Juridical Science (S.J.D) from Tulane University (USA).

Corporate Governance Framework

National Bank of Kuwait Group is aligned with the best international Corporate Governance practices and risk management, to protect stakeholders' rights. During 2019, the Group adhered to all the provisions and determinants of CBK instructions regarding the Corporate Governance rules and standards for Kuwaiti banks, issued in September 2019, as well as the regulatory instructions related to governance in Kuwait and those issued by other countries in which the Group's entities operate.

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

The Group recognizes the importance of applying the principles and standards of good governance, It follows professional and ethical standards in all kinds of deals, and ensures disclosure and transparency of information that is accurate and timely. This contributes to the development of the Group's working efficiency and enhances the confidence of shareholders, related parties and stakeholders in the Group's performance, as well as the banking sector in Kuwait.

During 2019, the Group achieved a number of key accomplishments in the effective implementation of the Corporate Governance Framework. These are as follows:

- Reviewed and updated the governance policies and charters according to the regulatory instructions in Kuwait and the instructions issued by the regulatory authorities in countries where the Group operates
- Developed and implemented automated systems for Governance compliance, operational risk, Foreign Account Tax Compliance Act (U.S.A), Anti Money Laundering / Combating Financing of Terrorism, Anti-financial crimes, Information Technology and Cybersecurity Risks.
- Conducted an independent review and assessed the efficiency of implementing Corporate Governance at NBK subsidiaries, by monitoring and supporting the governance units at these subsidiaries, which manage the affairs of the Board of Directors and their Committees.
- Developed and continually improved the Corporate Governance reporting systems between entities of the Group.
- Fulfilled the Capital Markets Authority requirements of the Corporate Governance regulations for NBK Capital and Watani Financial Brokerage Company.
- Review and update Governance's organizational structure.

The Board and Committees' composition and duties

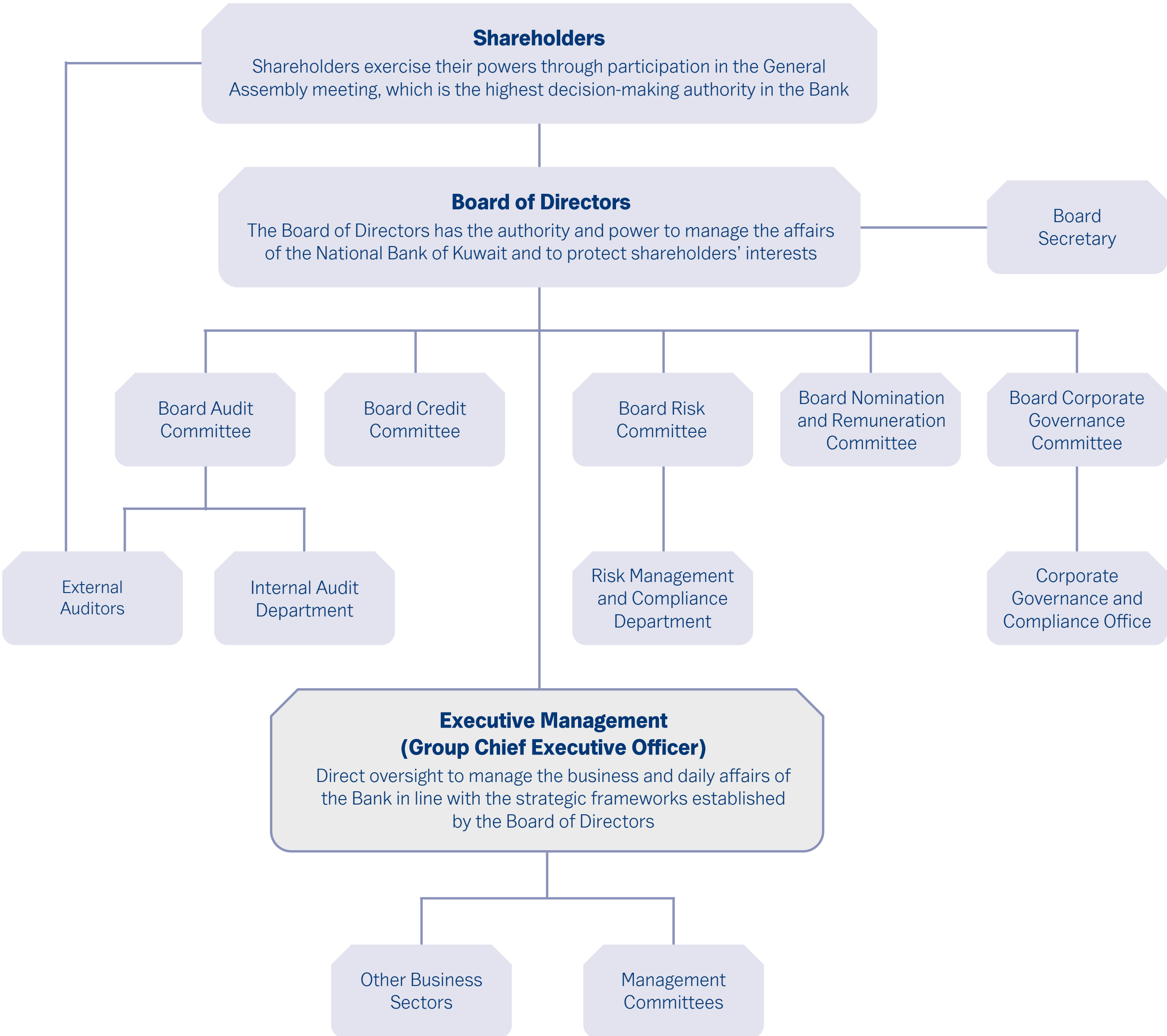
NBK Group's Board of Directors is composed of nine (9) non-executive members representing the shareholders. The Board members are elected and appointed by the General Assembly of the Bank, for three (3) years. The Board aims to strengthen the long-term success of the Group and to deliver sustainable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

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

The Group's balanced and non-complex Board structure facilitates the process of exchange of information on an accurate and timely basis between different Group entities. This has been accomplished by establishing direct communication channels across the Group, which promote the principle of disclosure and transparency regarding Group operations. Moreover, the structure maintains the supervisory role assigned to the Board, and effectively contributes to fulfilling the Board's responsibilities.

To comply with the supervisory regulations issued by CBK, in addition to the Group's effort to effectively implement the Corporate Governance Framework, the Group formed an appropriate number of Committees that are aligned with the size of the Group, the nature and complexity of its activities, and the geographical distribution of the Group's entities. The Board of Directors formed five sub-committees to enhance the Board's effectiveness in overseeing important Group operations.

The Corporate Governance Framework of the Group is illustrated as follows:



The Board Sub-Committees

Corporate Governance Committee	Nomination and Remuneration Committee	Risk Committee	Audit Committee	Credit Committee
Board Members	**Board Members**	**Board Members**	**Board Members**	**Board Members**
1- Mr. Nasser Musaed Al-Sayer **(Board and Committee Chairman)**	1- Mr. Ghassan Ahmed Al-Khalid **(Committee Chairman)** (Left Committee's membership on 9/3/2019)	1- Mr. Ghassan Ahmed Al Khalid **(Committee Chairman)**	1- Mr. Hamad Mohammed Al-Bahar **(Committee Chairman)**	1- Mr. Hamad Abdul Aziz Al Sager **(Committee Chairman)**
2- Mr. Hamad Abdul Aziz Al-Sager	2- Mr. Hamad Al Bahar (Became a Committee Chairman effective from 9/3/2019)*	2- Mr. Haitham Sulaiman Al-Khaled	2- Mr. Haitham Sulaiman Al-Khaled	2- Mr. Yacoub Yousef Al-Fulaij
3- Mr. Yacoub Yousef Al-Fulaij	3- Mr. Emad Mohamed Al Bahar	3- Mr. Loay Jassim Al-Kharafi (Left committee's membership on 9/3/2019)*	3- Mr. Loay Jassim Al-Kharafi (Left Committee's membership on 9/3/2019)*	3- Mr. Muthana Mohamed Al-Hamad
4- Mr. Muthana Mohamed Al-Hamad	4- Mr. Muthana Mohamed Al-Hamad	4- Mr. Talal Jassem Al Kharafi (Became a Board's member effective from 9/3/2019)*	4- Mr.Ghassan Ahmad Al Khaled (Became a Committee's member effective from 9/3/2019)*	4- Mr. Emad Mohamed Al Bahar
5- Mr. Haitham Sulaiman Al-Khaled	5- Mr. Talal Jassem Al Kharafi (Became a Board's member effective from 9/3/2019)*			
Committee's mission:	**Committee's mission:**	**Committee's mission:**	**Committee's mission:**	**Committee's mission:**
Assist the Board in overseeing the implementation of the Group's Corporate Governance. The Committee is also responsible for monitoring the implementation progress of the policies and procedures pertaining to governance.	Assist the Board in carrying out the Nomination and Remuneration responsibilities pertaining to the Board of Directors and Executive Management. The Committee also supports the Board in reviewing and enhancing Board structure and development of the caliber of the Board Members. It also assists the Board in setting up the Group's remuneration framework and ensures effective implementation in accordance with Group remuneration policy.	Assists the Board in carrying out risk management responsibilities by evaluating and monitoring the risk governance framework, risk appetite, risk strategy and capital planning. In addition, the supervision of regulatory compliance across the Group.	Assists the Board in a supervisory role regarding the efficiency and independence of the internal and external audit operations for the Group. Also oversees the preparation of the periodic financial statements and other regulatory reports.	Responsible for reviewing the quality and performance of the Group's credit portfolio. The Board has authorized the Committee to approve credit facilities that exceed the authorization granted to Senior Management, in accordance with the Credit Policy and the approved authority matrix of the Group in accordance with the related regulatory instruction.

* At National Bank of Kuwait Ordinary General Assembly meeting dated 9/3/2019, Board of Directors was elected for a new term (3 Years) where Mr. Talal Jassem Al Kharafi was elected to Board Membership and Mr. Loay Jassim Al-Kharafi left Board membership (Became a Reserve member).

Board of Directors in its meeting dated 3/9/2019 reformed Board Sub-Committees, where Mr. Ghassan Ahmad Al Khaled left Board Nomination & Remuneration committee's membership and resumed Board Audit Committee's membership, Mr. Mohammad Hamad Al Bahar chaired Board Nomination & Remuneration Committee and Mr. Talal Jassem Al Kharafi resumed Board Nomination and Remuneration Committee and Board Risk Committee's membership

Board of Directors and Committee meetings

The Board of Directors held eight (8) meetings during 2019. Minutes of all meetings have been documented and are included in the Bank's records.

The below table shows names of the Board of Directors, their memberships in Board Sub-Committees and number of meetings that reached fifty four (54) meetings, in addition to the number of meetings attended by each member during the year.

Board of Directors Members	Committee Membership	Board of Directors	Corporate Governance	Nomination & Remuneration	Risk	Audit	Credit
Mr. Nasser Musaed Al-Sayer	• Chairman of Board of Directors • Chairman of Corporate Governance Committee	6	2				
Mr. Ghassan Ahmed Al-Khalid	• Chairman of Nomination and Remuneration Committee (Till 9/3/2019) • Chairman of Risk Committee • Member of Audit Committee (Effective from 9/3/2019)	5		1	3	3	
Mr. Hamad Abdul Aziz Al-Sager	• Chairman of Credit Committee • Member of Corporate Governance Committee	4	2				12
Mr. Yacoub Yousef Al-Fulaij	• Member of Corporate Governance Committee • Member of Credit committee	5	2				18
Mr. Hamad Mohammed Al-Bahar	• Chairman of Audit Committee • Chairman of Nomination and Remuneration Committee (Effective from 9/3/2019)	7		3		6	
Mr. Muthana Mohamed Al-Hamad	• Member of Corporate Governance Committee • Member of Nomination and Remuneration Committee • Member of Credit Committee	8	2	3			28
Mr. Haitham Sulaiman Al-Khaled	• Member of Corporate Governance Committee • Member of Risk Committee • Member of Audit Committee	7	2		3	5	
Mr. Loay Jassim Al-Kharafi	• Member of Risk Committee (Till 9/3/2019) • Member of Audit Committee (Till 9/3/2019)						
Mr. Emad Mohamed Al Bahar	• Member of Nomination and Remuneration Committee • Member of Credit Committee	7		3			23
Mr. Talal Jassem Al Khrafi	• Member of Risk Committee (Effective from 9/3/2019) • Member of Nomination & Remuneration Committee (Effective from 9/3/2019)	4			2		
Total number of meetings		**8**	**2**	**3**	**4**	**6**	**31**

Meetings held by the Board of Directors and its Committees during 2019 were in compliance with Central Bank of Kuwait governance rules and standards, and the Board and Committees' charters in terms of the number of meetings, periodicity, the quorum, and the topics reviewed and discussed by members.

Effective Implementation of the Corporate Governance Framework

General overview

The Group Board of Directors permanently and continuously strives to achieve the best interest of the Bank's shareholders through effective oversight and monitoring of the work of the Executive Management, ensuring the implementation of the Bank's strategy and objectives, and confirming that performance is in accordance with the Bank's plans. During the year, the Board of Directors reviewed and developed the Group's strategy and risk appetite, including all future plans of subsidiaries and overseas branches.

The Board of Directors gives particular importance to the implementation of governance at Group level, by creating a culture of corporate values among the Bank's entire staff. This is achieved through constant efforts to achieve the Bank's strategic objectives, improving Key Performance Indicators, and compliance with laws and regulations, especially the rules of Corporate Governance. In addition, the Board adopts a set of policies, charters, systems, mechanisms, reports and procedures which the Group has effectively and integrally applied, relying on the philosophy of the Group in the implementation of Corporate Governance as a culture and working principle, and not only as supervisory instructions and legislative regulations.

The followings are the most important achievements of the Board of Directors and its Committees during 2019:

Board of Directors' Key Achievements

The Board of Directors met eight (8) times during the year and the followings key duties were accomplished:

- Approved of 2019 Budget and the audited financial statements of the Bank
- Discussed the risk appetite and its impact on the Group's strategy
- Reviewed the results of the Internal Capital Adequacy Assessment Process ("ICAAP"), financial stress testing as per the regulatory requirement of Basel III
- Discussed and approved general and specific provisions for the local and international loan portfolio
- Approved the amended financial authority matrix for the Senior Credit Committee.
- Reviewed updated and approved the financial authority matrix for the GCEO, the DGCEO, the CEO-Kuwait and his Deputy.
- Reviewed the Board of Directors' structures within subsidiaries, on an ongoing basis, ensuring their compliance with the regulatory requirements and the general policy of the Group's governance framework
- Followed the progress of the Group's operations, through regular meetings with Executive Management and discussed the results of the Group's business through periodic reports prepared by the Financial Group, which clarifies the most important financial indicators of the Bank's budget and profits according to geographical distribution of branches and foreign subsidiaries
- Reviewed and evaluated the effectiveness of the Board and its Committees, in addition to conducting individual self-assessments of the Board and Committee members
- Reviewed the remuneration framework, the mechanism of linking rewards to performance the level of risk exposure and updated the remuneration policy at Group level
- Oversaw the implementation of the Corporate Governance Framework at Group level and ensured compliance with local regulations in the countries the Group operates in, which are in line with the Group's Corporate Governance Framework
- Reviewed, developed and approved the policies related to Corporate Governance and charters of the Board of Directors and its committees at the Group level in order to be commensurate with regulations issued from Supervisory Authorities, the Group's organizational structure, and to keep up with applicable international and leading Corporate Governance practices
- Conducted self-assessment on Corporate Governance implementation at Group level and identified the areas that need to be developed

- Reviewed the results of the annual independent evaluation of the Corporate Governance Framework conducted by the Internal Audit Department which highlighted the areas of the Framework that require improvement
- Reviewed the results of the annual independent evaluation of the Internal Control Review for the Corporate Governance Framework, conducted by the external auditors
- Supervised the Corporate Governance offices and units in the Bank's subsidiaries, followed up their progress through periodic reports presented to the Board Corporate Governance Committee for review and discussion, and subsequently to the Board of Directors
- Approved cash dividend distribution of 35% of the nominal value of the share (Thirty five fils per share)
- Approved the increase of NBK issued and paid up capital by 5% as bonus shares
- Reviewed, developed and approved the Anti-Money Laundering and Terrorist Financing policy for subsidiaries and the funds in Cayman Islands
- Approved the policies of Information Security Office
- Discussed the development of overseas branches regarding financial digital services and the implementation of highest cyber security standards
- Approved the subscription in shares capital of Boubyan' s bank capital increase
- Reviewed the results of bank's compliance level with Capital Markets Authority instructions concerning the adequacy of information technology systems related to Custodian activity that was and conducted by independent external auditor
- Approved the issuance of a Perpetual securities with value of USD 750 million, that will be included in the Additional Tier 1 Capital of NBK to enhance Capital base in accordance to Basel III requirements and central bank of Kuwait regulations in this regard

Board Committees' Key Achievements

Corporate Governance Committee

The Committee met twice during the year and the following key duties were performed:

- Reviewed the implementation of Corporate Governance of NBK Group and its subsidiaries, while providing continuous support to subsidiaries
- Reviewed and amended the Board and its sub-Committee's charters according to supervisory regulations issued in this regard and made recommendations to the Board of Directors
- Reviewed and discussed the results of the internal audit report on the annual evaluation of the Corporate Governance Framework, and the level of compliance with regulators
- Reviewed and discussed the report and the results of the evaluation of internal control systems, and the adequacy of implementing the rules of corporate governance at Group level
- Reviewed and updated Corporate Governance policies, in line with the latest regulatory instructions, leading practices, and made recommendations to the Board for approval
- Reviewed the related parties' transactions report, the conflict of interest report, the whistleblowing cases, and discussed the effectiveness of the existing mechanisms
- Supervised the progress of Corporate Governance implementation at Group level
- Reviewed and discussed the annual compliance report on the adequacy of the Corporate Governance implementation at Group level
- Reviewed the disclosures related to Corporate Governance which are presented in the Group annual report
- Reviewed the new instructions issued by the regulatory authorities in Kuwait and the countries where our subsidiaries are located and the procedures taken to comply with these instructions

Nomination and Remuneration Committee

The Committee met three (3) times during the year and the following key duties were performed:

- Supervised the process of the annual assessment of the Board of Directors' performance for the Board, its committees, and the self-assessment of each member of the Board of Directors for the year 2018
- Reviewed the proposed annual training plan for the year 2020 for the Board members, which covered special topics – , Anti-Financial Crime Fintech , Cyber Security and Strategic Planning
- Reviewed the Internal Audit report on Corporate Governance and the independent evaluation conducted on the Bank's Remuneration framework
- Conducted a comprehensive assessment of the Board of Directors' and its Committees' performance, as well as the performance of each Board member individually
- Reviewed the remuneration policy and presented it for approval to the Board of Directors
- Reviewed and approved the rewards and incentives for 2019 based on the key performance indicators and key risk indicators, and discussed claw back cases for 2019 and put forward recommendations to the Board
- Reviewed the links between remuneration and the Group's long-term objectives
- Reviewed and discussed the succession plan prepared by Group Human Resources and recommended it to the Board for approval
- Reviewed and discussed the phantom shares plan for key personnel, and made recommendations to the Board of Directors
- Reviewed and discussed the latest developments in the banking industry, the related reports in this regard, and the latest related regulatory requirements
- Reviewed the disclosures related to Remunerations presented in the Group annual report of 2018
- Reviewed and amended the committee's charter and make recommendations for submission to Board of Directors

Audit Committee

The Committee met six (6) times during the year and the following key duties were performed:

- Reviewed and approved the Group's internal audit annual plan for 2019 for Kuwait, overseas branches and subsidiaries, based on the risk assessment and audit focus areas. Also reviewed the internal audit policy and procedures and presented them to the Board for approval
- Co-ordinated with external auditors and reviewed the interim and annual financial statements of the Group, and dividends distribution and submitted recommendations to the Board of Directors
- Reviewed and discussed the periodical reports of the Internal Audit Department and the attached reports
- Reviewed and discussed the internal audit summary and considered what has been achieved in the internal audit plan, in comparison to performance during the previous year
- Reviewed and approved the scope of the external auditor 's plan related to Internal Control Review and discussed the results of the report
- Reviewed the Committee charter and amendments, and submitted recommendations to the Board of Directors
- Reviewed the efficiency and independence of the internal audit function, infrastructure and the overall annual assessment of the function's performance with the Group Chief Internal Auditor
- Discussed aspects of internal audit that related to information technology and IT security
- Provided recommendations related to the external auditors' fees, with respect to the services provided
- Discussed external audit results related to the internal audit department
- Evaluated the Group Chief Internal Auditor's annual performance, and determined his remuneration
- Reviewed and discussed the internal audit reports for Kuwait, overseas branches and subsidiaries

Risk Committee

The Committee met four (4) times during the year and following key duties were performed:

- Reviewed and discussed the strategy and challenges of Risk Management, the set of periodic risk management reports at Group level and the key risk indicators
- Reviewed a report on the most important activities and achievements of the Group Risk Management of 2018 and the planned work in 2019
- Reviewed and discussed the periodic market risk report, Internal Capital Adequacy Assessment Process (“ICAAP”), liquidity ratios, the stress testing scenarios and the methods with which they are dealt at Group level
- Reviewed and discussed the risk limit ratios, compared the ratios to the Group's approved risk appetite and the exposure levels of countries in which the Group operates, and discussed those ratios and the changes compared to previous periods and credit concentrations for companies , countries and sectors
- Reviewed updates on overall economic situations and their impact at the Group level
- Reviewed the reports of operational risk, market risk , compliance risk and compliance plan at Group level
- Reviewed and updated senior credit committee authorities and put forward recommendations to the Board for approval
- Reviewed periodic reports on the information systems risks, operational risks, the results of the internal control systems report on regulatory compliance, anti-money laundering and financing of terrorism, and compliance with regulatory requirements of the Foreign Account Tax Compliance Act -FATCA, at Group level
- Reviewed and approved the Group compliance policy, procedures, and the compliance plan for overseas branches, the AML/CFT policy and the IT Risk management procedures,
- Reviewed regulatory compliance remarks at Group and subsidiaries level, through self-evaluation results as well as field visits and review processes
- Evaluated the Group Chief Risk Officer’s annual performance and determined his remuneration
- Reviewed and updated the organizational structure of Group Risk Management and made recommendations to the Board of Directors
- Pursued the development of the internet security information, its global risks and the future plan for updating the Bank's protection systems
- Reviewed annual treasury limits and excess policy
- Reviewed and discussed the Credit Operation Department plan
- Reviewed and approved the Risk Management policies and procedures related to credit risk, Internal Capital Adequacy Assessment policy, Operational Risk policy, liquidity risk policy , IFRS9 Policy, Annual Compliance plan, Risk Appetite policy, Market Risk management policy, Anti-Fraud policy, and made recommendations to the Board for approval
- Reviewed the Board Risk Committee Charter and approved the Charter of the Anti-Fraud Committee and made recommendations to the Board for approval
- Reviewed and approved the business continuity and disaster recovery policy and procedures, and the business continuity policy plan.
- Reviewed the latest developments of Cyber Security
- Reviewed the latest digital innovation technology in Kuwait , information technology and infrastructure in addition to the projects in progress as Data center , Servers , Network and Cyber Security
- Reviewed, developed and approved policies related to Risk Management as Backup policy, Anti-Bribery and corruption policy, Outsourcing policy, Data Privacy policy, etc.

Credit Committee

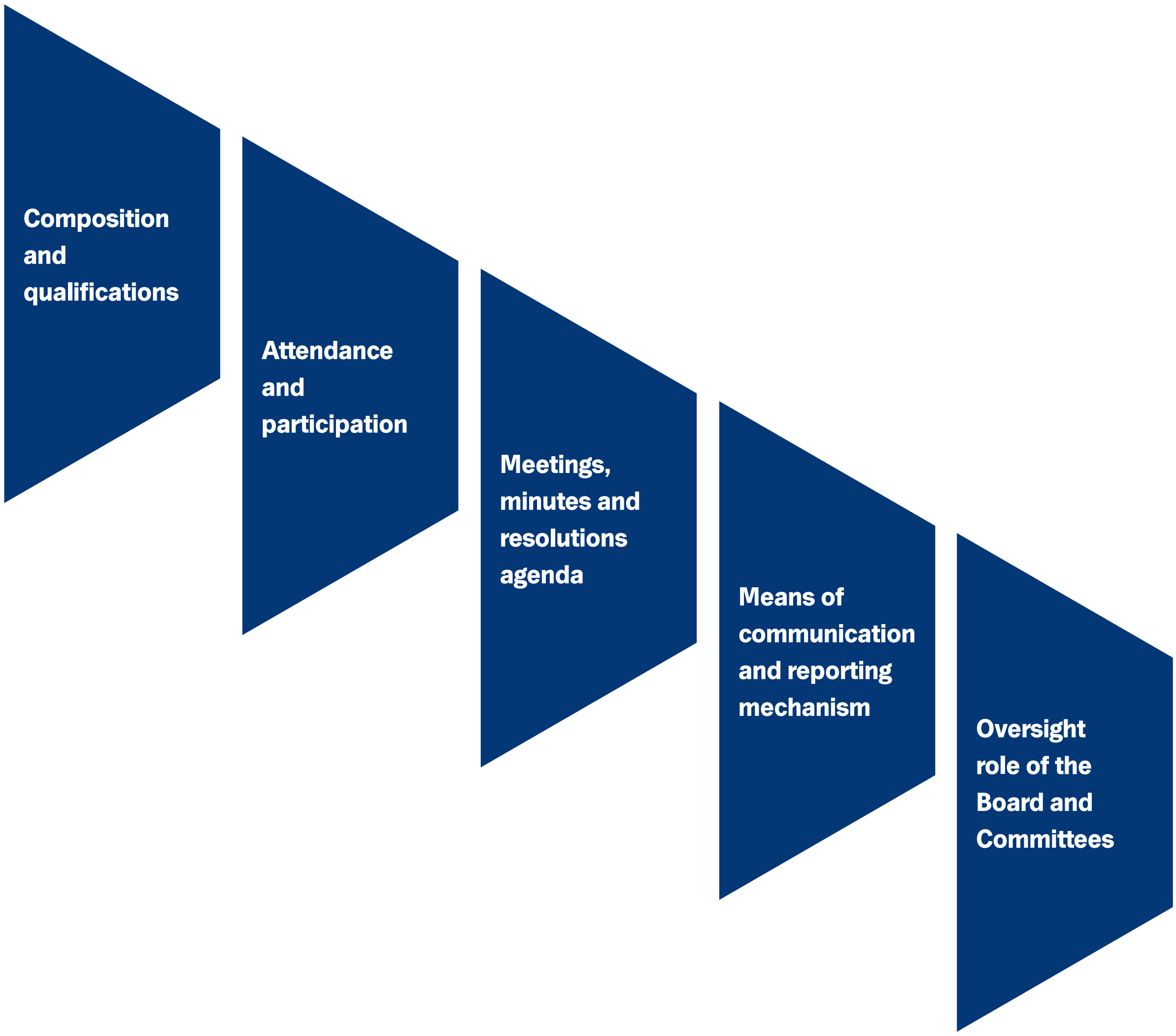
The Committee met thirty one (31) times during the year and the following key duties were performed:

- Reviewed and approved credit proposals within the authority matrix delegated by the Board of Directors
- Coordinated with the Board Risk Committee to discuss credit risk limits

Board of Directors Self-Assessment Framework

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

The following table illustrates the criteria on which the evaluation is based and that are included in the self-evaluation forms:



Based on the evaluation results, the Committee presented its report to the Board in its meeting held in December 2019.

Remuneration policy and framework

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

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

For the purpose of granting remuneration, the Group has differentiated its staff categories, between "material risk-takers," and Financial and Risk Control functions.

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

The Group operates a "total reward" philosophy, considering all components of financial remuneration. The key components are:

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

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

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organisation) is deferred. The deferment of variable remuneration applies to the Deferred Cash Bonus and Phantom Shares Plan.

The Group applies a deferment approach of up to three years and final vesting of these variable components is subject to continuing employment and the absence of risk materialization. Claw-back applies on the non-vested portions in case risk materializes. The claw-back mechanism is applicable on the Deferred Cash Bonus and Phantom Shares Plan.

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

Remuneration disclosures

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

The five senior Executives who received the highest remuneration packages, including the Group Chief Financial Officer (GCFO) in addition to Group Chief Internal Auditor (GCIA) and Group Chief Risk Officer (GCRO) received a Group compensation aggregating KD 8,530 thousand for the year ended December 2019.

The following table details the remuneration paid (KD) to staff categories:

			Variable Remuneration				KD '000
Employee Categories	**Number of Employees**	**Fixed Remuneration**	**Cash**	**Phantom Shares Plan**	**Deferred**	**Other Performance Incentives**	**Total**
Senior Management	79	9,631	8,761	2,165	-	567	21,124
Material Risk Takers	25	4,509	7,305	1,015	-	151	12,980
Financial and Risk Control	18	1,814	787	479	6	-	3,086

For disclosure purposes

- Senior Management: includes all staff above and equivalent to the position of Assistant General Manager for all business units, excluding Financial and Risk Control functions
- Material Risk-Takers: includes Group Chief Executive Officer and his deputy, Chief Executive Officer (Kuwait) and his deputy, and the heads of business functions and their deputies
- Financial & Risk Control Functions: includes heads of Control functions (Financial Control, Risk Management and Compliance, Internal Audit and Anti-Money Laundering and Combating Financing Terrorism Unit), their deputies and assistants

Internal control adequacy report

Board statement on adequacy of internal control systems

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

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

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

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

Review of the internal control system by an independent third party

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

A summary of the ICR report for the year ended 31 December 2018 was presented to the Board of Directors during 2019. The report did not highlight any significant issues.

Internal control review by external party

Private and confidential
Date: 24 June 2019
The Board of Directors
National Bank of Kuwait S.A.K.
State of Kuwait

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 12 February 2019, we have examined the accounting and other records and internal control systems at Kuwait, branches in Kingdom of Bahrain, Kingdom of Jordan, Kingdom of Saudi Arabia and United Arab Emirates ("UAE") and subsidiaries National Bank of Kuwait (Lebanon) SAL., National Bank of Kuwait – Egypt S.A.E. ("NBK-Egypt"), and the London operations of National Bank of Kuwait (International) PLC (together referred to as "the Group"),which were in existence during the year ended 31 December 2018. We covered all areas of the Group as follows:

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

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

The New York, Singapore and Shanghai branches of National Bank of Kuwait SAK, NBK Private Bank (Switzerland) LTD, Watani Investment Company K.S.C.C. and Watani Financial Brokerage Company K.S.C.C. are subject to evaluation of internal controls and annual supervision by the respective local regulators. A summary of the respective internal control reports is provided in Appendix IV of this report.

As Board of Directors of National Bank of Kuwait, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems. The objective is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that banking risks are properly monitored and evaluated, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent manner.

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

In our opinion, having regard to the nature and size of its operations, during the year ended 31 December 2018, the accounting and other records and internal controls systems, in the areas examined by us, were established and maintained satisfactorily in accordance with the requirements of the Manual of General Directives concerning Internal Control Reviews issued by the Central Bank of Kuwait on 14 November 1996, CBK instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwaiti Banks and the CBK instructions dated 23 July 2013 concerning Combating Money Laundering Operations and Financing of Terrorism with the exception of the matters set out in the report.

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

Safi A. Al-Mutawa
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KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Ethics and professional conduct

Values and ethics

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

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

Ethics code

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

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

Conflict of interest

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

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

Confidentiality

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

During 2019, the Group continued to apply measures to maintain the confidentiality of information in accordance with policies and procedures and internal control systems, which require the preservation of confidentiality.

Whistleblowing policy

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

Stakeholder's rights

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

Shareholders

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

The Public Institution for Social Security owns 5.53% of NBK Capital as of 31st December 2019.

Investor Relations

NBK Group promotes open and transparent dialogue with both its institutional and private investors. The Investor Relations function serves as the primary contact with shareholders, investors and financial analysts. The Group also publishes information for investors and stakeholders on a regular basis, through its website as well as other media.

Customers

The Group has ensured, since inception that it has established professional and behavioral rules, and provides qualified staff who can optimally serve customers. In addition, the Group continuously ensures that it follows regulatory instructions and is a pioneer in international practices in customer service and protection. NBK has taken the necessary steps to implement the terms of the consumer protection instructions issued recently by the Central Bank of Kuwait, preparing what is required from a policy, before the Board, to enhance the understanding of transparency and disclosure in banking transactions provided by the Bank.

Employees

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

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

Community (Corporate Social Responsibility)

The Group has maintained its progress in projects relating to Corporate Social Responsibility, to foster a sustainable economic and social environment in the community, and regards this as a priority for the Bank. The Group discloses its relevant social activities on its website and in the form of a separate "Sustainability Report 2019", published as an independent report.

Group risk management

Risk Management and Compliance structure

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

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

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

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

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

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

Risk Management strategy

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

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

Risk appetite

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

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

The Group Chief Risk Officer in coordination with the Board Risk Committee has played a vital role in raising awareness and understanding in regard to the risk structure along with setting up risk limits and assisting the Board Nomination and Remuneration Committee in formulating a risk-based approach to remuneration, where applicable.

The Group Risk Management and Compliance function has worked on identifying early warnings of breaches to the risk limits and risk appetite, and raising it to the attention of the Board Risk Committee and consequently to the Board of Directors.

I. Capital Adequacy

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are also governed by guidelines of the Basel Committee on Banking Supervision as adopted by the Central Bank of Kuwait (CBK) for licensed banks in Kuwait.

The CBK's Basel III framework consists of three pillars:

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

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

A key objective of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with externally-imposed capital requirements.

1. Regulatory Scope of Consolidation

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

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, save as otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2.1 and 2.3 of the Group's consolidated financial statements for the year ended 31 December 2019.

The principal operating subsidiaries of the Group are presented in note 26 of the Group's consolidated financial statements. All subsidiaries have been fully consolidated under the regulatory scope of consolidation for regulatory capital calculations (refer note 31 of the Group's consolidated financial statements for consolidation treatment for the Islamic Banking subsidiary of the Group).

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

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

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

2. Capital structure

The Group's regulatory capital comprises:

a) Common Equity Tier 1 (CET1) capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves, retained earnings and eligible non-controlling interests (net of Regulatory adjustments),

b) Additional Tier 1 (AT1) capital which consists of Perpetual Tier 1 Capital Securities classified as Equity (note 22 of the Group's consolidated financial statements) and certain additional eligible portion of non-controlling interests, and

c) Tier 2 (T2) capital which consists of Subordinated Tier 2 Bonds classified as Debt (note 18 of the Group's consolidated financial statements), the allowed portions of general provisions and certain additional eligible non-controlling interests.

The Bank's share capital as at 31 December 2019 comprised 6,523,985,887 issued and fully-paid-up equity shares (2018: 6,213,319,893).

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

Table 1

Regulatory Capital	**31 December 2019**	31 December 2018
Common Equity Tier 1	**2,754,674**	2,478,695
Additional Tier 1 Capital	**486,245**	257,780
Tier 1 Capital	**3,240,919**	2,736,475
Tier 2 Capital	**386,983**	353,724
Total Regulatory Capital	**3,627,902**	3,090,199

3. Capital Adequacy Ratio

The Group ensures adherence to CBK's requirements by monitoring its capital adequacy. The Group's capital forecasting process ensures pro-active actions, and plans to ensure a sufficient capital buffer above minimum levels are in place at all times. This process is supported by the use of proprietary capital-planning methodology which takes into consideration regulatory capital requirements, rating agency views, stress-testing and bottom-up views of business plans. These views then cascade into considerations on what capital level is required.

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

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

Table 2

Minimum Capital Requirement*	**CET1**	**Tier1**	**Total**
31 December 2019**	**11.5%**	**13.0%**	**15.0%**
31 December 2018**	11.5%	13.0%	15.0%

* includes a CET1 Capital Conservation Buffer of 2.5%
** Includes a CET1 Domestic Systemically-Important Bank (D-SIB) Buffer of 2%

The Group, having been designated as a Domestic Systemically-Important Bank (D-SIB), is required to maintain an additional minimum capital of 2%. Countercyclical Capital Buffer has not been required for the period ended 31st December 2019 in the MCR (nor at 2018).

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

Table 3

	CET1	**Tier1**	**Total**
Group for 31 December 2019	**13.48%**	**15.87%**	**17.76%**
Group for 31 December 2018	13.82%	15.26%	17.23%

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

Table 4	**31 December 2019**		
	CET1	**Tier1**	**Total**
NBK (International) plc (United Kingdom)	**26.6%**	**26.6%**	**26.6%**
National Bank of Kuwait France SA (France)	**75.1%**	**75.1%**	**75.1%**
NBK (Lebanon) S.A.L. (Lebanon)	**30.1%**	**30.1%**	**30.3%**
NBK Banque Privee (Suisse) S.A. (Switzerland)	**44.9%**	**71.4%**	**71.4%**
Boubyan Bank K.S.C.P. (Kuwait)	**16.8%**	**19.2%**	**20.3%**

	Total
Credit Bank of Iraq S.A. (Iraq)	**366.0%**
NBK Egypt S.A.E. (Egypt)	**18.2%**

	31 December 2018		
	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	18.8%	18.8%	18.8%
NBK (Lebanon) S.A.L. (Lebanon)	28.5%	28.5%	28.5%
NBK Banque Privee (Suisse) S.A. (Switzerland)	31.4%	51.6%	51.6%
Boubyan Bank K.S.C.P. (Kuwait)	14.3%	17.1%	18.2%

	Total
Credit Bank of Iraq S.A. (Iraq)	374.3%
NBK Egypt S.A.E. (Egypt)	19.2%

All the banking subsidiaries within the Group are in compliance with the minimum capital requirements as applicable under their respective jurisdictions and have not reported any capital deficiencies. In general, the restrictions on transfer of funds or regulatory capital within the Group are related to constraints that are imposed on entities by local regulators or tax constraints.

4. Profile of risk-weighted assets and capital charge

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

4.1. Credit risk

The total capital charge in respect of credit risk as at 31 December 2019 was KD 2,404,046 thousand (2018: KD 2,103,556 thousand) as detailed below:

Table 5	KD 000's					
	31 December 2019			31 December 2018		
	Gross credit exposure	**Risk-weighted assets**	**Capital charge**	Gross credit exposure	Risk-weighted assets	Capital charge
Cash	**235,586**	**-**	**-**	217,050	-	-
Claims on sovereigns	**6,069,451**	**1,133,538**	**147,360**	5,672,863	238,402	30,992
Claims on International Organisations	**17,567**	**-**	**-**	100,877	-	-
Claims on public sector entities	**1,072,208**	**163,488**	**21,254**	1,020,827	34,066	4,429
Claims on multilateral development banks	**66,987**	**1,618**	**210**	27,958	-	-
Claims on banks	**6,760,258**	**1,988,441**	**258,497**	6,579,178	1,864,013	242,322
Claims on corporates	**13,107,743**	**9,239,302**	**1,201,109**	12,063,251	8,536,198	1,109,705
Regulatory retail exposure	**5,636,717**	**4,923,821**	**640,097**	5,354,481	4,632,174	602,183
Past due exposures	**99,031**	**78,842**	**10,249**	117,652	75,647	9,834
Other exposures	**982,998**	**963,611**	**125,270**	838,573	800,698	104,091
Total	**34,048,546**	**18,492,661**	**2,404,046**	31,992,710	16,181,198	2,103,556

"Other exposures" above includes an amount of KD 196,146 thousand negative (2018: KD 211,460 thousand negative) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk-Weighted Assets, which is allowed in arriving at Tier 2 capital.

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

With effect from the quarterly reporting period ending 30 September 2019, the CBK has amended certain sections of its Basel III Capital Regulations relating to claims on sovereign and public-sector entities outside Kuwait. In particular, claims on a sovereign outside Kuwait denominated in the local currency will be risk-weighted at 0 %. only to the extent the claim represents mandatory liquidity requirements in the jurisdiction concerned, provided the local regulator also allows such treatment and the Bank has a local operating presence. All claims on a sovereign beyond the liquidity requirements in its local currency will be risk-weighted based strictly on the relevant credit rating(s) assigned by accredited external credit assessment institutions, and at 100 %. if the sovereign is not rated. Claims on Public Sector Entities outside Kuwait will be risk-weighted one grade lower than their sovereign.

4.2. Market risk

The total capital charge in respect of market risk was KD 47,846 thousand (2018: KD 37,169 thousand) as detailed below:

Table 6	KD 000's	
	31 December 2019	31 December 2018
Interest rate risk	**2,448**	2,434
Foreign exchange risk	**45,398**	34,735
Total	**47,846**	37,169

4.3. Operational risk

The total capital charge in respect of operational risk was KD 203,751 thousand (2018: KD 190,845 thousand). This capital charge was computed by categorising the Group's activities into eight business lines (as defined in the CBK Basel III framework) and multiplying the business line's three-year average gross income by a pre-defined beta factor.

4.4. Domestic-Systemically Important Bank (D-SIB):

The additional capital requirement in respect of the Group having been designated as a Domestic-Systemically Important Bank (D-SIB) of 2% as at 31 December 2019 amounts to KD 408,560 thousand (2018: KD 358,703 thousand)

II. Risk management

In common with other financial institutions, risk, including credit risk, market risk, liquidity risk and operational risk, is inherent in the Group's activities. The complexity in the Group's business operations and diversity of geographical locations require efficient and timely identification, measurement, aggregation and management of risks and efficient allocation of capital towards achieving the ultimate objective of protecting the Group's asset values and income streams in order to protect the interests of its shareholders and external fund providers, increase shareholder value and achieve a return on equity that is commensurate with the risks assumed. Management of these inherent risks is critical to ensuring the Group's financial soundness and profitability.

The Group's risk management framework is integral to its operations and culture and it seeks to manage risk in a structured, systematic manner through a global risk policy, which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes.

Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board. This is managed through the Board Risk Committee (the "BRC") and the Group Executive Committee (the "EC"), which ensure that risk-taking authority and policies are effectively communicated from the Board to the appropriate business units. The Group's risk management and compliance function and its internal audit function assist Executive Management in controlling and actively managing the Group's overall risk profile.

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

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

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

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

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

1. Risk Management Strategy

The key elements of the Board-approved risk strategy are:

- maintaining stability and business continuity during stress situations;
- ensuring effective and adequate compliance with regulatory capital requirements and internal capital targets in keeping with the Group's strategy;
- developing the Group's IT infrastructure and using modern methods to raise the professional level and levels of experience of human resources;
- effective risk planning through an appropriate risk appetite; and
- performing stress tests consistently to assess the impact on the Group's capital requirements, capital base and liquidity position.

2. Risk Appetite

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

- the risk appetite is annually reviewed and presented by the BRC to the Board for final approval. This ensures the risk appetite statements are consistent with the Group's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Group, determined in a manner which meets the objectives of shareholders, depositors and regulators;
- the Group risk management and compliance function aims to identify early warnings of risk limit and risk appetite breaches, and is responsible for notifying them to the BRC and the Board.

3. Scope and nature of risk reporting tools

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

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

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

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

- responsibilities of the Board and Senior Management;
- sound capital management;
- comprehensive assessment of Pillar II risks, e.g., Credit (sector and name concentration), Liquidity, Legal, Reputational and Strategic Risks, etc;
- monitoring and reporting;
- control and review of the process.

4. Risk management processes

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

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

4.1. Credit risk

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

4.1. 1. Credit risk management strategy

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

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

4.1.2. Credit risk management structure

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

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

All significant credit policies and amendments to policies are reviewed and approved annually by the Executive Committee and ratified by the Board. Within this framework, limits and approval authorities are exercised by the officers delegated with defined approval authorities.

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

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

4.1.3. Key features of corporate credit risk management

- Corporate credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer-group.
- Internal credit-rating models are regularly reviewed by the Group Risk Management function (GRM) in co-ordination with line management and the Executive Committee and continually enhanced in line with industry credit risk management "best practices".

All new proposals, along with reviews of material changes to existing credit facilities, are reviewed and approved by the appropriate credit committee.

The Group has the following hierarchy of credit committees at the head office level:

- Board Credit Committee (BCC), which consists of non-executive Board members and approves all facilities exceeding the mandate of the other committees;
- Senior Credit Committee (SCC), which consists of the GCEO, the Deputy GCEO, the CEO Kuwait, the Chief Credit Officer, the Head of Corporate Banking and a number of senior executives in Corporate Banking and is responsible for reviewing, approving or recommending domestic credit proposals that exceed the Management Credit Committee's competence as well as those concerning criticised accounts (which, as part of the Group's overall credit quality monitoring processes, are accounts which, although neither classified as 'past due' nor 'past due and impaired', have experienced difficulties which may cause them to become categorised as 'irregular' accounts (being accounts which are either classified as 'past due' or 'past due and impaired'));
- Management Credit Committee (MCC), which consists of the Head of Corporate Banking, the Deputy Head of Corporate Banking, the Head of Domestic Credit Risk and a number of senior executives in Corporate Banking and is responsible for reviewing, approving or recommending domestic credit proposals, except those concerning criticised accounts and those that exceed the Management Credit Committee's competence, which are escalated to the Senior Credit Committee;
- Senior International Credit Committee (SICC), which consists of the GCEO, the Deputy GCEO and the Group Chief Risk Officer (GCRO) and is responsible for reviewing, approving or recommending all credit proposals originating from the Group's international offices that exceed the Management International Credit Committee's mandate as well as those concerning criticised accounts; and
- Management International Credit Committee (MICC), which consists of the Head of Group Risk Management, the Chief Credit Officer, Head of International Credit Risk Management, the CEO of the International Banking Group and the Assistant General Manager of International Credit and is responsible for reviewing, approving or recommending all credit proposals originating from the Group's international offices except those concerning criticised accounts, which are escalated to the Senior International Credit Committee.

The credit committees have a set of approval authorities in place as delegated by the Board and which vary by reference to the type of counterparty (for example, sovereign, financial institution and corporate), the counterparty rating (investment grade or speculative) and whether the facility is secured or non-cash, among other factors. Specific approval authorities exist for fully-secured facilities as well as criticised accounts.

In addition, the Group's international offices have their own hierarchy of credit committees.

Credit facility administration is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

4.1.4 Key features of consumer credit risk management

The Group's consumer credit risks are managed through an independent unit, which is part of the Group risk management and compliance function and works with the consumer banking business. Consumer credit risk management functional areas are aligned with key concepts of risk management, namely governance, control and measurement and reporting.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers. Within this framework, all credit exposure limits are approved within a defined credit approval authority framework. Policies and procedures specific to each business/product line are approved by the Executive Committee and significant policies are ratified by the Board. Credit loss recognition process/quantification is handled by Consumer Risk Management Unit, within GRM, independent of the business.

4.1.5 Credit review procedures and loan classification

Corporate and SMEs

The Group's policy is to assess the credit risk in commercial banking through a risk-rating process which provides transparency and consistency to enable comparison between obligors. The Group uses an industry standard risk-rating tool to make these assessments. Under this risk-rating framework, the borrowers are rated based on financial and business assessments.

The risk-rating process derives obligor risk-ratings ("ORRs") and facility risk-ratings ("FRRs"). The rating methodology focuses on factors such as operating performance, liquidity, debt service and capital structure. The ratio analysis includes the assessment of each ratio's trend across multiple periods, in terms of both rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessments of the operations, liquidity and capital structure are also included in the assessment. The Group has implemented risk-rating models for commercial, real estate, high net worth individuals and project finance facilities. The Group also has an approved framework for FRRs. While the ORR does not take into consideration factors such as the availability of collateral and support, the FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in the FRR.

In cases where the risk-rating tool is not applicable, the Bank assigns a rating based on an internal assessment which is mapped to the relevant external rating scale.

The Group classifies its exposure in accordance with the North American Industry Classification System Code in addition to the classification based on purpose codes as defined by the CBK. This additional classification helps to improve the accuracy of ORRs through peer group analysis in respect of performance and financial indicators and also allows the Group to classify its portfolio into sub-segments which facilitates analysis and improves the management of concentrations.

Credit facilities to Corporates and SMEs are structured across various products and maturities and are subject to review at least annually. Semi-annual "short-form" reviews are also performed subject to certain additional criteria.

Financial institutions

The Group's policy is to assess the credit risk in facilities granted to financial institutions by utilising data from external credit agencies. This data is further complemented by the relevant financial institution's bilateral transaction history and existing and potential relationship with the Group. The resulting credit facilities are structured across various products and maturities and are subject to review at least annually.

Consumer lending

Credit risk scorecard models are used to facilitate credit decisions and to monitor credit facilities advanced to consumer banking customers. Applicant scoring models are customer-centric models which incorporate CBK regulatory guidelines and Group policies related to consumer credit facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from credit bureaus, particularly the Kuwait credit bureau, to assist in assessing an applicant's ability to repay and the probability of default. These models are reviewed and refined on a continual basis.

Consumer Credit Risk Management proactively monitors portfolios considering the external environment, focusing growth on selected segments and, as per risk strategy, aims to support portfolio growth within acceptable risk appetite thresholds.

Consumer credit risk is monitored with three lines of defence.

First Line -	The Business owns and manages risks and controls (including the identification and assessment of risk and controls) in adherence to credit policies governing the business and across the value chain in line with risk appetite.
Second Line -	The Consumer Credit Risk Management function develops and maintains the risk management framework which enables the business to manage the risk and control environment within the Board-approved risk appetite.
Third Line -	Internal Audit independently tests, verifies and evaluates controls for effective credit risk management and the implementation of policies and procedures.

Portfolio management

The Group has also introduced a portfolio risk-rating process through which the overall portfolio quality is assessed at regular intervals and analysed in credit committees. In addition, a RAROC (Risk-Adjusted Return on Capital) model is in use to guide business lines and management in pricing credit facilities granted to corporate clients. The RAROC model is based on the premise that pricing should be aligned with the risk embedded in the proposal.

4.1.6. Group credit risk monitoring

The Group's credit exposures are regularly reviewed and monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in a deterioration of credit risk quality. The triggers and early-warning systems along with market intelligence, facility utilisation and collateral valuation updates are included in the regular review of the credit facilities to enable timely corrective action by management. These reviews are performed on a semi-annual, annual and ad-hoc basis as required. The results of the monitoring process are reflected in the internal rating.

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

Cross-border exposures are monitored by the central credit risk management function against specific and set limits for this purpose.

Consumer credit risk reporting also includes a detailed dashboard for consumer and small-business lending, covering the entire credit life-cycle, including delinquency monitoring such as ageing and migration and loss recognition.

4.1.7. Group credit risk mitigation strategy

Portfolio diversification is a cornerstone of the Group's credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures.

In accordance with CBK regulations, the Group limits its credit concentration per group of related entities to 15.0 %. of the Bank's regulatory capital. This does not apply to government and quasi-government entities, agencies and departments in the GCC countries that do not work on a commercial basis and subject to CBK approval, or to banks. The Group also measures its concentration levels across sectors, geographies and products to ensure and enhance the portfolio oversight and diversification.

Credit risk mitigants such as collateral and guarantees from third parties are effective mitigating factors within the Group's portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of syndications, risk participation arrangements with other banks and sale of loans are common practices to manage the Group's exposures.

4.1.8 Management of credit collateral and valuation

The main types of collateral accepted by the Group include:

- cash collateral;
- quoted shares and units in collective investment schemes;
- bank guarantees;
- commercial and residential real estate; and
- eligible debt instruments (principally sovereign and bank obligors).

In accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel III framework, only cash collateral, guarantees from banks with defined high credit-quality ratings, quoted shares, eligible debt instruments and units in collective investment schemes are recognised as risk mitigation for capital adequacy purposes.

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

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

Table 7	KD 000's					
	31 December 2019			31 December 2018		
	Gross credit exposure	**Eligible Credit Risk Mitigation**	**Eligible guarantees**	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees
Cash	**235,586**	**-**	**-**	217,050	-	-
Claims on sovereigns	**6,069,451**	**403**	**-**	5,672,863	1,043	-
Claims on International Organisations	**17,567**	**-**	**-**	100,877	-	-
Claims on public sector entities	**1,072,208**	**419**	**-**	1,020,827	15	-
Claims on multilateral development banks	**66,987**	**-**	**-**	27,958	-	-
Claims on banks	**6,760,258**	**-**	**1,434,174***	6,579,178	-	1,487,193*
Claims on corporates	**13,107,743**	**1,509,568**	**-**	12,063,251	1,564,634	-
Regulatory retail exposure	**5,636,717**	**127,949**	**-**	5,354,481	115,458	-
Past due exposures	**99,031**	**4,301**	**-**	117,652	8,329	-
Other exposures	**982,998**	**-**	**-**	838,573	-	-
Total	**34,048,546**	**1,642,640**	**1,434,174**	31,992,710	1,689,479	1,487,193

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

4.1.9. Gross, average and net credit exposures

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

Table 8	KD 000's					
	31 December 2019			31 December 2018		
	Gross credit exposure	**Funded exposure**	**Unfunded exposure**	Gross credit exposure	Funded exposure	Unfunded exposure
Cash	**235,586**	**235,586**	**-**	217,050	217,050	-
Claims on sovereigns	**6,069,451**	**6,051,827**	**17,624**	5,672,863	5,647,805	25,058
Claims on International Organisations	**17,567**	**17,567**	**-**	100,877	100,877	-
Claims on public sector entities	**1,072,208**	**1,031,608**	**40,600**	1,020,827	983,988	36,839
Claims on multilateral development banks	**66,987**	**66,987**	**-**	27,958	27,958	-
Claims on banks	**6,760,258**	**4,884,431**	**1,875,827**	6,579,178	4,607,669	1,971,509
Claims on corporates	**13,107,743**	**10,127,718**	**2,980,025**	12,063,251	9,384,349	2,678,902
Regulatory retail exposure	**5,636,717**	**5,579,692**	**57,025**	5,354,481	5,293,683	60,798
Past due exposures	**99,031**	**99,031**	**-**	117,652	117,652	-
Other exposures	**982,998**	**982,998**	**-**	838,573	838,573	-
Total	**34,048,546**	**29,077,445**	**4,971,101**	31,992,710	27,219,604	4,773,106

Table 9	KD 000's					
Average Credit Exposures	**31 December 2019**			31 December 2018		
	***Average credit exposure**	**Funded exposure**	**Unfunded exposure**	*Average credit exposure	Funded exposure	Unfunded exposure
Cash	**230,468**	**230,468**	**-**	211,351	211,351	-
Claims on sovereigns	**5,846,224**	**5,825,324**	**20,900**	5,761,781	5,733,365	28,416
Claims on International Organisations	**71,748**	**71,748**	**-**	88,218	88,218	-
Claims on public sector entities	**1,087,792**	**1,061,218**	**26,574**	955,974	917,165	38,809
Claims on multilateral development banks	**50,180**	**50,180**	**-**	42,774	42,774	-
Claims on banks	**6,386,066**	**4,465,610**	**1,920,456**	6,355,001	4,361,394	1,993,607
Claims on corporates	**12,942,137**	**9,979,937**	**2,962,200**	12,046,358	9,334,555	2,711,803
Regulatory retail exposure	**5,507,192**	**5,448,441**	**58,751**	5,216,089	5,155,494	60,595
Past due exposures	**116,958**	**116,958**	**-**	114,513	114,513	-
Other exposures	**904,933**	**904,208**	**725**	929,272	929,272	-
Total	**33,143,698**	**28,154,092**	**4,989,606**	31,721,331	26,888,101	4,833,230

*Based on quarterly average balances

Table 10	KD 000's					
Net Credit Exposures	**31 December 2019**			31 December 2018		
	Net credit exposure	**Funded exposure**	**Unfunded exposure**	Net credit exposure	Funded exposure	Unfunded exposure
Cash	**235,586**	**235,586**	**-**	217,050	217,050	-
Claims on sovereigns	**6,055,142**	**6,051,827**	**3,315**	5,652,470	5,647,805	4,665
Claims on International Organisations	**17,567**	**17,567**	**-**	100,877	100,877	-
Claims on public sector entities	**1,058,837**	**1,031,608**	**27,229**	1,012,132	983,988	28,144
Claims on multilateral development banks	**66,987**	**66,987**	**-**	27,958	27,958	-
Claims on banks	**5,837,615**	**4,905,630**	**931,985**	5,612,785	4,620,876	991,909
Claims on corporates	**10,133,234**	**8,651,302**	**1,481,932**	9,178,296	7,852,411	1,325,885
Regulatory retail exposure	**5,479,359**	**5,465,960**	**13,399**	5,207,307	5,192,872	14,435
Past due exposures	**94,730**	**94,730**	**-**	109,323	109,323	-
Other exposures	**982,998**	**982,998**	**-**	838,573	838,573	-
Total	**29,962,055**	**27,504,195**	**2,457,860**	27,956,771	25,591,733	2,365,038

As at 31 December 2019, 44% (2018: 44%) of the Group's net credit risk exposure was rated by External Credit Assessment Institutions (ECAIs) recognised for the purpose, as detailed below:

Table 11	**KD 000's**					
Net Credit Exposures	**31 December 2019**			31 December 2018 (re-classified)		
	Net credit exposure	**Rated exposure**	**Unrated exposure**	Net credit exposure	Rated exposure	Unrated exposure
Cash	**235,586**	**-**	**235,586**	217,050	-	217,050
Claims on sovereigns	**6,055,142**	**6,055,142**	**-**	5,652,470	5,652,470	-
Claims on International Organisations	**17,567**	**-**	**17,567**	100,877	-	100,877
Claims on public sector entities	**1,058,837**	**-**	**1,058,837**	1,012,132	-	1,012,132
Claims on multilateral development banks	**66,987**	**66,987**	**-**	27,958	27,958	-
Claims on banks	**5,837,615**	**5,630,933**	**206,682**	5,612,785	5,455,198	157,587
Claims on corporates	**10,133,234**	**1,375,573**	**8,757,661**	9,178,296	1,018,555	8,159,741
Regulatory retail exposure	**5,479,359**	**-**	**5,479,359**	5,207,307	-	5,207,307
Past due exposures	**94,730**	**-**	**94,730**	109,323	-	109,323
Other exposures	**982,998**	**-**	**982,998**	838,573	-	838,573
Total	**29,962,055**	**13,128,635**	**16,833,420**	27,956,771	12,154,181	15,802,590

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

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

Table 12			**KD 000's**			
31 December 2019	**Middle East and North Africa**	**North America**	**Europe**	**Asia**	**Others**	**Total**
Cash	**187,567**	**1,193**	**46,826**	**-**	**-**	**235,586**
Claims on sovereigns	**5,342,089**	**459,065**	**157,850**	**108,040**	**2,407**	**6,069,451**
Claims on International Organisations	**-**	**-**	**-**	**17,567**	**-**	**17,567**
Claims on public sector entities	**1,062,202**	**-**	**9,452**	**554**	**-**	**1,072,208**
Claims on multilateral development banks	**66,987**	**-**	**-**	**-**	**-**	**66,987**
Claims on banks	**3,505,698**	**330,357**	**1,659,819**	**1,180,656**	**83,728**	**6,760,258**
Claims on corporates	**10,242,279**	**646,068**	**1,169,632**	**845,487**	**204,276**	**13,107,743**
Regulatory retail exposure	**5,627,024**	**858**	**8,074**	**78**	**683**	**5,636,717**
Past due exposures	**89,376**	**-**	**9,655**	**-**	**-**	**99,031**
Other exposures	**755,415**	**32,785**	**140,832**	**13,888**	**40,078**	**982,998**
Total	**26,878,637**	**1,470,326**	**3,202,140**	**2,166,270**	**331,172**	**34,048,546**

			KD 000's			
31 December 2018	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	160,907	1,352	54,791	-	-	217,050
Claims on sovereigns	4,757,308	656,191	183,466	75,898	-	5,672,863
Claims on International Organisations	-	-	-	100,877	-	100,877
Claims on public sector entities	1,010,591	-	9,732	504	-	1,020,827
Claims on multilateral development banks	27,958	-	-	-	-	27,958
Claims on banks	3,177,297	371,028	1,714,333	1,266,087	50,433	6,579,178
Claims on corporates	9,807,419	472,655	898,566	640,716	243,895	12,063,251
Regulatory retail exposure	5,344,455	819	8,905	51	251	5,354,481
Past due exposures	115,629	-	1,810	213	-	117,652
Other exposures	653,668	9,154	125,790	33,736	16,225	838,573
Total	25,055,232	1,511,199	2,997,393	2,118,082	310,804	31,992,710

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

Table 13	**KD 000's**			
31 December 2019	**Up to 3 months**	**3 to 12 months**	**Over 1 year**	**Total**
Cash	**235,586**	**-**	**-**	**235,586**
Claims on sovereigns	**3,352,699**	**799,136**	**1,917,616**	**6,069,451**
Claims on International Organisations	**16,688**	**-**	**879**	**17,567**
Claims on public sector entities	**180,380**	**132,346**	**759,482**	**1,072,208**
Claims on multilateral development banks	**48,868**	**-**	**18,118**	**66,987**
Claims on banks	**3,392,002**	**990,626**	**2,377,630**	**6,760,258**
Claims on corporates	**4,408,178**	**2,936,837**	**5,762,728**	**13,107,743**
Regulatory retail exposure	**263,605**	**454,986**	**4,918,126**	**5,636,717**
Past due exposures	**99,031**	**-**	**-**	**99,031**
Other exposures	**212,779**	**37,828**	**732,391**	**982,998**
Total	**12,209,816**	**5,351,759**	**16,486,970**	**34,048,546**

	KD 000's			
31 December 2018	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	217,050	-	-	217,050
Claims on sovereigns	2,473,845	997,144	2,201,874	5,672,863
Claims on International Organisations	100,877	-	-	100,877
Claims on public sector entities	306,076	48,162	666,589	1,020,827
Claims on multilateral development banks	908	-	27,050	27,958
Claims on banks	3,555,549	732,255	2,291,375	6,579,179
Claims on corporates	4,306,844	2,422,452	5,333,954	12,063,250
Regulatory retail exposure	234,092	430,616	4,689,773	5,354,481
Past due exposures	117,652	-	-	117,652
Other exposures	216,946	38,145	583,482	838,573
Total	11,529,839	4,668,774	15,794,097	31,992,710

4.1.10. Impairment Expected Credit Loss and/or Provisions

Policy since 1 January 2018

Impairment of financial assets other than credit facilities
The Group recognises Expected Credit Losses (ECL) under IFRS 9 on:

- investment in debt securities measured at amortised cost or fair value through other comprehensive income; and
- balances and deposits with banks.

Equity investments are not subject to Expected Credit Losses.

The ECL on financial assets other than credit facilities as at 31 December 2019 amounted to KD 38,800 thousand. (2018: KD 34,532 thousand)

Impairment of credit facilities
Credit facilities granted by the Group consist of:

- loans and advances, Islamic financing to customers including credit commitments;
- letters of credit and financial guarantee contracts including credit commitments

Impairment on credit facilities is recognised in the consolidated statement of financial position at an amount equal to the higher of:

(i) ECL under IFRS 9 according to the CBK guidelines dated 25 December 2018,

The Group in estimating ECL on credit facilities has taken into consideration the following key parameters based on inputs from CBK:

- a floor for estimating probability of default ("PD") for specific portfolios;
- eligible collateral with 'haircuts' for determining loss given default ("LGD");
- deemed maturity for exposures in Stage 2 ; and
- a credit conversion factor on utilised and un-utilised portions for cash and non-cash facilities.

Refer Notes of the Group's consolidated financial statement for further details on ECL.

(ii) the provisions required by the CBK instructions of December 1996 since amended in 2007.

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

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

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

- Watchlist, irregular for a period up to and including 90 days (no specific provision required);
- Substandard, irregular for a period from and including 91 days and up to and including 180 days (20 %. specific provision required);
- Doubtful, irregular for a period from and including 181 days and up to and including 365 days (50 %. specific provision required); and
- Bad, irregular for a period exceeding 365 days (100 %. specific provision required).

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

The Group's impaired loan portfolio as at 31 December 2019 was KD 186,903 thousand (2018: KD 221,694 thousand) against which a specific provision of KD 100,818 thousand (2018: KD 112,024 thousand) has been made, as detailed below:

Table 14	**KD 000's**		
31 December 2019	**Past due and impaired financing**	**Related Specific provision**	**Specific provision written off, net of exchange movement**
Claims on corporates	**77,423**	**24,984**	**(92,293)**
Regulatory retail exposure	**109,480**	**75,834**	**(29,724)**
Total	**186,903**	**100,818**	**(122,017)**

	KD 000's		
31 December 2018	Past due and impaired financing	Related Specific provision	Specific provision written off, net of exchange movement
Claims on corporates	111,001	35,844	(255,501)
Regulatory retail exposure	110,693	76,180	(20,737)
Total	221,694	112,024	(276,238)

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

Table 15	**KD 000's**				
31 December 2019	**Middle East and North Africa**	**Europe**	**Asia**	**Others**	**Total**
Past due and impaired financing	**186,903**	-	-	-	**186,903**
Specific provision	**100,818**	-	-	-	**100,818**

	KD 000's				
31 December 2018	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	220,857	-	515	322	221,694
Specific provision	111,509	-	515	-	112,024

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

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

The Group's total provision as at 31 December 2019 was KD 540,733 thousand (2018: KD 538,186 thousand) inclusive of a general provision of KD 428,310 thousand (2018: KD 414,984 thousand) as detailed below:

Table 16	KD 000's	
	31 December 2019	31 December 2018
Claims on sovereigns	1,794	1,581
Claims on banks	7,165	9,621
Claims on corporates	356,180	344,876
Regulatory retail exposure	63,171	58,906
Total	428,310	414,984

The total general provision above includes KD 31,240 thousand (2018: KD 30,016 thousand) relating to "non-cash" facilities in accordance with CBK regulations.

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

Table 17	KD 000's					
	Middle East and North Africa	North America	Europe	Asia	Others	Total
31 December 2019	378,044	4,218	8,269	3,899	2,640	397,070
31 December 2018	371,087	3,086	5,548	2,453	2,794	384,968

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

The provisions for credit facilities as at 31 December 2019 was KD 540,733 thousand (2018 : KD 538,186 thousand) computed pursuant to the CBK instructions of December 1996 since amended, are higher than the IFRS 9 ECL for credit facilities as at 31 December 2019 was KD 394,935 thousand (2018 : KD 408,086 thousand).

4.2. Market risk

Market risk is defined as the potential loss in value of financial instruments or contracts or portfolio of instruments/ caused by adverse movements in market variables such as interest rates, foreign exchange rates, equity prices, volatility, spreads etc.

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

- Implementation of Market Risk Management Framework
- Well-defined processes and strong and effective controls
- Recognition of Market Risk as inherited to Bank's Business Model and Macro-Economic Environment.
- Clear segregation of "front", "back" and 'middle' office duties.
- Bank's approach to accept, limit and increase Market Risks
- Regular and effective monitoring and reporting of exposures and risk measures
- Regular monitoring of market prices and valuation of financial instruments
- Defined set of internal limits and regular reporting on the adherence to those limits
- Regular independent review of internal controls and limits
- Implementation of adequate infrastructure

4.2.1. Market-risk management framework

The Bank's Market Risk Management Framework consists of Governance, Identification and Measurement, Management and Limit Setting as well as Reporting/ Management information.

The Board of Directors (BoD) is ultimately responsible for determining and setting the amount of Market Risk that the Bank is exposed to as a result of executing its business strategy through Bank's Risk Appetite. The market risk management framework governs the Group's trading and non-trading related market risk activities. The General Manager of the Treasury Group and General Managers in overseas locations are responsible for managing trading activities. The management of market risk inherent within the Group's non-trading activities is the primary responsibility of the Group Asset and Liability Executive Committee (ALEC), supported by the regional Asset and Liability Committees.

Group Asset Liability Management (ALM) Unit is responsible for supervising the management of Market Risk exposure. All activities giving rise to market risk are conducted within a structure of approved credit and position limits. Group Market Risk Management independently measures, monitors and reports on Bank's market risk exposures.

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

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

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

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

Table 18	**KD 000's**			
	+ 5bp	**-5bp**	**+10bp**	**-10bp**
31 December 2019	**2,168**	**(2,168)**	**4,336**	**(4,336)**
31 December 2018	2,040	(2,040)	4,080	(4,080)

Included in the assumptions above are that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action is taken to mitigate the impact of interest rate risk. In addition to interest rate risk, the Group is also exposed to market risk as a result of changes in the "fair value" of its strategic equity and investment positions held without any intention of liquidation.

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

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

The VaR is supplemented with stress-testing (a stressed VaR) to quantify market risk under extreme stress scenarios based on observed historical worst-case and in-house developed scenarios. VaR computation allows for diversification benefits at the Group level. Furthermore, the Group recognises and mitigates the correlation of other risks and processes on its market risk monitoring process.

In addition to VaR, the Group uses a structure of foreign exchange and interest rate limits to manage and control its market risk associated with trading activities. The Group's market risk is also assessed under stressed conditions using the same framework. Computations are based on stressed historical data.

4.2.4 Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual shares. Equity price risk arises from the change in fair values of equity investments. The Group manages equity price risk through diversification of investments in terms of geographic distribution and industry concentration.

The CBK has set a maximum limit of 50 %. of a bank's regulatory capital for investment in funds and equities, excluding in subsidiaries.

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

Table 19	KD 000's	
	31 December 2019	31 December 2018
Total Equity Investment	**70,061**	86,574
Of which Quoted Investments (%)	**33%**	24%
Net gains or (loss) of FVPL classified instruments recognised in Profit and Loss Statement during the period	**2,366**	539
Net gains or (loss) of FVOCI classified instruments recognised in Balance-sheet as at period-end	**(10,391)**	7,798

Capital requirement of Equity investment portfolio categorised as:

Fair value through Other Comprehensive Income(FVOCI)*	**7,043**	12,138
Fair value through P&L(FVPL)*	**4,033**	3,573

* Based on classification on IFRS9 effective from 1 January 2018

All revaluation gains or losses during the year relating to equity investments were recorded in the consolidated statement of financial position. For additional details of the accounting policies related to the valuation of equity holdings, refer to notes 2.15 and 2.16 of the Group's consolidated financial statements.

4.2.5. Counterparty Credit Risk

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

4.2.5.1 Assignment of credit limits for Counterparty Credit Exposures

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

4.2.5.2 Policies for securing collateral and credit reserves

In order to reduce its counterparty risk, the Group selectively enters into credit support arrangements based on industry standard forms for derivative contracts. In line with these standards, the Group generally accepts only cash as collateral. It also has policies and procedures for reviewing the legal enforceability of credit support documents in accordance with applicable rules. Through the use of a collateral service agent, daily margining is performed with relevant market- counterparties. Daily valuations for qualified derivatives are compared to those reported by the market counterparties and any disagreements are directly resolved between the parties. The Group uses an internal model to estimate PFE, which includes the mitigating effects of netting and collateral in valuing over-the-counter contracts.

Additional collateral requirements due to credit rating downgrade

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

Netting

In response to the various regulations, including the European Market Infrastructure Regulations (EMIR), the Bank has, with the approval of the CBK, established NBK GDM (Caymans) Limited to deal in financial derivatives products, which allows the Bank to continue dealing with highly-rated counterparties on derivative transactions with netting arrangements in place and removes the risk that the Bank may be required to post "margin" collateral on an asymmetric basis. The Bank has also set in place policies and procedures to ensure compliance with EMIR regulations, i.e., to clear OTC derivatives through Central Counterparties (CCP).

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

4.2.5.3 General Disclosure for Counterparty Credit Risk

Table 20	**KD 000's**	
Derivative Contracts	**31 December 2019**	31 December 2018
Gross Positive fair value	**26,005**	52,039
Counterparty netting benefit	**(13,710)**	(38,441)
Netted current credit exposure	**12,295**	13,597
Cash collateral (held by NBK)	**(5,190)**	(13,203)
Net exposure (after netting and collateral)	**7,104**	394

4.2.5.4 Exposure-at-Default Methodology

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

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

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

Table 21	**KD 000's**	
	31 December 2019	31 December 2018
Counterparty Credit Risk (CEM method) for derivatives' counterparties	**87,707**	96,563
Counterparty Credit Risk (PFE method) for derivatives' counterparties	**21,525**	10,531

4.2.6 Notional value of credit derivatives transactions

NBK has no exposure to credit derivatives.

4.3 Operational risk

Operational risks are managed at Group level through a Board-approved operational risk management framework which defines the roles and responsibilities of the BRC, the EC, the operational risk management function and the internal audit function for monitoring, managing and reporting operational risk. The key components of the Board-approved framework are:

- comprehensive, documented policies, procedures and controls which reflect CBK and Basel III guidelines for internal controls and sound practices for managing and supervising operational risks in banks;
- annual and ad-hoc risk and control self-assessments conducted by business line management in coordination with and supported by the operational risk management function;
- quarterly key risk indicator submission and validation to identify risk trends and develop mitigating actions;
- operational incident and loss reporting and investigation of causes and failed controls; and
- assessment of external operational loss incidents occurring at other banks, which are cross-checked against the Group's internal control system to proactively identify any potential control weaknesses.

The Group's risk management and compliance function works closely with all of the Group's business lines to raise awareness of operational risk. In addition to the risk opinions and constant support provided by the operational risk management function through daily activities, operational risk awareness is achieved through a comprehensive training programme developed and delivered by the operational risk management function to the various business units. The aim of this training programme is to cultivate strategic relationships with business line management and to encourage open communication and ownership of risk issues.

Risk and control self-assessments are conducted annually and on an ad-hoc basis to ensure Executive Management has a clear picture of the operational risk exposure in terms of residual risks and to highlight any major internal control weaknesses. The focus is on business units performing the self-assessment of actual risks facing them and on the effectiveness of the controls they are implementing which is then validated and reassessed by the operational risk management function.

Key risks across business and support units are identified and monitored on a quarterly basis using various key risk indicators developed with the business units in line with the Group's risk appetite.

The capture and reporting of operational risk incidents and losses are established as a firm process across all business and support units. Close co-ordination with business units and the internal audit function enables operational risk management to track operational incidents and losses and to propose mitigating actions for business units to follow in order to address control weaknesses.

In addition, a comprehensive business continuity and disaster recovery management programme has been implemented and fully tested and is designed to cope with business disruptions and major disasters.

The Group's operational risk management function leads the process management and control function across the Group to ensure control gaps are minimised across its key processes. Operational risk reporting is escalated periodically to the BRC to ensure comprehensive oversight and review is conducted by relevant members of the Board and Executive Management.

4.4 Liquidity risk

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

The Group's liquidity management is guided by its internal liquidity policy, which is reviewed annually and approved by the Board. The EC assigns responsibilities and ensures the Group has sufficient resources to carry out liquidity risk management work in an independent and effective manner. The primary responsibilities for the management of liquidity are with the ALEC, regional asset and liability committees, the Group Treasurer and local Treasurers. Day-to-day cash-flows and liquidity management are handled by the 'local' treasury teams at Group head office and the Group's international locations. The longer-term liquidity and funding profile of the Group is monitored and managed by Group treasury under the guidance of the ALEC.

The Group's liquidity policy specifies the main goals, roles and responsibilities, processes and procedures for managing the Group's liquidity risk. It also encompasses the Group's contingency funding plan, which is intended to provide a framework for effective responses to any potential liquidity crisis, whether triggered by Bank-specific or by systemic liquidity shortages.

The Bank's liquidity risk strategy is centred on maintaining an adequate liquidity position at all times, primarily by means of an acceptable maturity mismatch profile, relying on more 'stable' deposits and maintaining an adequate stock of High-Quality Liquid Assets (HQLAs) at all times. Further, the Bank's liquidity objectives are:

- to ensure strategies are in conformity with the regulatory requirements of the CBK and the requirements of the local regulators in other jurisdictions where the Group operates;
- to ensure the use of proper tools in ascertaining liquidity risk;
- continuously to seek sources of stable customer funds and to keep its funding costs as low as possible;
- to limit its dependence on the use of short-term inter-bank funding;
- to leverage its strong position, reputation and credit strength in order to secure long-term funding, such as customer deposits, institutional deposits, government deposits and debt issuance at a competitive cost;

- to ensure the Bank's ability to generate or obtain cash or its equivalent in a timely and cost-efficient manner so that the Bank can meet its obligations;
- to maintain market confidence; and
- to ensure profitable business opportunities can be pursued without liquidating assets at undesirable times, or raising additional unsecured funding on an unreasonable scale or timescale.

The liquidity and funding management process includes:

- self-imposed and regulatory liquidity ratios, including ratios in accordance with Basel III principles;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- liquidity stress tests to make sure the Group can survive liquidity squeezes under different stress scenarios.

The Bank monitors and reports various internal and regulatory liquidity metrices in order to manage and comply with liquidity risk on an on-going basis. Specifically, since 1 January 2016, the Bank is monitoring and reporting Liquidity Coverage Ratio (LCR) in line with CBK instructions. Refer to the Liquidity Coverage Ratio disclosures available on the Bank's website of the Bank for Governance framework, Funding Strategy and LCR ratio results and analysis.

In accordance with the Basel III framework, as implemented by the CBK, the Group also manages its liquidity through compliance with the Net Stable Funding Ratio (NSFR). Starting from 1 January 2018, the Bank has monitored and reported its NSFR in line with CBK instructions. Refer to the NSFR related disclosures available on the Bank's website on a quarterly basis.

4.5 Reputation and fiduciary risk

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

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

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

During the year, Assets under Management at the Group increased by 1.8 % (2018: 12.8%) to reach KD 4,469 million on 31 December 2019 (2018: KD 4,390 million).

III. Composition of Capital

1. Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

i. Common Equity Tier 1
ii. Tier 1 Capital
iii. Tier 2 Capital

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

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

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

The below table summarises the composition of capital and ratios:

Table 22	KD 000's	
	31 December 2019	31 December 2018
Common Equity Tier 1 capital	**2,754,674**	2,478,695
Tier 1 capital	**3,240,919**	2,736,475
Total capital	**3,627,902**	3,090,199
Total risk-weighted assets	**20,428,019**	17,935,150
Capital ratios and buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	**13.5%**	13.8%
Tier 1 (as percentage of risk-weighted assets)	**15.9%**	15.3%
Total capital (as percentage of risk-weighted assets)	**17.8%**	17.2%
National minima		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	**9.5%**	9.5%
Tier 1 minimum ratio	**11.0%**	11.0%
Total capital minimum ratio excluding Countercyclical and D-SIB buffers	**13.0%**	13.0%
NBK Group minima		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer and Domestic Systemically-Important Bank Buffer	**11.5%**	11.5%
Tier 1 minimum ratio	**13.0%**	13.0%
Total capital minimum ratio excluding Countercyclical Buffer	**15.0%**	15.0%

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

2. Reconciliation requirements

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

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

Table 23: Steps 1 and 2 of Reconciliation requirements	KD 000's		
Item	**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**	**Reference**
	31 December 2019	**31 December 2019**	
Assets			
Cash and short-term funds	3,787,173	3,787,173	
Central Bank of Kuwait bonds	823,229	823,229	
Kuwait Government treasury bonds	662,175	662,175	
Deposits with banks	1,909,081	1,909,081	
Loans, advances and Islamic financing to customers	16,552,598	16,552,598	
from which General Provisions(netted above) eligible for inclusion in Tier 2 capital	232,163	232,163	*a*
Investment securities	4,214,562	4,214,562	
Investment in associates	35,297	35,297	
of which goodwill deducted from CET1 Capital	2,711	2,711	*b*
Land, premises and equipment	433,540	433,540	
Goodwill and other intangible assets	582,927	582,927	
of which goodwill deducted from CET1 Capital	405,104	405,104	*c*
of which other intangibles deducted from CET1 Capital	177,823	177,823	*d*
Other assets	270,171	270,171	
Total assets	29,270,753	29,270,753	
Liabilities			
Due to banks and other financial institutions	7,581,929	7,581,929	
Customers deposits	15,930,577	15,930,577	
Certificates of deposit issued	538,611	538,611	
Global medium term notes	227,159	227,159	
Subordinated Tier 2 bonds	124,801	124,801	
Principal amount recognised in Tier 2 capital	125,000	125,000	*e*
Other liabilities	608,516	608,516	
Total liabilities	25,011,593	25,011,593	

Table 23: Steps 1 and 2 of Reconciliation requirements	KD 000's		
Item	**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**	**Reference**
	31 December 2019	**31 December 2019**	
Shareholders' Equity			
Share capital	652,399	652,399	f
Proposed bonus shares	32,620	32,620	q
Statutory reserve	326,199	326,199	g
Share premium account	803,028	803,028	h
Treasury shares	(39,258)	(39,258)	i
Treasury shares reserve	25,115	25,115	j
Other Reserves	1,633,641	1,633,641	
of which Retained Earnings eligible as CET1 Capital	1,429,694	1,429,694	k
of which Proposed Dividend	226,373	226,373	
of which Others eligible as CET1 Capital	(22,426)	(22,426)	l
Equity attributable to shareholders of the Bank	3,433,744	3,433,744	
Perpetual Tier 1 Capital Securities	438,438	438,438	m
Non-controlling interests	386,978	386,978	
of which Limited Recognition eligible as CET1 Capital	132,941	132,941	n
of which Limited Recognition eligible as AT1 Capital	47,807	47,807	o
of which Limited Recognition eligible as Tier 2 Capital	29,820	29,820	p
Total equity	4,259,160	4,259,160	
Total liabilities and equity	29,270,753	29,270,753	

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

Table 24: Step 3 of Reconciliation requirements

Relevant Row Number in Common Disclosure Template		Component of regulatory capital (KD 000's)	Source based on reference letters of the balance sheet from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	652,399	f
2	Retained earnings	1,429,694	k
3	Accumulated other comprehensive income (and other reserves)	1,164,536	g+h+j+l+q
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	132,941	n
6	Common Equity Tier 1 capital before regulatory adjustments	3,379,570	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill	(407,815)	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(177,823)	d
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(39,258)	i
28	Total regulatory adjustments to Common Equity Tier 1	(624,896)	
29	Common Equity Tier 1 capital (CET1)	2,754,674	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	438,438	m
31	of which: classified as equity under applicable accounting standards	438,438	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	47,807	o
36	Additional Tier 1 capital before regulatory adjustments	486,245	
	Additional Tier 1 capital : instruments		
44	Additional Tier 1 capital (AT1)	486,245	
45	Tier 1 capital (T1 = CET1 + AT1)	3,240,919	
	Tier 2 capital : instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000	e
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	29,820	p
50	General Provisions included in Tier 2 Capital	232,163	a
51	Tier 2 capital before regulatory adjustments	386,983	
	Tier 2 capital: regulatory adjustments		
58	Tier 2 capital (T2)	386,983	
59	Total capital (TC = T1 + T2)	3,627,902	

IV. Leverage

1. Leverage Ratio

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

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

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

The Leverage Ratio for the Group at consolidated level is:

Table 25	**KD 000's**	
	31 December 2019	31 December 2018
Tier 1 Capital	**3,240,919**	2,736,475
Total Exposures	**31,865,265**	29,906,685
Leverage Ratio	**10.2%**	9.2%

2. Leverage Ratio Exposures

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

Table 26	**KD 000's**	
Total Exposures	**31 December 2019**	31 December 2018
On-balance sheet exposures	**28,685,115**	26,846,517
Derivative exposures	**117,878**	154,283
Off-balance sheet items	**3,062,272**	2,905,885
Total exposures	**31,865,265**	29,906,685

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

3. Reconciliation

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

Summary comparison of accounting assets vs Leverage Ratio exposure measure

Table 27		**KD 000's**	
	Item	**31 December 2019**	31 December 2018
1	Total consolidated assets as per published financial statements	**29,270,753**	27,427,940
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage Ratio exposure measure	**-**	-
4	Adjustments for derivative financial instruments	**117,878**	154,283
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	**-**	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**3,062,272**	2,905,885
7	Other adjustments	**(585,638)**	(581,423)
8	**Leverage Ratio exposure**	**31,865,265**	29,906,685

V. Remuneration Disclosures

Qualitative Information

1. Board of Directors, Board Nomination and Remuneration Committee

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

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

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

The key responsibilities of the Committee are summarised below:

a. Develop the Remuneration Policy in co-ordination with Executive Management and Group Human Resources and submit the same to the Board for approval. The Board is responsible for monitoring the implementation of the policy.
b. Review the Remuneration Policy in co-ordination with Group Risk Management at least on an annual basis or at the request of the Board, and provide the Board with policy amendments or update suggestions.
c. Evaluate the sufficiency and effectiveness of the Remuneration Policy on a periodic basis to ensure the achievement of its declared objectives.
d. Make recommendations to the Board regarding the level and components of the remuneration of the Group CEO and his deputies, taking into consideration the total remuneration including salaries, bonuses and other incentives.
e. Give recommendations to the Board regarding nominations for Board membership.
f. Assess the skills and competencies required to fulfil Board's duties, specifically to the issues related to the strategic objectives of the Group.

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

During the year 2019 the Committee reviewed and updated the Remuneration Policy, Succession Planning Manual and its internal charter.

2. Remuneration Policy

NBK Group Remuneration Policy is developed and implemented at the Group level and covers NBK subsidiaries and foreign branches.

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

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

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

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

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

FIRST CATEGORY: SENIOR MANAGEMENT

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

The number of persons in this category as of 31 December 2019 is 79 (2018: 74).

SECOND CATEGORY: MATERIAL RISK-TAKERS

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

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

The number of persons in this category as of 31 December 2019 is 25 (2018: 23).

THIRD CATEGORY: RISK AND CONTROL FUNCTIONS

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

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

The number of persons in this category as of 31 December 2019 is 18 (2018:15).

3. Remuneration Structure and Components

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

The Group has two main remuneration components:

- Fixed remuneration:

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

Fixed remuneration includes:

1. Salaries
2. Benefits
3. Other cash allowances

These payments are fixed and do not vary with performance.

- Variable Remuneration (performance-based remuneration):

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

Variable remuneration includes:

1. Cash bonus.
2. Deferred Cash Bonus
3. Equity shares as per Phantom Shares plan*.
4. Other

These payments are not fixed and are linked to performance.

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

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

The Deferred Cash Bonus and Phantom Shares Plan components of the variable remuneration pool are availed selectively to certain Eligible Employees.

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

4. Risk-Based Remuneration Approach

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

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

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

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

5. An Overview on the Key Performance Indicators

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

Examples of Group-level KPIs:

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

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

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

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

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

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

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

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

6. Remuneration Adjustments

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

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organisation) is deferred. The deferment of variable remuneration applies to the Deferred Cash Bonus and Phantom Shares Plan.

The Group applies a deferment approach of up to three years and final vesting of these variable components is subject to continuing employment and the absence of risk materialisation. Claw-back applies on the non-vested portions in case risk materialises. The claw-back mechanism is applicable on the Deferred Cash Bonus and Phantom Shares Plan.

This deferred variable remuneration is governed as follows:

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

Quantitative Information

1. During the year, the Board Nomination and Remuneration Committee met three times. The total remuneration paid to the Committee members is Nil.
2. The number of persons (Senior Management and Material Risk-Takers) eligible for variable remuneration is 79 persons and they represent 3.2% of the overall NBK total staff number eligible for variable remuneration for 2019.
3. The total number of persons (Senior Management and Material Risk-Takers) is 79 persons. Their total remuneration for 2019 is KD 21,124 thousand.
4. The number of employees who received sign-on awards during the year is Nil.
5. The total amount of end-of-service benefit paid during 2019 is KD 386 thousand, this is related to 3 persons (Senior Management and Material Risk-Takers).

Senior Management:

Table 28	**KD 000's**	**KD 000's**
Total salaries and remuneration granted during reported period	**Unrestricted**	**Deferred**
Fixed remuneration:		
- Cash	9,631	-
- Phantom Shares	-	-
Variable remuneration:		
- Cash	8,761	-
- Phantom Shares	-	2,165
- Others (Note 1)	567	-

Material Risk-Takers:

Table 29	KD 000's	KD 000's
Total salaries and remuneration granted during reported period	**Unrestricted**	**Deferred**
Fixed remuneration:		
- Cash	4,509	-
- Phantom Shares	-	-
Variable remuneration:		
- Cash	7,305	-
- Phantom Shares	-	1,015
- Others (Note 1)	151	-

Financial and Risk Control:

Table 30	KD 000's	KD 000's
Total salaries & remuneration granted during reported period	**Unrestricted**	**Deferred**
Fixed remuneration:		
- Cash	1,814	-
- Phantom Shares	-	-
Variable remuneration:		
- Cash	787	6
- Phantom Shares	-	479
- Others (Note 1)	-	-

Note 1: This consists of other performance incentives

Total remuneration paid as per employee categories

Table 31		KD 000's
Employees Category	**Number of employees in this category**	**Grand Total Remuneration Fixed and Variable granted during the reported period**
Senior Management	79	21,124
Material Risk-Takers	25	12,980
Financial and Risk Control	18	3,086

VI. Appendices

1. Regulatory Capital Composition: Common Disclosure Template

Table 32		
Row Number		**KD 000's**
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital plus related stock surplus	652,399
2	Retained earnings	1,429,694
3	Accumulated other comprehensive income (and other reserves)	1,164,536
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	132,941
6	Common Equity Tier 1 capital before regulatory adjustments	3,379,570
	Common Equity Tier 1 capital : regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	(407,815)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(177,823)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash flow hedge reserve	
12	Shortfall of provisions to expected losses(based on the Internal Models Approach, if applied)	
13	Securitisation gain on sale	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(39,258)
17	Reciprocal cross holdings in common equity of banks, Fis, and insurance entities	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued share capital(amount above 10% threshold of bank's CET1 capital)	
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	Total regulatory adjustments to Common Equity Tier 1	(624,896)
29	Common Equity Tier 1 capital (CET1)	2,754,674

Table 32		
Row Number		**KD 000's**
	Additional Tier 1 capital : instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	438,438
31	of which: classified as equity under applicable accounting standards	438,438
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	47,807
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	486,245
	Additional Tier 1 capital : regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	486,245
45	Tier 1 capital (T1 = CET1 + AT1)	3,240,919
	Tier 2 capital : instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	29,820
49	of which: instruments issued by subsidiaries subject to phase out	-
50	General Provisions included in Tier 2 Capital	232,163
51	Tier 2 capital before regulatory adjustments	386,983
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	
53	Reciprocal cross holdings in Tier 2 instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	

Table 32		
Row Number		**KD 000's**
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	
58	Tier 2 capital (T2)	386,983
59	Total capital (TC = T1 + T2)	3,627,902
60	Total risk-weighted assets	20,428,019
	Capital ratios and buffers	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.5%
62	Tier 1 (as percentage of risk-weighted assets)	15.9%
63	Total capital (as percentage of risk-weighted assets)	17.8%
64	Institution specific buffer requirement (minimum CET1 requirement plus (a)capital conservation buffer plus (b)countercyclical buffer requirements plus (c)DSIB buffer requirement expressed as a percentage of risk-weighted assets)	11.5%
65	of which: (a) capital conservation buffer requirement	2.5%
66	of which: (b) bank specific countercyclical buffer requirement	-
67	of which: (c) DSIB buffer requirement	2.0%
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	6.5%
	National minima	
69	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.5%
70	Tier 1 minimum ratio	11.0%
71	Total capital minimum ratio excluding Counter-cyclical and D-SIB buffers	13.0%
	Amounts below the thresholds for deduction(before risk weighting)	
72	Non-significant investments in the capital of other financials	29,242
73	Significant investments in the common stock of financial entities	40,623
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	428,309
77	Cap on inclusion of allowances in Tier 2 under standardised approach	232,163
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings- based approach (prior to application of cap)	
79	Cap on inclusion of allowances in Tier 2 under internal ratings-based approach	

2. Regulatory Capital: Main Features Template

The Bank's share capital as at 31 December 2019 comprised 6,523,985,887 issued and fully-paid-up equity shares (note 20 of the Group's consolidated financial statements), and is eligible as Common Equity Tier 1 Capital at Group and Solo level.

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

1	**Issuer**	NBK Tier 1 Financing Limited	NBK Tier 1 Financing (2) Limited	National Bank of Kuwait S.A.K.P.
2	**Unique identifier**	XS1206972348	XS2010037922	Fixed-Rate Bond: KWODI0100506 Floating-Rate Bond: KWODI0100514
3	**Governing law(s) of the instrument**	English Law; except for Status of Capital Securities and Subordination which are governed by laws of Dubai International Financial Centre.	English Law; except for Status of Capital Securities and Subordination which are governed by laws of Dubai International Financial Centre.	Laws of the State of Kuwait
	Regulatory treatment			
4	Type of Capital	Additional Tier 1	Additional Tier 1	Tier 2
5	Eligible at solo/ group / group and solo	Group and Solo	Group and Solo	Group and Solo
6	Instrument type	Capital Securities by Issuer Irrevocably guaranteed by National Bank of Kuwait S.A.K.P. on Subordinated basis	Capital Securities by Issuer Irrevocably guaranteed by National Bank of Kuwait S.A.K.P. on Subordinated basis	Subordinated Debt
7	Amount recognised in regulatory capital	USD 700,000,000 (KD 210,700,000)	USD 750,000,000 (KD 227,737,500)	KD 125,000,000/-
8	Par value of instrument	USD 1,000/-	USD 1,000/-	KD 50,000/-
9	Accounting classification	Shareholders' equity	Shareholders' equity	Liability-Amortised Cost
10	Original date of issuance	9 April 2015	27 November 2019	18 November 2015
11	Perpetual or dated	Perpetual	Perpetual	Dated
12	Original maturity date	No maturity	No maturity	18 November 2025
13	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
14	Optional call date, contingent call dates and redemption amount	Optional Call date: 9 April 2021; Capital Event or Tax Event Call; Redemption amount in case of redemption date before First Reset Date: 101% of Principal; and in case of redemption date after First Reset Date at 100% Principal plus Accrued Interest	Optional Call date: Any date three months prior to 27 November 2025; Capital Event or Tax Event Call; Redemption amount in case of redemption date before First Reset Date: 101% of Principal; and in case of redemption date after First Reset Date at 100% Principal plus Accrued Interest	Optional Call date: 18 November 2020; Capital Event or Taxation Reasons; Principal at 100% plus Accrued Interest
15	Subsequent call dates, if applicable	Semi-Annually	Semi-Annually	Semi-Annually

	Coupons / dividends			
16	Fixed or floating dividend / coupon	Fixed for first 6-year period; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD mid-swap rate plus margin	Fixed for first 6-year period; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD Treasury rate plus margin	Fixed Tranche: Fixed for first 5 years and reset thereafter to a new fixed rate for subsequent period. Floating Tranche: Floating rate determined semi-annually subject to a cap.
17	Coupon rate and any related index	5.75% p.a. Fixed-Rate up to (but excluding) 9 April 2021; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD mid-swap rate plus 4.119% p.a. margin	4.500% p.a. Fixed-Rate up to (but excluding) 27 November 2025; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD Treasury rate plus 2.832% p.a. margin	Fixed Tranche: 4.75% p.a. Fixed for 5 years and reset thereafter to a new fixed rate of the then CBK Discount Rate plus 2.75% p.a. for subsequent period. Floating Tranche: CBK Discount Rate plus 2.50% determined semi-annually subject to a cap of prevailing Fixed Interest Rate plus 1%
18	Existence of a dividend stopper	Yes	Yes	No
19	Fully discretionary, partially discretionary or mandatory	Payment of Interest may be cancelled at the sole-discretion of the Issuer and the Guarantor. Mandatory cancellation upon:-Insufficient Distributable Funds on a consolidated basis-Breach of any applicable capital requirements-Regulatory requirement to cancel	Payment of Interest may be cancelled at the sole-discretion of the Issuer and the Guarantor. Mandatory cancellation upon:-Insufficient Distributable Funds on a consolidated basis-Breach of any applicable capital requirements-Regulatory requirement to cancel	Payment of Interest is Mandatory.
20	Existence of step-up or other incentive to redeem	No	No	No
21	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Not Applicable
22	**Convertible or non-convertible**	**Non-convertible**	**Non-convertible**	**Non-convertible**
23	If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable
24	If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable

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

3. Leverage Ratio: Common Disclosure Template

Table 33

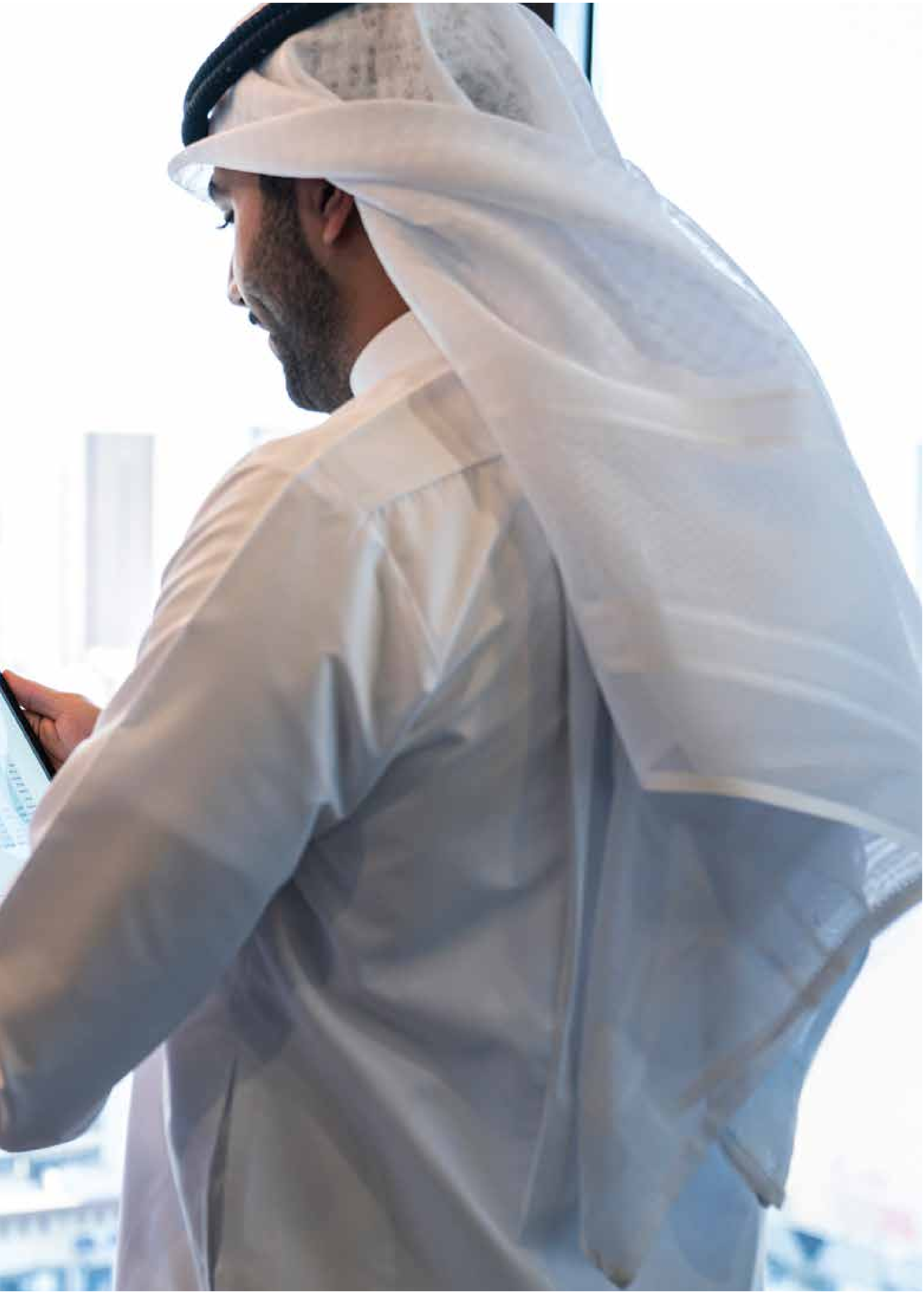
	Item	KD 000's
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	29,270,753
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(585,638)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**28,685,115**
	Derivatives risk exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	38,361
5	Add-on amounts for PFE associated with all derivatives transactions	79,517
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**117,878**
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	11,820,611
18	(Adjustments for conversion to credit equivalent amounts)	(8,758,338)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**3,062,272**
	Capital and total exposures	
20	**Tier 1 capital**	**3,240,919**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**31,865,265**
22	**Basel III leverage ratio**	**10.2%**

4. GLOSSARY OF TERMS

Term	Definition
Additional Tier 1 Capital	Additional Tier 1 Capital is a Basel III defined concept and consists of high quality capital. It essentially includes providing a permanent and unrestricted commitment of funds, is freely available to absorb losses at the point of non-viability, ranks behind the claims of depositors and other more senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions.
Basel II	Refers to the “Rules and Regulations Concerning Capital Adequacy Standard” issued by Central Bank of Kuwait Circular number 2/BS/184/2005 dated 21 December 2005, as amended.
Basel III	Refers to the “Capital Adequacy Ratio-Basel III for conventional banks” regulations issued by Central Bank of Kuwait Circular number 2/RB, RBA/A336/2015 dated 24 June 2015
Capital Conservation Buffer	A capital conservation buffer of 2.5% (expressed as a percentage of risk-weighted assets) has been subsumed in the Minimum Common Equity Tier 1 Capital requirement level.
Countercyclical Buffer	A countercyclical buffer requirement that varies from 0% to 2.5% which, when triggered as a requirement at the discretion of Central Bank of Kuwait, is required to be met from Common Equity Tier 1 capital.
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital is the highest quality of capital available reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It essentially includes ordinary share capital, retained earnings and reserves less prescribed deductions.
Domestic Systemically-Important Bank Buffer	A Domestic Systemically-Important Bank Buffer that varies from 0.5% to 2% required to be met in the form of Common Equity Tier 1 capital which will be determined at the level of each bank identified as systemically important by Central Bank of Kuwait on an annual basis.
ECAI	An External Credit Assessment Institution (ECAI) as recognised by Central Bank of Kuwait from time to time for the purposes of the assigning risk-weights to obligors under the Standardised Approach.
Leverage Ratio	Calculated in accordance with the requirements of CBK Circular number 2/BS/342/2014 dated 21 October 2014. Leverage ratio is defined as the “capital” measure (being Tier 1 capital) divided by the “exposure” measure (being the sum of on-balance sheet assets, derivative exposures and off-balance sheet exposures).
Liquidity Coverage Ratio (LCR)	Calculated in accordance with the requirements of CBK Circular number 2/RB/345/2014 dated 23 December 2014. The ratio is calculated by taking a financial institution’s stock of high quality liquid assets (“HQLAs”) – which include low-risk, highly marketable asset classes, designed to provide significant sources of liquidity in such a stress scenario – and dividing it by its projected net cash outflows over the immediately following 30-day period.
Net-Stable Funding Ratio (NSFR)	Calculated in accordance with the requirements of CBK Circular number 2/BS/356/2015 dated 25 October 2015 from 2018. The NSFR is defined as the amount of available stable funding (“ASF”) relative to the amount of required stable funding (“RSF”). ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. RSF is defined as the portion of assets and off-balance sheet exposures expected to be funded on an ongoing basis over a one-year horizon. The amount of the stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.
Significant Investments	Significant Investments in capital of banking, financial and insurance entities are those where the bank owns more than 10% of the issued common share capital of the issuing entity or where the entity is an affiliate of the bank.
Tier 2 Capital	Tier 2 Capital consists of eligible capital instruments that provide an unrestricted commitment of funds for a defined period that is available to absorb losses at the point of non-viability, subordinated to claims of depositors in the event of wind-up. Limited recognition of general provisions held against future, presently-unidentifiable losses are eligible for inclusion in Tier 2 capital.

Financial Statements

National Bank of Kuwait's Board of Directors' Report, Independent Auditors' Report and consolidated financial statements for the year ended 31 December 2019.



Board of Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of National Bank of Kuwait S.A.K.P. ("the Bank") and its subsidiaries (collectively "the Group") for the year ended 31 December 2019.

2019 FINANCIAL PERFORMANCE

The Group reported a net profit attributable to shareholders of the Bank of KD 401.3 million compared to KD 370.7 million for 2018, an increase of 8.2%. Operating profit amounted to KD 591.2 million as compared to KD 606.9 million in 2018, a decrease of 2.6%.

Net interest income and net income from Islamic financing totaled KD 689.2 million (2018: KD 690.5 million). Net fees and commissions increased to KD 157.2 million (2018: KD 150.2 million). Net gains from dealing in foreign currencies increased to KD 39.3 million in 2019 (2018: KD 39.0 million).

Total operating expenses were KD 304.3 million (2018: KD 276.3 million). The cost to income ratio for 2019 was 34.0% (2018: 31.3%).

The provision charge for credit losses and impairment losses were KD 129.7 million (2018: KD 179.7 million).

The return on average equity was 12.3% (2018: 12.0%).

2019 BALANCE SHEET

Total assets of the Group grew to KD 29,270.8 million from KD 27,427.9 million at the end of 2018, an increase of 6.7%. Loans, advances and Islamic financing to customers grew by KD 1,049.2 million to KD 16,552.6 million, an increase of 6.8%. Investment securities grew by KD 536.5 million to KD 4,214.6 million, an increase of 14.6%.

Customer deposits grew to KD 15,930.6 million from KD 14,388.8 million at the end of 2018, an increase of 10.7%. The Group benefits from a loyal Kuwaiti customer base whose deposits remain a continuing source of stable funding. Due to banks and financial institutions were KD 7,581.9 million (2018: KD 8,090.5 million), a decrease of 6.3%.

The Group maintained a strong liquidity position with cash, short term funds, Central Bank of Kuwait bonds and Kuwait Government treasury bonds amounting to KD 5,272.6 million at the year end. Deposits with banks were KD 1,909 million at the year end.

The Group's general provisions in respect of on-balance sheet credit facilities were KD 397 million at the year end (2018: KD 385 million), whilst specific provisions were KD 111.7 million at the year end (2018: KD 120.7 million). The Group operates a conservative credit policy with a balanced diversification across all business sectors and geographical areas. Loan collateral profiles and values are continually monitored to ensure that optimum protection is afforded to the Group at all times.

Cash and non-cash credit facilities provided by the Bank to members of the Board of Directors and to related parties were KD 109.5 million at the year end against collateral of KD 335.2 million. Deposits of Board members and related parties were KD 30.6 million. Loans and facilities to the Group's Executive Management were KD 3.4 million whilst deposits from the Group's Executive Management were KD 7.1 million.

EQUITY

Total equity attributable to the shareholders of the Bank after deducting the proposed cash dividend of KD 226.4 million was KD 3,207.4 million (2018: KD 2,948.9 million).

During 2019 the Bank issued Perpetual Tier 1 Capital Securities of USD 750 million, classified as part of equity.

The Basel III capital adequacy ratio was 17.8% at the year end (2018: 17.2%) as compared to the CBK prescribed regulatory minimum of 15%. The leverage ratio was 10.2% at the year end (2018: 9.2%) as compared to the CBK prescribed regulatory minimum of 3%.

CAPITAL MARKET AUTHORITY REQUIREMENTS

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

The Bank maintains a record for reporting the Bank's shares owned by the Insider Persons (or their dependent children) to the Capital Market Authority and Boursa Kuwait Company.

BONUS SHARES, DIVIDENDS AND PROPOSED APPROPRIATIONS

Net profit for the year was principally allocated as follows:

1. KD 226.4 million to the dividend account for the distribution of a cash dividend of 35 fils per share (35 fils in 2018) subject to the approval of shareholders at the annual general meeting.
2. KD 32.6 million to the share capital account to cover the issuance of bonus shares equal to 5% of share capital at the end of 2019 (5% for 2018) (equivalent to 326,199,294 shares with a nominal value of 100 fils per share) subject to the approval of shareholders at the annual general meeting.
3. KD 15.5 million to the statutory reserve account to increase the balance to the minimum requirement of 50% of share capital.
4. KD 15.3 million to interest and profit payment towards perpetual Tier 1 Capital Securities and Perpetual Tier 1 Sukuk by a subsidiary.
5. KD 111.4 million to retained earnings.

FINANCIAL HIGHLIGHTS

KD million	**2019**	2018	2017
Total assets	**29,270.8**	27,427.9	26,034.6
Loans, advances and Islamic financing to customers	**16,552.6**	15,503.4	14,502.6
Customer deposits	**15,930.6**	14,388.8	13,779.6
Total operating income	**895.5**	883.2	822.7
Profit attributable to shareholders of the Bank	**401.3**	370.7	322.4

Independent Auditors' Report to The Shareholders of National Bank of Kuwait S.A.K.P.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

We have identified the following key audit matters:

A) CREDIT LOSSES ON LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

The recognition of credit losses on loans, advances and Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision ("the CBK rules") as disclosed in the accounting policies and in Note 12 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a new and complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognised together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected a sample of credit facilities outstanding as at the reporting date and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group to determine ECL taking into consideration CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

B) IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

The Group has goodwill and other intangible assets with carrying value of KD 582,927 thousand as at 31 December 2019. The impairment tests of goodwill and other intangible assets performed by the management are significant to our audit because the assessment of the recoverable amount of goodwill and other intangible assets under the value-in-use basis is complex and requires considerable judgments on part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the banking sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill and other intangible assets as a key audit matter.

As part of our audit procedures, we have verified prevailing market prices where management has used these as a benchmark to compute the recoverable value. Where "value in use" is the basis to compute the recoverable value we obtained management's impairment calculations and tested the reasonableness of key assumptions, including profit forecasts and the selection of growth rates and discount rates. We also involved our valuation specialists and challenged the management to substantiate the assumptions, including the comparison of relevant assumptions to industry benchmarks and economic forecasts. We tested the integrity of supporting calculations and corroborated certain information with third party sources. We agreed the underlying cash flows to approved budgets and assessed growth rates and discount rates by comparison with third party information, the Group's cost of capital and relevant risk factors. Future cash flow assumptions were also assessed through comparison to current trading performance against budget and forecasts, considering the historical accuracy of budgeting and forecasting and the understanding of the reasons for growth profiles used. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions.

We also assessed the adequacy of the Group's disclosures regarding those assumptions, which are disclosed in Note 15 to the consolidated financial statements.

Independent Auditors' Report to The Shareholders of National Bank of Kuwait S.A.K.P. (continued)

C) VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group has significant derivative financial instruments, the valuation of which is determined through the application of valuation techniques that often involves the exercise of judgement and the use of assumptions and estimates. Due to the significance of the derivative financial instruments and the related estimation and uncertainty, we have assessed the valuation of derivative financial instruments as a key audit matter.

Our audit procedures included, testing controls over the identification, measurement and management of derivative financial instruments to conclude on the operating effectiveness of the key controls in place. We assessed whether the key controls in the above processes were designed, implemented and operating effectively.

In addition to the testing of key controls, we evaluated and challenged the methodologies, inputs and assumptions used by the Group in determining fair values, with the assistance of our valuation specialists and by reference to externally available market data to assess whether appropriate inputs are used in the valuation. We also compared, on sample basis, valuations derived from our internal valuation model, to the fair values determined by the Group. Further, we assessed whether the disclosures in the consolidated financial statements concerning the valuation basis and inputs used in the fair value measurement are adequate and that disclosures relating to the fair value risks and sensitivities appropriately reflect the Group's exposure to the derivative financial instruments at the reporting date. Refer to Note 28 to the consolidated financial statements for the disclosures on derivative financial instruments.

Other information included in the Annual Report of the Group for the year ended 31 December 2019

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2019, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2019 after the date of our auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditors' Report to The Shareholders of National Bank of Kuwait S.A.K.P. (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2019 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2019 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL-AIBAN, AL-OSAIMI & PARTNERS

BADER A. AL-WAZZAN
LICENCE NO. 62 A
DELOITTE & TOUCHE
AL WAZZAN & CO.

8 January 2020
Kuwait

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income

For the year ended 31 December 2019

	Notes	**2019 KD 000's**	2018 KD 000's	**2019 USD 000's**	2018 USD 000's
Interest income	4	**986,526**	897,218	**3,255,324**	2,960,627
Interest expense	5	**421,618**	330,882	**1,391,249**	1,091,840
Net interest income		**564,908**	566,336	**1,864,075**	1,868,787
Murabaha and other Islamic financing income		**211,317**	186,089	**697,301**	614,054
Finance cost and Distribution to depositors		**87,001**	61,972	**287,085**	204,494
Net income from Islamic financing		**124,316**	124,117	**410,216**	409,560
Net interest income and net income from Islamic financing		**689,224**	690,453	**2,274,291**	2,278,347
Net fees and commissions	6	**157,152**	150,176	**518,568**	495,549
Net investment income	7	**8,419**	2,140	**27,781**	7,062
Net gains from dealing in foreign currencies		**39,343**	39,026	**129,824**	128,776
Other operating income		**1,379**	1,424	**4,550**	4,699
Non-interest income		**206,293**	192,766	**680,723**	636,086
Net operating income		**895,517**	883,219	**2,955,014**	2,914,433
Staff expenses		**175,731**	159,984	**579,875**	527,913
Other administrative expenses	24	**98,852**	98,555	**326,190**	325,210
Depreciation of premises and equipment	24	**26,493**	14,703	**87,421**	48,517
Amortisation of intangible assets	15	**3,198**	3,096	**10,553**	10,216
Operating expenses		**304,274**	276,338	**1,004,039**	911,856
Operating profit before provision for credit losses and impairment losses		**591,243**	606,881	**1,950,975**	2,002,577
Provision charge for credit losses and impairment losses	8	**129,715**	179,692	**428,032**	592,945
Operating profit before taxation		**461,528**	427,189	**1,522,943**	1,409,632
Taxation	9	**35,536**	33,240	**117,261**	109,685
Profit for the year		**425,992**	393,949	**1,405,682**	1,299,947
Attributable to:					
Shareholders of the Bank		**401,291**	370,709	**1,324,174**	1,223,260
Non-controlling interests		**24,701**	23,240	**81,508**	76,687
		425,992	393,949	**1,405,682**	1,299,947
Basic earnings per share attributable to shareholders of the Bank	10	**60 fils**	55 fils	**20 Cents**	18 Cents

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 KD 000's	2018 KD 000's	**2019 USD 000's**	2018 USD 000's
Profit for the year	**425,992**	393,949	**1,405,682**	1,299,947
Other comprehensive income:				
Investment in debt securities measured at FVOCI:				
Net change in fair value	**50,791**	(31,214)	**167,599**	(103,000)
Net transfer to consolidated statement of income	**5,440**	119	**17,951**	393
	56,231	(31,095)	**185,550**	(102,607)
Share of other comprehensive income (loss) of associates	**158**	(282)	**521**	(930)
Exchange differences on translation of foreign operations	**19,066**	(4,265)	**62,914**	(14,074)
Exchange differences transferred to consolidated statement of income on de-recognition of associates	**-**	11,978	**-**	39,525
Other comprehensive income (loss) for the year reclassifiable to consolidated statement of income in subsequent years	**75,455**	(23,664)	**248,985**	(78,086)
Net loss on investments in equity instruments designated at FVOCI (not reclassifiable to consolidated statement of income in subsequent periods)	**(15,801)**	(891)	**(52,140)**	(2,940)
Other comprehensive income (loss) for the year	**59,654**	(24,555)	**196,845**	(81,026)
Total comprehensive income for the year	**485,646**	369,394	**1,602,527**	1,218,921
Attributable to:				
Shareholders of the Bank	**462,211**	347,886	**1,525,197**	1,147,949
Non-controlling interests	**23,435**	21,508	**77,330**	70,972
	485,646	369,394	**1,602,527**	1,218,921

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

For the year ended 31 December 2019

	Notes	**2019 KD 000's**	2018 KD 000's	**2019 USD 000's**	2018 USD 000's
Assets					
Cash and short term funds	11	**3,787,173**	2,966,707	**12,496,859**	9,789,497
Central Bank of Kuwait bonds	13	**823,229**	809,871	**2,716,479**	2,672,400
Kuwait Government treasury bonds	13	**662,175**	872,042	**2,185,035**	2,877,552
Deposits with banks		**1,909,081**	2,364,242	**6,299,558**	7,801,491
Loans, advances and Islamic financing to customers	12	**16,552,598**	15,503,402	**54,620,023**	51,157,901
Investment securities	13	**4,214,562**	3,678,032	**13,907,151**	12,136,717
Investment in associates	14	**35,297**	31,425	**116,473**	103,696
Land, premises and equipment	24	**433,540**	362,801	**1,430,589**	1,197,165
Goodwill and other intangible assets	15	**582,927**	578,973	**1,923,534**	1,910,487
Other assets	16	**270,171**	260,445	**891,506**	859,413
Total assets		**29,270,753**	27,427,940	**96,587,207**	90,506,319
Liabilities					
Due to banks and other financial institutions		**7,581,929**	8,090,484	**25,018,740**	26,696,862
Customer deposits		**15,930,577**	14,388,836	**52,567,487**	47,480,073
Certificates of deposit issued		**538,611**	451,128	**1,777,301**	1,488,626
Global medium term notes	17	**227,159**	220,124	**749,576**	726,362
Subordinated Tier 2 bonds	18	**124,801**	124,768	**411,817**	411,708
Other liabilities	19	**608,516**	451,290	**2,007,972**	1,489,159
Total liabilities		**25,011,593**	23,726,630	**82,532,893**	78,292,790
Equity					
Share capital	20	**652,399**	621,332	**2,152,777**	2,050,262
Proposed bonus shares	21	**32,620**	31,067	**107,639**	102,514
Statutory reserve	20	**326,199**	310,666	**1,076,387**	1,025,131
Share premium account	20	**803,028**	803,028	**2,649,820**	2,649,820
Treasury shares	20	**(39,258)**	(65,425)	**(129,543)**	(215,888)
Treasury share reserve	20	**25,115**	14,010	**82,874**	46,230
Other reserves	20	**1,633,641**	1,448,579	**5,390,665**	4,780,001
Equity attributable to shareholders of the Bank		**3,433,744**	3,163,257	**11,330,619**	10,438,070
Perpetual Tier 1 Capital Securities	22	**438,438**	210,700	**1,446,751**	695,265
Non-controlling interests	26	**386,978**	327,353	**1,276,944**	1,080,194
Total equity		**4,259,160**	3,701,310	**14,054,314**	12,213,529
Total liabilities and equity		**29,270,753**	27,427,940	**96,587,207**	90,506,319

Nasser Musaed Abdullah Al-Sayer
Chairman

Isam J. Al Sager
Group Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 KD 000's	2018 KD 000's	2019 USD 000's	2018 USD 000's
Operating activities					
Profit for the year		**425,992**	393,949	**1,405,682**	1,299,947
Adjustments for:					
Net investment income	7	**(8,419)**	(2,140)	**(27,781)**	(7,061)
Depreciation of premises and equipment		**26,493**	14,703	**87,421**	48,517
Amortisation of intangible assets	15	**3,198**	3,096	**10,553**	10,216
Provision charge for credit losses and impairment losses	8	**129,715**	179,692	**428,032**	592,945
Share based payment reserve		**-**	48	**-**	158
Taxation	9	**35,536**	33,240	**117,261**	109,685
Operating profit before changes in operating assets and liabilities		**612,515**	622,588	**2,021,168**	2,054,407
Changes in operating assets and liabilities:					
Central Bank of Kuwait bonds		**(13,358)**	(154,280)	**(44,080)**	(509,091)
Kuwait Government treasury bonds		**209,867**	204,169	**692,516**	673,714
Deposits with banks		**455,161**	123,946	**1,501,934**	408,995
Loans, advances and Islamic financing to customers		**(1,172,262)**	(1,167,224)	**(3,868,213)**	(3,851,589)
Other assets		**(12,387)**	(10,449)	**(40,874)**	(34,479)
Due to banks and other financial institutions		**(508,555)**	621,181	**(1,678,122)**	2,049,764
Customer deposits		**1,541,741**	609,229	**5,087,415**	2,010,325
Certificates of deposit issued		**87,483**	(39,707)	**288,675**	(131,025)
Other liabilities		**133,221**	56,694	**439,601**	187,078
Tax paid		**(32,702)**	(25,819)	**(107,910)**	(85,197)
Net cash from operating activities		**1,300,724**	840,328	**4,292,110**	2,772,902
Investing activities					
Purchase of investment securities		**(1,577,001)**	(1,737,758)	**(5,203,765)**	(5,734,229)
Proceeds from sale/redemption of investment securities		**1,079,220**	1,371,050	**3,561,194**	4,524,171
Dividend income	7	**2,685**	2,658	**8,860**	8,771
Dividend from associates		**153**	236	**505**	779
Proceeds from sale of land, premises and equipment		**846**	2,794	**2,792**	9,219
Purchase of land, premises and equipment		**(57,935)**	(56,021)	**(191,173)**	(184,857)
Investment in an associate		**-**	(136)	**-**	(449)
Increase in holding in subsidiaries		**(1,685)**	(13,744)	**(5,560)**	(45,352)
Net cash used in investing activities		**(553,717)**	(430,921)	**(1,827,147)**	(1,421,947)
Financing activities					
Net proceeds from issue of Perpetual Tier 1 Capital Securities	22	**226,857**	-	**748,579**	-
Proceeds from sale of treasury shares		**37,272**	12,390	**122,990**	40,884
Dividends paid		**(214,344)**	(174,883)	**(707,289)**	(577,076)
Interest paid on Perpetual Tier 1 Capital Securities		**(12,258)**	(12,151)	**(40,449)**	(40,096)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary		**(5,125)**	(5,108)	**(16,911)**	(16,855)
Capital increase in a subsidiary contributed by non-controlling interest		**49,615**	-	**163,719**	-
Dividends paid by subsidiaries to non-controlling interests		**(8,558)**	(6,588)	**(28,240)**	(21,739)
Net cash from (used in) financing activities		**73,459**	(186,340)	**242,399**	(614,882)
Increase in cash and short term funds		**820,466**	223,067	**2,707,362**	736,073
Cash and short term funds at the beginning of the year		**2,966,707**	2,743,640	**9,789,497**	9,053,424
Cash and short term funds at the end of the year	11	**3,787,173**	2,966,707	**12,496,859**	9,789,497

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 20e)	Total	Perpetual Tier 1 Capital Securities	Non - controlling interests	Total equity
Balance as at 1 January 2019	621,332	31,067	310,666	803,028	(65,425)	14,010	1,448,579	3,163,257	210,700	327,353	3,701,310
Profit for the year	-	-	-	-	-	-	401,291	401,291	-	24,701	425,992
Other comprehensive income (loss)	-	-	-	-	-	-	60,920	60,920	-	(1,266)	59,654
Total comprehensive income	-	-	-	-	-	-	462,211	462,211	-	23,435	485,646
Transfer to statutory reserve (Note 20b)	-	-	15,533	-	-	-	(15,533)	-	-	-	-
Issue of bonus shares (Note 20a)	31,067	(31,067)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	26,167	11,105	-	37,272	-	-	37,272
Dividends paid	-	-	-	-	-	-	(214,344)	(214,344)	-	-	(214,344)
Issue of Perpetual Tier 1 Capital Securities (Note 22)	-	-	-	-	-	-	-	-	227,738	-	227,738
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(881)	(881)	-	-	(881)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(12,258)	(12,258)	-	-	(12,258)
Dividend paid by subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	(8,558)	(8,558)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(3,069)	(3,069)	-	(2,056)	(5,125)
Proposed bonus shares (Note 21)	-	32,620	-	-	-	-	(32,620)	-	-	-	-
Increase in holding in subsidiaries	-	-	-	-	-	-	1,702	1,702	-	(7,075)	(5,373)
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	-	53,303	53,303
Other movements	-	-	-	-	-	-	(146)	(146)	-	576	430
At 31 December 2019	652,399	32,620	326,199	803,028	(39,258)	25,115	1,633,641	3,433,744	438,438	386,978	4,259,160

The attached notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 20e)	Total	Perpetual Tier 1 Capital Securities	Non - controlling interests	Total equity
Balance at 31 December 2017	591,744	29,588	295,872	803,028	(77,799)	13,994	1,372,964	3,029,391	210,700	321,010	3,561,101
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	-	(29,045)	(29,045)	-	(104)	(29,149)
Restated balance as at 1 January 2018	591,744	29,588	295,872	803,028	(77,799)	13,994	1,343,919	3,000,346	210,700	320,906	3,531,952
Profit for the year	-	-	-	-	-	-	370,709	370,709	-	23,240	393,949
Other comprehensive loss	-	-	-	-	-	-	(22,823)	(22,823)	-	(1,732)	(24,555)
Total comprehensive income	-	-	-	-	-	-	347,886	347,886	-	21,508	369,394
Transfer to statutory reserve (Note 20b)	-	-	14,794	-	-	-	(14,794)	-	-	-	-
Issue of bonus shares (Note 20a)	29,588	(29,588)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	12,374	16	-	12,390	-	-	12,390
Dividends paid	-	-	-	-	-	-	(174,883)	(174,883)	-	-	(174,883)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(12,151)	(12,151)	-	-	(12,151)
Share based payment in a subsidiary	-	-	-	-	-	-	28	28	-	20	48
Dividend paid by a subsidiary to non-controlling Interests	-	-	-	-	-	-	-	-	-	(6,588)	(6,588)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(3,033)	(3,033)	-	(2,075)	(5,108)
Proposed bonus shares (Note 21)	-	31,067	-	-	-	-	(31,067)	-	-	-	-
Increase in holding in subsidiaries	-	-	-	-	-	-	(7,326)	(7,326)	-	(6,418)	(13,744)
At 31 December 2018	621,332	31,067	310,666	803,028	(65,425)	14,010	1,448,579	3,163,257	210,700	327,353	3,701,310

The attached notes 1 to 32 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2019

1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 8 January 2020. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations issued by the Central Bank of Kuwait ("CBK") for financial services institutions in the State of Kuwait. These regulations require the expected credit loss ("ECL") on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance with CBK guidelines or provisions as required by CBK instructions, with consequent impact on related disclosures. The regulations also require adoption of all other requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. ("IASB").

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

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those used in the previous year except for the changes arising from the adoption of IFRS 16 'Leases' effective from 1 January 2019.

Adoption of IFRS 16 'Leases'

The Group has adopted IFRS 16 issued in January 2016 with a date of initial application of 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. The Group's accounting policies for leases under IFRS 16 is explained in Note 2.24.

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right-of-use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

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 2020 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the Group consolidated financial statements.

2.3 BASIS OF CONSOLIDATION

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

2 **SIGNIFICANT ACCOUNTING POLICIES** (continued)

2.3 BASIS OF CONSOLIDATION (CONTINUED)

a. Subsidiaries

Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer Note 26 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest

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

c. Associates

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

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

2.4 FOREIGN CURRENCIES

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

a. Translation of foreign currency transactions

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

Notes to the Consolidated Financial Statements (continued)
31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 FOREIGN CURRENCIES (continued)

a. Translation of foreign currency transactions (continued)

Translation gains or losses on non-monetary items are recognised in other comprehensive income when non-monetary items are measured at fair value through other comprehensive income. Translation gains or losses on non-monetary items measured at fair value through profit or loss are recognised in consolidated statement of income.

b. Translation of financial statements of foreign entities

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

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

2.5 INTEREST INCOME AND EXPENSES

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

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

2.6 MURABAHA AND OTHER ISLAMIC FINANCING INCOME

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

2.7 FEES AND COMMISSIONS INCOME

Fees and commission income are recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management and custody services that are continuously provided over an extended period of time.

2.8 DIVIDEND INCOME

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

2.9 IMPAIRMENT OF FINANCIAL ASSETS

The Group computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.9 IMPAIRMENT OF FINANCIAL ASSETS (continued)

- loans and advances, Islamic financing to customers including credit commitments
- letters of credit and financial guarantee contracts including commitments
- investment in debt securities measured at amortised cost or FVOCI
- balances and deposits with banks

Equity investments are not subject to Expected Credit Losses.

Impairment of credit facilities
Credit facilities granted by the Group consists of loans and advances, Islamic financing to customers, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on credit facilities shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Impairment of financial assets other than credit facilities
The Group recognises ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks.

Expected Credit Losses
The Group applies a three stage approach to measure the expected credit loss as follows:

Stage 1: 12 month ECL
The Group measures loss allowances at an amount equal to 12 month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired
The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired
The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated either on an individual basis or on a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of Expected Credit Loss
At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Notes to the Consolidated Financial Statements (continued)

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 IMPAIRMENT OF FINANCIAL ASSETS (continued)

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs

ECL is probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macroeconomic scenarios etc.

Incorporation of forward looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

Modification of loans and Islamic financing to customers

Under certain circumstances, the Group seeks to restructure loans and Islamic financing to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or interest and the agreement of new loan or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated and credit impaired. Management continuously reviews modified loans and islamic financing to customers to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3. When loans and Islamic financing to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms.

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 IMPAIRMENT OF FINANCIAL ASSETS (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. When the Group is unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

Provisions for credit losses in accordance with CBK instructions

The Group is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest/profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due but not impaired and past due and impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	Criteria	Specific provisions
Watch list	Irregular for a period of up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

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

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

2.10 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

2.11 SHARE BASED COMPENSATION

Equity settled share based compensation

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

Notes to the Consolidated Financial Statements (continued)

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 SHARE BASED COMPENSATION (continued)

Cash settled share based compensation

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

2.12 POST-EMPLOYMENT BENEFITS

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded. The present value of the defined benefit obligation is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date.

2.13 TAXATION

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

2.14 RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

2.15 CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)
The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates

Contractual terms that introduce a more than de minimus exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets carried at Amortised cost:
A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and charge for expected credit losses are recognised in the consolidated statement of income. Any gain or loss on de-recognition is recognised in the consolidated statement of income.

Financial assets carried at fair value through other comprehensive income (FVOCI):

(i) Debt Securities at FVOCI
A debt security is carried at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Notes to the Consolidated Financial Statements (continued)

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS (continued)

Debt Securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of income. 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 as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of income.

(ii) Equity investments at FVOCI

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis. Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on de-recognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at fair value through profit or loss:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of income when the right to the payment has been established.

The Group's financial assets are classified and measured as follows:

Cash and short term funds

Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days. Cash and short term funds are classified and carried at amortised cost using effective interest rate.

Deposits with banks

Deposits with banks are classified and carried at amortised cost using the effective interest method. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

Loans and advances to customers

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

Islamic financing to customers

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS (continued)

a. Murabaha

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

b. Wakala

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

c. Leased assets - the Group as a lessor

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

Financial investments

Group's financial investments consist of debt securities, equity investments and other investments.

Debt securities are classified as either at amortised cost or at fair value through other comprehensive income based on the business model in which these securities are managed.

Equity investments are generally carried at fair value through profit or loss except for those specific investments for which the Group has made an election to classify at fair value through other comprehensive income.

Other investments are carried at fair value through profit or loss.

2.16 FAIR VALUE MEASUREMENT

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 FAIR VALUE MEASUREMENT (continued)

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

2.17 REPURCHASE AND RESALE AGREEMENTS

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

2.18 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

2.19 DE-RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

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

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

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

Financial liabilities

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

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

2.20 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (continued)

equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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

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

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

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

2.21 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 Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2.22 INVESTMENT PROPERTIES

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

2.23 LAND, PREMISES AND EQUIPMENT

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

Notes to the Consolidated Financial Statements (continued)

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 LAND, PREMISES AND EQUIPMENT (continued)

Projects and work in progress are stated at cost less impairment if any. Costs are those expenses incurred by the Group that are directly attributable to the creation of the asset. When the asset is ready for use, capital work in progress is transferred to the appropriate category and depreciated in accordance with the Group's policies.

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

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and 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:

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

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

2.24 LEASES

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any.

Lease Liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments.

2.25 BUSINESS COMBINATIONS

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 BUSINESS COMBINATIONS (continued)

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

2.26 GOODWILL AND INTANGIBLE ASSETS

a. Goodwill

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

b. Intangible assets

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

2.27 PROPERTY ACQUIRED ON SETTLEMENT OF DEBT

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

2.28 DUE TO BANKS AND FINANCIAL INSTITUTIONS, CUSTOMER DEPOSITS & CERTIFICATES OF DEPOSIT ISSUED

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

2.29 ISLAMIC CUSTOMER DEPOSITS

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

Notes to the Consolidated Financial Statements (continued)

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 ISLAMIC CUSTOMER DEPOSITS (continued)

Investment accounts

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

Non-investment accounts

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

2.30 SUBORDINATED TIER 2 BONDS AND GLOBAL MEDIUM TERM NOTES

These are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective interest rate method. The carrying values of such liabilities which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

2.31 FINANCIAL GUARANTEES

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

2.32 TREASURY SHARES

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

2.33 FIDUCIARY ASSETS

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

2.34 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.34 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Accounting Judgements

Classification of financial assets
The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations. Refer Note 2.15 classification of financial assets for more information.

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:

Expected Credit Losses on financial assets
The Group estimates Expected Credit Loss (ECL) for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

Information about significant judgements and estimates made by the Group in the above areas is set out in Note 30.1.1.

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

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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

Notes to the Consolidated Financial Statements (continued)

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.34 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Fair values of assets and liabilities including intangibles

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

Share based payments

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

Valuation of unquoted financial assets

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

2.35 BASIS OF TRANSLATION

The United States dollar amounts in the Consolidated Statement of Income, Consolidated Statement of Comprehensive income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows represent supplementary information and have been translated at a rate of KD 0.30305 per USD which represents the mid-market rate at 31 December 2019.

3 SEGMENTAL ANALYSIS

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

Consumer and Private Banking

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

Corporate Banking

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

Investment Banking and Asset Management

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

3 SEGMENTAL ANALYSIS (continued)

Islamic Banking

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

Group Centre

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

International

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

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

2019	**Consumer and Private Banking KD 000's**	**Corporate Banking KD 000's**	**Investment Banking and Asset Management KD 000's**	**Islamic Banking KD 000's**	**Group Centre KD 000's**	**International KD 000's**	**Total KD 000's**
Net interest income and net income from Islamic financing	**215,757**	**109,643**	**875**	**124,316**	**57,199**	**181,434**	**689,224**
Net operating income	**291,554**	**157,114**	**28,574**	**151,184**	**46,423**	**220,668**	**895,517**
Profit (loss) for the year	**178,266**	**60,305**	**15,690**	**62,677**	**(3,126)**	**112,180**	**425,992**
Total assets	**4,651,598**	**4,930,920**	**79,344**	**5,300,548**	**3,208,951**	**11,099,392**	**29,270,753**
Total liabilities	**5,447,815**	**2,294,546**	**22,447**	**4,647,367**	**795,608**	**11,803,810**	**25,011,593**

2018	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net interest income and net income from Islamic financing	207,653	134,980	624	124,117	52,553	170,526	690,453
Net operating income	278,403	182,090	26,675	144,740	42,051	209,260	883,219
Profit (loss) for the year	166,706	48,347	14,715	56,210	(4,752)	112,723	393,949
Total assets	4,627,235	5,017,769	61,639	4,344,778	3,603,704	9,772,815	27,427,940
Total liabilities	4,996,658	2,481,949	8,588	3,858,818	1,606,956	10,773,661	23,726,630

Notes to the Consolidated Financial Statements (continued)

31 December 2019

3 SEGMENTAL ANALYSIS (continued)

Geographic information:

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

Net operating income	2019 KD 000's	2018 KD 000's
Kuwait	674,849	673,959
Other Middle East and North Africa	160,536	153,484
Europe	35,901	33,211
Others	24,231	22,565
	895,517	883,219

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

Non-current assets	2019 KD 000's	2018 KD 000's
Kuwait	1,018,524	943,608
Other Middle East and North Africa	41,237	26,808
Europe	10,900	9,499
Others	5,151	542
	1,075,812	980,457

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

4 INTEREST INCOME

	2019 KD 000's	2018 KD 000's
Deposits with banks	94,607	85,039
Loans and advances to customers	655,226	622,288
Debt investment securities	188,635	148,106
Kuwait Government treasury bonds and CBK bonds	48,058	41,785
	986,526	897,218

5 INTEREST EXPENSE

	2019 KD 000's	2018 KD 000's
Due to banks and other financial institutions	**161,415**	121,661
Customer deposits	**228,711**	183,405
Certificates of deposit issued	**17,063**	12,092
Global Medium Term Notes	**8,007**	7,344
Subordinated Tier 2 bonds	**6,422**	6,380
	421,618	330,882

6 NET FEES AND COMMISSIONS

	2019 KD 000's	2018 KD 000's
Fees and commissions income	**196,438**	184,198
Fees and commissions related expenses	**(39,286)**	(34,022)
Net fees and commissions	**157,152**	150,176

Fees and commissions income includes asset management fees of KD 38,712 thousand (2018: KD 33,483 thousand) earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

7 NET INVESTMENT INCOME

	2019 KD 000's	2018 KD 000's
Net realised (loss) gains on sale of investments	**(377)**	435
Net gains from investments carried at fair value through statement of income	**3,579**	2,776
Dividend income	**2,685**	2,658
Share of results of associates	**2,163**	2,413
Loss on de-recognition of associates	**-**	(5,376)
Other investment income (loss)	**369**	(766)
	8,419	2,140

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8 PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2019 KD 000's	2018 KD 000's
Provision charge for credit losses (Note 12)	**122,585**	169,318
ECL charge (release) for investment in debt securities (Note 13)	**3,506**	(74)
ECL charge for other financial assets	**763**	417
Impairment losses on associates (Note 14)	**200**	10,031
Impairment losses - others	**2,661**	-
	129,715	179,692

9 TAXATION

	2019 KD 000's	2018 KD 000's
National Labour Support Tax	**10,252**	9,281
Zakat	**4,540**	4,103
Contribution to Kuwait Foundation for the Advancement of Sciences	**3,759**	3,419
Overseas tax	**16,985**	16,437
	35,536	33,240

10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier 1 Capital Securities and Sukuk) by the weighted average number of shares outstanding during the year net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	2019 KD 000's	2018 KD 000's
Profit for the year attributable to shareholders of the Bank	**401,291**	370,709
Less: Interest paid on Perpetual Tier 1 Capital Securities	**(12,258)**	(12,151)
Less: Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary attributable to shareholders of the Bank	**(3,069)**	(3,033)
	385,964	355,525
Weighted average number of shares outstanding during the year net of treasury shares (thousand)	**6,446,069**	6,427,174
Basic earnings per share	**60 fils**	55 fils

Earnings per share calculations for 2018 have been adjusted to take account of the bonus shares issued in 2019.

11 CASH AND SHORT TERM FUNDS

	2019 KD 000's	2018 KD 000's
Cash on hand	**235,524**	216,987
Current account with other banks	**961,974**	1,074,270
Money at call	**361,590**	394,274
Balances with the Central Bank of Kuwait	**298,046**	157,481
Deposits and Murabaha with banks maturing within seven days	**1,930,843**	1,124,295
	3,787,977	2,967,307
Expected credit losses	**(804)**	(600)
	3,787,173	2,966,707

12 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2019	**Middle East and North Africa KD 000's**	**North America KD 000's**	**Europe KD 000's**	**Asia KD 000's**	**Others KD 000's**	**Total KD 000's**
Corporate	**9,672,508**	**387,169**	**725,840**	**379,836**	**258,412**	**11,423,765**
Retail	**5,634,078**	**-**	**3,491**	**-**	**-**	**5,637,569**
Loans, advances and Islamic financing to customers	**15,306,586**	**387,169**	**729,331**	**379,836**	**258,412**	**17,061,334**
Provision for credit losses						**(508,736)**
						16,552,598

2018	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Corporate	9,432,829	270,815	445,329	271,185	274,166	10,694,324
Retail	5,313,560	-	1,226	-	-	5,314,786
Loans, advances and Islamic financing to customers	14,746,389	270,815	446,555	271,185	274,166	16,009,110
Provision for credit losses						(505,708)
						15,503,402

Notes to the Consolidated Financial Statements (continued)

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

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

The Expected Credit Losses on credit facilities determined under IFRS 9 amounted to KD 394,935 thousand as at 31 December 2019 (2018: KD 408,086 thousand).

Provisions for credit losses on cash facilities are as follows:

	Specific		General		Total	
	2019 KD 000's	2018 KD 000's	**2019 KD 000's**	2018 KD 000's	**2019 KD 000's**	2018 KD 000's
Balance at beginning of the year	**120,740**	109,626	**384,968**	505,887	**505,708**	615,513
Provided during the year	**112,943**	163,352	**10,122**	3,079	**123,065**	166,431
Transfer	**-**	124,000	**-**	(124,000)	**-**	-
Amounts written off net of exchange movements	**(122,017)**	(276,238)	**1,980**	2	**(120,037)**	(276,236)
Balance at end of the year	**111,666**	120,740	**397,070**	384,968	**508,736**	505,708

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

	Corporate		Retail		Total	
	2019 KD 000's	2018 KD 000's	**2019 KD 000's**	2018 KD 000's	**2019 KD 000's**	2018 KD 000's
Balance at beginning of the year	**50,875**	43,488	**69,865**	66,138	**120,740**	109,626
Provided during the year	**84,832**	138,888	**28,111**	24,464	**112,943**	163,352
Transfer	**-**	124,000	**-**	-	**-**	124,000
Amounts written off net of exchange movements	**(92,292)**	(255,501)	**(29,725)**	(20,737)	**(122,017)**	(276,238)
Balance at end of the year	**43,415**	50,875	**68,251**	69,865	**111,666**	120,740

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

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

	Specific		General		Total	
	2019 KD 000's	2018 KD 000's	**2019 KD 000's**	2018 KD 000's	**2019 KD 000's**	2018 KD 000's
Cash facilities	**112,943**	163,352	**10,122**	3,079	**123,065**	166,431
Non cash facilities	**(1,704)**	1,616	**1,224**	1,271	**(480)**	2,887
Provision charge for credit losses	**111,239**	164,968	**11,346**	4,350	**122,585**	169,318

The available provision on non-cash facilities of KD 31,997 thousand (2018: KD 32,478 thousand) is included under other liabilities (Note 19).

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

	2019 KD 000's	2018 KD 000's
Loans, advances and Islamic financing to customers	**186,903**	221,694
Provisions	**100,818**	112,024

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2019 amounts to KD 75,756 thousand (2018: KD 72,063 thousand). The collateral consists of cash, securities, bank guarantees and properties.

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13 FINANCIAL INVESTMENTS

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

2019	**Amortised cost KD 000's**	**Fair value through other comprehensive income KD 000's**	**Fair value through statement of income KD 000's**	**Total KD 000's**
Investment securities				
Debt securities - Government (Non Kuwait)	**834,170**	**1,661,773**	**-**	**2,495,943**
Debt securities - Non Government	**-**	**1,510,270**	**-**	**1,510,270**
Equities	**-**	**43,125**	**26,935**	**70,060**
Other investments	**-**	**-**	**162,303**	**162,303**
	834,170	**3,215,168**	**189,238**	**4,238,576**
Expected credit losses	**(24,014)**	**-**	**-**	**(24,014)**
	810,156	**3,215,168**	**189,238**	**4,214,562**
Central Bank of Kuwait bonds	**823,229**	**-**	**-**	**823,229**
Kuwait Government treasury bonds	**662,175**	**-**	**-**	**662,175**
	2,295,560	**3,215,168**	**189,238**	**5,699,966**

2018	Amortised cost KD 000's	Fair value through other comprehensive income KD 000's	Fair value through statement of income KD 000's	Total KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	874,414	1,271,827	-	2,146,241
Debt securities - Non Government	-	1,371,165	-	1,371,165
Equities	-	61,999	24,575	86,574
Other investments	-	-	99,655	99,655
	874,414	2,704,991	124,230	3,703,635
Expected credit losses	(25,603)	-	-	(25,603)
	848,811	2,704,991	124,230	3,678,032
Central Bank of Kuwait bonds	809,871	-	-	809,871
Kuwait Government treasury bonds	872,042	-	-	872,042
	2,530,724	2,704,991	124,230	5,359,945

13 FINANCIAL INVESTMENTS (continued)

Investments in debt securities are subject to Expected Credit Losses. Central Bank of Kuwait bonds and Kuwait Government treasury bonds are not subject to Expected Credit Losses. An analysis of changes in the gross carrying amount and the corresponding Expected Credit Losses in relation to Investment in debt securities are as follows:

2019	**Stage 1 KD 000's**	**Stage 2 KD 000's**	**Stage 3 KD 000's**	**Total KD 000's**
Gross carrying amount as at 1 January 2019	**2,867,755**	**649,651**	**-**	**3,517,406**
Assets purchased/derecognised during the year -Net	**511,674**	**(148,740)**	**-**	**362,934**
Transfer between stages	**(39,296)**	**39,296**	**-**	**-**
Fair value and exchange movements	**126,741**	**(868)**	**-**	**125,873**
At 31 December 2019	**3,466,874**	**539,339**	**-**	**4,006,213**

2018	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Gross carrying amount as at 1 January 2018	2,373,659	727,609	-	3,101,268
Assets purchased/derecognised during the year -Net	585,230	(111,959)	-	473,271
Transfer between stages	(33,769)	33,769	-	-
Fair value and exchange movements	(57,365)	232	-	(57,133)
At 31 December 2018	2,867,755	649,651	-	3,517,406

2019	**Stage 1 KD 000's**	**Stage 2 KD 000's**	**Stage 3 KD 000's**	**Total KD 000's**
ECL allowance as at 1 January 2019	**6,606**	**26,623**	**-**	**33,229**
Impact due to purchase/de-recognition	**3,465**	**(924)**	**-**	**2,541**
Impact due to transfer between stages	**(117)**	**352**	**-**	**235**
Re-measurement of ECL	**1,574**	**(844)**	**-**	**730**
Net charge (release) to consolidated statement of income	**4,922**	**(1,416)**	**-**	**3,506**
At 31 December 2019	**11,528**	**25,207**	**-**	**36,735**

Notes to the Consolidated Financial Statements (continued)

31 December 2019

13 FINANCIAL INVESTMENTS (continued)

2018	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2018	6,054	27,249	-	33,303
Impact due to purchase/de-recognition	1,124	(329)	-	795
Impact due to transfer between stages	(109)	169	-	60
Re-measurement of ECL	(463)	(466)	-	(929)
Net charge (release) to consolidated statement of income	552	(626)	-	(74)
At 31 December 2018	6,606	26,623	-	33,229

The Group has classified certain unquoted equity investments at fair value through other comprehensive income on the basis that these are not held for trading. The dividend received on such investments during 2019 was KD 1,898 thousand (2018: KD 1,782 thousand). During the year, the Group sold FVOCI equity investments with a carrying value of KD 3,320 thousand (2018: KD 462 thousand) and the realised gain on sale amounted to KD 2,399 thousand (2018: realised loss of KD 39 thousand).

14 INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2019 **KD 000's**	2018 KD 000's
Bank of London and the Middle East	**29,595**	26,614
Others	**5,702**	4,811
	35,297	31,425

	Country of incorporation	**Principal business**	**Percentage ownership**	
			2019	2018
Bank of London and the Middle East	United Kingdom	Banking	**27.9**	26.4

During the year the Group received dividend amounting to KD 153 thousand from associates (2018: KD 236 thousand).

During the year the Group provided KD 200 thousand (2018: KD 10,031 thousand) by way of impairment in respect of its associates. The impairment in respect of associates is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using market multiples.

15 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill KD 000's	Intangible Assets KD 000's	Total KD 000's
Cost			
At 1 January 2019	**398,056**	**218,466**	**616,522**
Exchange rate adjustments	**7,048**	**2,082**	**9,130**
At 31 December 2019	**405,104**	**220,548**	**625,652**
Accumulated amortisation & impairment			
At 1 January 2019	**-**	**37,549**	**37,549**
Amortisation charge for the year	**-**	**3,198**	**3,198**
Exchange rate adjustments	**-**	**1,978**	**1,978**
At 31 December 2019	**-**	**42,725**	**42,725**
Net book value			
At 31 December 2019	**405,104**	**177,823**	**582,927**

	Goodwill KD 000's	Intangible Assets KD 000's	Total KD 000's
Cost			
At 1 January 2018	397,903	218,425	616,328
Exchange rate adjustments	153	41	194
At 31 December 2018	398,056	218,466	616,522
Accumulated amortisation & impairment			
At 1 January 2018	-	34,422	34,422
Amortisation charge for the year	-	3,096	3,096
Exchange rate adjustments	-	31	31
At 31 December 2018	-	37,549	37,549
Net book value			
At 31 December 2018	398,056	180,917	578,973

Notes to the Consolidated Financial Statements (continued)

31 December 2019

15 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Net book value of goodwill as at 31 December 2019 includes KD 334,531 thousand (2018: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 67,672 thousand (2018: KD 60,622 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,901 thousand (2018: KD 2,903 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2019 includes banking licences and brand amounting to KD 158,623 thousand (2018: KD 159,896 thousand), customer relationships and core deposits amounting to KD 12,490 thousand (2018: KD 14,311 thousand) and brokerage licences amounting to KD 6,710 thousand (2018: KD 6,710 thousand). Intangible assets with indefinite useful life amounts to KD 165,333 thousand (2018: KD 165,333 thousand). Intangible assets with definite useful life amounting to KD 12,490 thousand (2018: KD 15,584 thousand) are amortised over a period of 5 to 15 years.

Impairment testing for goodwill and intangible assets with indefinite useful life

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

Since the fair value of the Group's holding in Boubyan Bank K.S.C.P. is higher than its carrying value, there is no indication that the associated goodwill or intangible assets with indefinite useful life is impaired. Recoverable amount of other goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 17% (2018: 17%) and a terminal growth rate of 5% (2018: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 10% (2018: 10%) and terminal growth rate of 3% (2018: 3%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin. Based on such analysis, there are no indications that goodwill or intangible assets with indefinite useful life are impaired.

16 OTHER ASSETS

	2019 KD 000's	2018 KD 000's
Interest receivable	**104,293**	100,477
Positive fair value of derivatives (Note 28)	**33,609**	56,403
Sundry debtors and prepayments	**42,153**	41,227
Investment properties	**46,555**	24,036
Properties acquired on settlement of debts	**12,790**	14,647
Others	**30,771**	23,655
	270,171	260,445

17 GLOBAL MEDIUM TERM NOTES

During 2017, the Bank established a USD 3 billion Global medium term note programme ("GMTN programme"). On 30 May 2017, the Bank issued senior unsecured notes amounting to USD 750,000 thousand due in May 2022 under the GMTN programme through a wholly owned special purpose vehicle. These notes were issued at 99.491 per cent of nominal value and carry a fixed interest rate of 2.75% per annum payable semi-annually in arrears.

18 SUBORDINATED TIER 2 BONDS

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

Notes to the Consolidated Financial Statements (continued)

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19 OTHER LIABILITIES

	2019 KD 000's	2018 KD 000's
Interest payable	**132,431**	124,622
Income received in advance	**35,954**	36,001
Taxation	**29,431**	26,598
Provision on non-cash facilities (Note 12)	**31,997**	32,478
Accrued expenses	**46,607**	38,737
Negative fair value of derivatives (Note 28)	**101,781**	39,610
Post-employment benefit	**39,951**	37,802
Lease liabilities (Note 24)	**27,345**	-
Others	**163,019**	115,442
	608,516	451,290

Post-Employment Benefit

The present value of defined benefit obligations and the related current and past service cost was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation are a discount rate of 5%, future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

The movement in the post-employment benefit was as follows:

	2019 KD 000's	2018 KD 000's
Balance at 1 January	**37,802**	34,114
Net charge during the year	**7,979**	7,256
Paid during the year	**(5,830)**	(3,568)
Balance at 31 December	**39,951**	37,802

20 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises of 7,500,000,000 (2018: 7,500,000,000) shares of 100 fils each.

	2019 KD 000's	2018 KD 000's
Issued and fully paid in cash:		
6,523,985,887 (2018 : 6,213,319,893) shares of 100 fils each	**652,399**	621,332

Annual General Assembly meeting of the shareholders held on 9 March 2019 approved an increase of KD 31,067 thousand (2018: KD 29,588 thousand) in the issued and fully paid share capital of the Bank by issuing 310,665,994 (2018: 295,872,375) bonus shares representing 5% of the share capital. The issued and fully paid up share capital increased from KD 621,331,989.300 to KD 652,398,588.700 and the change in share capital was recorded in the commercial register on 17 March 2019.

The movement in ordinary shares in issue during the year was as follows:

	2019	2018
Number of shares in issue as at 1 January	**6,213,319,893**	5,917,447,518
Bonus issue	**310,665,994**	295,872,375
Number of shares in issue as at 31 December	**6,523,985,887**	6,213,319,893

b) Statutory reserve

The Board of Directors recommended a transfer of KD 15,533 thousand (2018: KD 14,794 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non-distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

c) Share premium account

The balance in the share premium account is not available for distribution.

Notes to the Consolidated Financial Statements (continued)

31 December 2019

20 SHARE CAPITAL AND RESERVES (continued)

d) Treasury shares and Treasury share reserve

The Bank held the following treasury shares at the year end:

	2019	2018
Number of treasury shares	**56,200,000**	89,200,000
Treasury shares as a percentage of total shares in issue	**0.9%**	1.4%
Cost of treasury shares (KD thousand)	**39,258**	65,425
Market value of treasury shares (KD thousand)	**60,134**	74,393
Weighted average market value per treasury share (fils)	**947**	784

Movement in treasury shares was as follows:

	No. of shares	
	2019	2018
Balance as at 1 January	**89,200,000**	101,018,981
Bonus issue	**4,460,000**	4,399,954
Sales	**(37,460,000)**	(16,218,935)
Balance as at 31 December	**56,200,000**	89,200,000

The balance in the treasury share reserve account is not available for distribution. Further, an amount equal to the cost of treasury shares is not available for distribution from general reserve throughout the holding period of these treasury shares.

20 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

							KD 000's
	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
Balance as at 1 January 2019	117,058	1,315,182	(225,725)	13,311	14,409	214,344	1,448,579
Profit for the year	-	401,291	-	-	-	-	401,291
Other comprehensive income	-	-	18,679	42,241	-	-	60,920
Total comprehensive income	-	401,291	18,679	42,241	-	-	462,211
Transfer to statutory reserve (Note 20b)	-	(15,533)	-	-	-	-	(15,533)
Dividends paid	-	-	-	-	-	(214,344)	(214,344)
Interest paid on perpetual Tier 1 Capital Securities	-	(12,258)	-	-	-	-	(12,258)
Realised gain on equity investments at FVOCI	-	2,399	-	(2,399)	-	-	-
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	(881)	-	-	-	-	(881)
Profit distribution on perpetual Tier 1 Sukuk by a subsidiary	-	(3,069)	-	-	-	-	(3,069)
Proposed bonus shares (Note 21)	-	(32,620)	-	-	-	-	(32,620)
Proposed cash dividend 35 fils per share (Note 21)	-	(226,373)	-	-	-	226,373	-
Increase in holding in subsidiaries	-	1,702	-	-	-	-	1,702
Other movements	-	(146)	-	-	-	-	(146)
At 31 December 2019	117,058	1,429,694	(207,046)	53,153	14,409	226,373	1,633,641

Notes to the Consolidated Financial Statements (continued)

31 December 2019

20 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

KD 000's

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
At 1 January 2018	117,058	1,252,044	(234,491)	49,479	14,381	174,493	1,372,964
Impact of adopting IFRS 9 at 1 January 2018	-	(24,427)	-	(4,618)	-	-	(29,045)
Restated balance as at 1 January 2018	117,058	1,227,617	(234,491)	44,861	14,381	174,493	1,343,919
Profit for the year	-	370,709	-	-	-	-	370,709
Other comprehensive income (loss)	-	-	8,766	(31,589)	-	-	(22,823)
Total comprehensive income (loss)	-	370,709	8,766	(31,589)	-	-	347,886
Transfer to statutory reserve (Note 20b)	-	(14,794)	-	-	-	-	(14,794)
Dividends paid	-	-	-	-	-	(174,883)	(174,883)
Dividend on treasury shares sold	-	(390)	-	-	-	390	-
Interest paid on perpetual Tier 1 Capital Securities	-	(12,151)	-	-	-	-	(12,151)
Realised loss on equity investments at FVOCI	-	(39)	-	39	-	-	-
Share based payment in a subsidiary	-	-	-	-	28	-	28
Profit distribution on perpetual Tier 1 Sukuk by a subsidiary	-	(3,033)	-	-	-	-	(3,033)
Proposed bonus shares (Note 21)	-	(31,067)	-	-	-	-	(31,067)
Proposed cash dividend 35 fils per share (Note 21)	-	(214,344)	-	-	-	214,344	-
Acquisition of non-controlling interests	-	(7,326)	-	-	-	-	(7,326)
At 31 December 2018	117,058	1,315,182	(225,725)	13,311	14,409	214,344	1,448,579

20 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable, except for the amount equivalent to the cost of treasury shares.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

21 PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 35 fils per share (2018: 35 fils per share) and bonus shares of 5% (2018: 5%) on outstanding shares as at 31 December 2019. The cash dividend and bonus shares, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

22 PERPETUAL TIER 1 CAPITAL SECURITIES

The Bank issued the following Perpetual Tier 1 Capital Securities (the "Capital Securities"), through wholly owned special purpose vehicles:

	2019 KD 000's	2018 KD 000's
USD 700,000 thousand (issued in April 2015 at an interest rate of 5.75% per annum, semi-annually in arrears, until the first call date in April 2021)	**210,700**	210,700
USD 750,000 thousand (issued in November 2019 at an interest rate of 4.5% per annum, semi-annually in arrears, until the first call date in November 2025)	**227,738**	-
Balance at 31 December	**438,438**	210,700

The abovementioned Capital securities are subordinated, unsecured and are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date and on every interest payment date thereafter, subject to certain conditions.

23 SHARE BASED PAYMENT

The Bank operates a cash settled share based compensation plan and granted options to its senior executives. These options vest if the employees remain in service for a period of three years and will be settled by cash payment determined based on the market value of the Bank's equity shares on vesting date.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.975 (2018: KD 0.768) as at the end of the year. The significant inputs into the model were a share price of KD 1.070 (2018: KD 0.834) at the measurement date, a standard deviation of expected share price returns of 25% (2018: 26.28%), option life disclosed above and annual risk free interest rate of 2.75% (2018: 3%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

Notes to the Consolidated Financial Statements (continued)

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23 SHARE BASED PAYMENT (continued)

The following table shows the movement in number of share options during the year:

	2019 No. of share options	2018 No. of share options
Outstanding at 1 January	7,928,367	6,952,359
Granted during the year	2,829,298	2,952,392
Exercised during the year	(2,061,303)	(1,670,591)
Lapsed during the year	(251,755)	(305,793)
Outstanding at 31 December	8,444,607	7,928,367

The expense accrued on account of share based compensation plans for the year amounts to KD 3,454 thousand (2018: KD 2,476 thousand) and is included under staff expenses.

24 IMPACT OF IFRS 16 ADOPTION

The Group presents right-of-use assets in 'land, premises and equipment' and lease liabilities in 'other liabilities' in the consolidated statement of financial position. The carrying value of right-of-use assets and lease liabilities as at 31 December 2019 amounted to KD 30,452 thousand and KD 27,345 thousand respectively.

Depreciation charge for right-of-use assets for the year amounted to KD 9,691 thousand and is included in 'depreciation of premises and equipment' in consolidated statement of income. Rent expenses included in 'other administrative expenses' is lower to the extent of KD 9,554 thousand during the year as a result of applying IFRS 16.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

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

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

2019	**Level 1 KD 000's**	**Level 2 KD 000's**	**Level 3 KD 000's**	**Total KD 000's**
Debt securities	**2,645,665**	**512,378**	**14,000**	**3,172,043**
Equities and other investments	**47,480**	**119,941**	**64,942**	**232,363**
	2,693,145	**632,319**	**78,942**	**3,404,406**
Derivative financial instruments (Note 28)	**-**	**(68,172)**	**-**	**(68,172)**

2018	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	2,168,487	460,505	14,000	2,642,992
Equities and other investments	44,979	57,463	83,787	186,229
	2,213,466	517,968	97,787	2,829,221
Derivative financial instruments (Note 28)	-	16,793	-	16,793

Notes to the Consolidated Financial Statements (continued)

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25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At 1 January 2019 KD 000's	**Change in fair value KD 000's**	**Additions KD 000's**	**Sale/ redemption KD 000's**	**Exchange rate movements KD 000's**	**At 31 December 2019 KD 000's**	**Net gains (losses) in the consolidated statement of income KD 000's**
Debt securities	**14,000**	**-**	**-**	**-**	**-**	**14,000**	**973**
Equities and other investments	**83,787**	**(20,520)**	**6,208**	**(5,280)**	**747**	**64,942**	**(1,310)**
	97,787	**(20,520)**	**6,208**	**(5,280)**	**747**	**78,942**	**(337)**

	At 1 January 2018 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 31 December 2018 KD 000's	Net gains (losses) in the consolidated statement of income KD 000's
Debt securities	14,377	-	-	(379)	2	14,000	960
Equities and other investments	65,487	(6,470)	28,342	(4,287)	715	83,787	(1,522)
	79,864	(6,470)	28,342	(4,666)	717	97,787	(562)

Debt securities included in this category consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow method using credit spread of 4% (2018: 4%). Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

26 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	Country of incorporation	Principal business	Percentage ownership	
			2019	2018
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	**59.9**	59.5
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	**98.5**	98.5
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	**99.9**	99.9
National Bank of Kuwait (International) PLC	United Kingdom	Banking	**100.0**	100.0
National Bank of Kuwait France SA	France	Banking	**100.0**	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	**100.0**	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	**85.5**	85.5
Credit Bank of Iraq S.A.	Iraq	Banking	**91.0**	84.3
National Investors Group Holdings Limited	Cayman Islands	Investment Company	**100.0**	100.0
Watani Wealth Management Company	Saudi Arabia	Investment Management	**100.0**	100.0
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	**93.3**	93.3

At 31 December 2019, 38.1% (2018: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in Note 32.

Notes to the Consolidated Financial Statements (continued)

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26 SUBSIDIARIES (continued)

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2019 KD 000's	2018 KD 000's
Accumulated balances of non-controlling interest	**374,719**	309,800
Profit attributable to non-controlling interest	**24,560**	22,330

Summarised financial information of Boubyan Bank K.S.C.P. is as follows:

Summarised financial information	2019 KD 000's	2018 KD 000's
Assets	**5,300,548**	4,344,778
Liabilities	**4,647,367**	3,858,818
Net operating income	**145,769**	139,721
Results for the year	**62,677**	56,210
Other comprehensive loss for the year	**(2,943)**	(1,755)

Summarised cash flow information	2019 KD 000's	2018 KD 000's
Operating cash flow	**328,237**	174,273
Investing cash flow	**(90,754)**	(120,017)
Financing cash flow	**107,487**	(20,867)

During the year, the Group acquired additional interest in Boubyan Bank at a cost of KD 3,688 thousand. The difference between the cost of acquisition and reduction in the carrying value of non-controlling interest is charged to retained earnings.

During 2016, Boubyan Bank issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250,000 thousand. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Boubyan Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Boubyan Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Dollar Mid Swap Rate plus initial margin of 5.588% per annum. At the issuer's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default. The Group did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non- controlling interest in the consolidated statement of financial position.

27 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:

	2019 KD 000's	2018 KD 000's
Acceptances	**237,145**	223,920
Letters of credit	**459,233**	456,359
Guarantees	**3,891,746**	3,707,656
	4,588,124	4,387,935

Irrevocable commitments to extend credit amount to KD 701,471 thousand (31 December 2018: KD 615,778 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 57,299 thousand (31 December 2018: KD 36,399 thousand).

28 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

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

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

Notes to the Consolidated Financial Statements (continued)

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28 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (continued)

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

Interest rate swaps

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

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2019			2018		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	15,990	86,968	3,064,122	40,062	27,814	2,354,863
Interest rate swaps (others)	263	255	90,364	429	408	85,995
Forward foreign exchange contracts	17,356	14,558	3,599,153	15,912	11,388	2,771,024
	33,609	101,781	6,753,639	56,403	39,610	5,211,882

Positive fair value is included in other assets (Note 16) and negative fair value is included in other liabilities (Note 19)

The Group's strategy is not to carry interest rate risk for long duration assets. The Group uses interest rate swaps to hedge its exposure to changes in the fair values due to interest rate risk on certain investments in fixed rate debt securities, fixed-rate corporate loans and fixed rate liabilities issued. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria. In fair value hedge relationships, the Group assesses whether the interest rate swaps designated in each hedging relationship is expected to be highly effective in offsetting changes in fair value of the hedged item attributable to interest rate risk using appropriate qualitative and quantitative methods. The Group generally seeks to fully match the critical terms (tenor, notionals, interest rate exposure, currency, interest payments frequency and payment periods) of the hedged item and hedging instrument. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

29 RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		Number of related parties			
	2019	2018	**2019**	2018	**2019 KD 000's**	2018 KD 000's
Board Members						
Loans (secured)	**3**	3	**16**	15	**78,779**	115,322
Contingent liabilities	**-**	-	**9**	9	**30,671**	27,860
Credit cards	**7**	6	**10**	11	**46**	56
Deposits	**9**	9	**54**	59	**30,627**	34,207
Collateral against credit facilities	**3**	3	**13**	13	**335,201**	315,165
Interest and fee income					**3,624**	4,876
Interest expense					**315**	168
Purchase of equipment and other expenses					**30**	5
Executive Officers						
Loans	**2**	2	**7**	6	**3,422**	2,552
Contingent liabilities	**3**	4	**-**	-	**2**	2
Credit cards	**13**	13	**7**	4	**108**	87
Deposits	**13**	13	**39**	37	**7,101**	6,141
Interest and fee income					**121**	119
Interest expense					**115**	59

	2019 KD 000's	2018 KD 000's
Associates		
Placements	**52,280**	19,309
Acceptances	**17,297**	530

Notes to the Consolidated Financial Statements (continued)

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29 RELATED PARTY TRANSACTIONS (continued)

Details of compensation to key management personnel are as follows:

	2019 KD 000's	2018 KD 000's
Salaries and other short term benefits	**11,502**	10,792
Post-employment benefits	**418**	377
Share based compensation	**1,539**	1,138
	13,459	12,307

Board members do not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

30 RISK MANAGEMENT

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

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

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

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

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

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

30.1 CREDIT RISK

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

All significant policies relating to credit risks are reviewed and approved by the Board of Directors.

30 RISK MANAGEMENT (continued)
30.1 CREDIT RISK (continued)

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

30.1. 1 Assessment of Expected Credit Losses

Definition of default
The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- borrower is considered as credit impaired based on qualitative assessment for internal credit risk Management purposes
- retail facilities from commencement of legal recourse

Any credit impaired or stressed facility that has been restructured would also be considered as in default.

The Group considers investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Group considers externally-rated portfolio with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Group considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

The Group considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year (except for retail facilities), or as determined by the Group for consideration for classifying the facility in stage 2/stage 1.

Notes to the Consolidated Financial Statements (continued)

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30 RISK MANAGEMENT (continued)

30.1 CREDIT RISK (continued)

30.1. 1 Assessment of Expected Credit Losses (continued)

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess as whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. Financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

The Group considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk. In addition to the above quantitative criteria, the Group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying applicable haircuts.

The Group in estimating ECL for credit facilities has taken into consideration the following key parameters based on inputs from CBK:

- Floor for estimating PDs for specific portfolios
- Eligible collateral with haircuts for determining LGD
- Deemed maturity for exposures in Stage 2
- Credit Conversion Factor on utilized and un-utilized portions for cash and non-cash facilities

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry-standard rating tools for assessing ratings/scores that are then leveraged for PD estimation process. The tool provides the ability to analyse a business and produces risk ratings at both the obligor and facility levels. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally-rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The through-the-cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Group converts the TTC PDs to point-in-time (PIT) PD term structures using appropriate models and techniques.

30 RISK MANAGEMENT (continued)

30.1 CREDIT RISK (continued)

30.1. 1 Assessment of Expected Credit Losses (continued)

The Group assesses the PD for its retail portfolio through behavioural scorecards. The Consumer portfolio is further segmented statistically and risk pools with shared risk characteristics are addressed with different scorecards relevant for each of the risk pool. The segmentation is based on demographic, behavioural and financial variables which distinctly rank order risk. The scorecards were developed using statistical techniques. Executing the scorecard will return an associated PD value for each of the facility. The term structure PDs are then derived using a base PD.

Exposure at default

Exposure at default (EAD) represents the amount which the obligor will owe to the Group at the time of default. The Group considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortisation schedule, credit conversion factors, etc. EAD for retail loans incorporate prepayment assumptions whereas for credit cards portfolio, credit conversion factors are applied to estimate the future drawdowns.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward-looking information into the ECL models . Key economic variables include, but not limited to, Gross Domestic Product, Equity price index, Oil prices, and Government expenditure . These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL . The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographical segments and appropriate probability weights are applied to these scenarios to derive a probability-weighted outcome of expected credit loss. The ECL estimates have been assessed for sensitivity to changes to forecasts of macro-variables and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

30.1. 2 Maximum Exposure to Credit Risk

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

	2019		2018	
	Gross exposure KD 000's	**Net exposure KD 000's**	Gross exposure KD 000's	Net exposure KD 000's
Loans, advances and Islamic financing to customers	**16,552,598**	**11,328,972**	15,503,402	10,466,891
Contingent liabilities	**4,588,124**	**4,400,491**	4,387,935	4,193,953

Notes to the Consolidated Financial Statements (continued)

31 December 2019

30 RISK MANAGEMENT (continued)

30.1 CREDIT RISK (continued)

30.1. 2 Maximum Exposure to Credit Risk (continued)

Collateral and other credit enhancements

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

30.1. 3 Risk Concentration of the Maximum Exposure to Credit Risk

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

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2019 is 16% (2018: 17%).

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

2019 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	3,494,891	705,067	906,852	353,920	-	5,460,730
Central Bank of Kuwait bonds	823,229	-	-	-	-	823,229
Kuwait Government treasury bonds	662,175	-	-	-	-	662,175
Loans, advances and Islamic financing to customers	14,818,076	382,951	719,862	375,937	255,772	16,552,598
Investments in debt securities – Amortised cost	788,307	585	-	21,264	-	810,156
Investments in debt securities – FVOCI	2,508,317	21,621	70,104	552,263	19,738	3,172,043
Other assets	176,211	4,177	23,352	4,849	2,237	210,826
	23,271,206	1,114,401	1,720,170	1,308,233	277,747	27,691,757
Commitments and contingent liabilities (Note 27)	2,775,531	315,361	1,328,457	863,948	6,298	5,289,595
	26,046,737	1,429,762	3,048,627	2,172,181	284,045	32,981,352

30 RISK MANAGEMENT (continued)

30.1 CREDIT RISK (continued)

30.1. 3 Risk Concentration of the Maximum Exposure to Credit RiSK (continued)

2018 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	2,846,422	898,218	905,902	463,420	-	5,113,962
Central Bank of Kuwait bonds	809,871	-	-	-	-	809,871
Kuwait Government treasury bonds	872,042	-	-	-	-	872,042
Loans, advances and Islamic financing to customers	14,255,077	267,729	441,007	268,217	271,372	15,503,402
Investments in debt securities – Amortised cost	830,578	583	-	17,650	-	848,811
Investments in debt securities – FVOCI	2,001,761	21,126	57,162	543,733	19,210	2,642,992
Other assets	153,289	4,578	58,070	4,395	1,430	221,762
	21,769,040	1,192,234	1,462,141	1,297,415	292,012	26,012,842
Commitments and contingent liabilities (Note 27)	2,531,710	289,387	1,358,733	810,244	13,639	5,003,713
	24,300,750	1,481,621	2,820,874	2,107,659	305,651	31,016,555

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

	2019 KD 000's	2018 KD 000's
Industry sector		
Trading	**2,106,532**	2,163,383
Manufacturing	**2,797,628**	2,368,919
Banks and other financial institutions	**10,541,633**	9,908,859
Construction	**1,455,836**	1,404,411
Real Estate	**3,463,146**	3,280,586
Retail	**5,506,856**	5,185,575
Government	**3,571,248**	3,361,079
Others	**3,538,473**	3,343,743
	32,981,352	31,016,555

Notes to the Consolidated Financial Statements (continued)

31 December 2019

30 RISK MANAGEMENT (continued)

30.1 CREDIT RISK (continued)

30.1. 4 Credit Quality per Class of Financial Assets

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

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

2019	Neither past due nor impaired		Past due or impaired	
	High KD 000's	Standard KD 000's	KD 000's	Total KD 000's
Balances and short term deposits with banks	3,552,453	-	-	3,552,453
Central Bank of Kuwait bonds	823,229	-	-	823,229
Kuwait Government treasury bonds	662,175	-	-	662,175
Deposits with banks	1,584,829	325,513	-	1,910,342
Loans, advances and Islamic financing to customers	15,529,923	1,219,147	312,264	17,061,334
Investments in debt securities – Amortised cost	26,677	807,493	-	834,170
Investments in debt securities – FVOCI	2,477,622	694,421	-	3,172,043
	24,656,908	3,046,574	312,264	28,015,746

2018	Neither past due nor impaired		Past due or impaired	
	High KD 000's	Standard KD 000's	KD 000's	Total KD 000's
Balances and short term deposits with banks	2,750,320	-	-	2,750,320
Central Bank of Kuwait bonds	809,871	-	-	809,871
Kuwait Government treasury bonds	872,042	-	-	872,042
Deposits with banks	2,146,666	218,279	-	2,364,945
Loans, advances and Islamic financing to customers	13,989,649	1,678,633	340,828	16,009,110
Investments in debt securities – Amortised cost	23,083	851,331	-	874,414
Investments in debt securities – FVOCI	1,972,567	670,425	-	2,642,992
	22,564,198	3,418,668	340,828	26,323,694

30 RISK MANAGEMENT (continued)
30.1 CREDIT RISK (continued)

30.1.5 Ageing Analysis of Past Due or Impaired Loans, Advances and Islamic Financing to Customers

	Corporate		Retail		Total	
2019	**Past due and not impaired KD 000's**	**Past due and impaired KD 000's**	**Past due and not impaired KD 000's**	**Past due and impaired KD 000's**	**Past due and not impaired KD 000's**	**Past due and impaired KD 000's**
Up to 30 days	31,800	22,809	42,782	13	74,582	22,822
31 - 60 days	21,309	-	18,727	-	40,036	-
61 - 90 days	6,611	-	4,132	2	10,743	2
91-180 days	-	1,858	-	24,572	-	26,430
More than 180 days	-	60,056	-	77,593	-	137,649
	59,720	84,723	65,641	102,180	125,361	186,903

	Corporate		Retail		Total	
2018	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's
Up to 30 days	41,808	3,954	43,101	33	84,909	3,987
31 - 60 days	7,367	15	18,725	10	26,092	25
61 - 90 days	4,445	86	3,688	15	8,133	101
91-180 days	-	24,061	-	25,638	-	49,699
More than 180 days	-	89,574	-	78,308	-	167,882
	53,620	117,690	65,514	104,004	119,134	221,694

Of the aggregate amount of gross past due or impaired loans, advances and Islamic financing to customers, the fair value of collateral that the Group held as at 31 December 2019 was KD 92,129 thousand (2018: KD 84,243 thousand).

Notes to the Consolidated Financial Statements (continued)

31 December 2019

30 RISK MANAGEMENT (continued)

30.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2019	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Assets				
Cash and deposits with banks	5,281,618	411,747	2,889	5,696,254
Central Bank of Kuwait bonds	515,775	307,454	-	823,229
Kuwait Government treasury bonds	77,000	144,000	441,175	662,175
Loans, advances and Islamic financing to customers	4,082,071	2,653,219	9,817,308	16,552,598
Investments measured at amortised cost	41,346	151,694	617,116	810,156
Investments measured at FVOCI	373,407	304,912	2,536,849	3,215,168
Investments carried at fair value through statement of income	48,086	11,380	129,772	189,238
Investment in associates	-	-	35,297	35,297
Land, premises and equipment	-	-	433,540	433,540
Goodwill and other intangible assets	-	-	582,927	582,927
Other assets	168,883	33,695	67,593	270,171
	10,588,186	4,018,101	14,664,466	29,270,753
Liabilities and equity				
Due to banks and other financial institutions	5,717,489	1,736,642	127,798	7,581,929
Customer deposits	12,359,638	2,953,053	617,886	15,930,577
Certificates of deposit issued	327,415	211,196	-	538,611
Global medium term notes	-	-	227,159	227,159
Subordinated Tier 2 bonds	-	-	124,801	124,801
Other liabilities	423,853	9,063	175,600	608,516
Share capital and reserves	-	-	3,207,371	3,207,371
Proposed cash dividend	226,373	-	-	226,373
Perpetual Tier 1 Capital Securities	-	-	438,438	438,438
Non-controlling interests	-	-	386,978	386,978
	19,054,768	4,909,954	5,306,031	29,270,753

30 RISK MANAGEMENT (continued)

30.2 LIQUIDITY RISK (continued)

2018	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Assets				
Cash and deposits with banks	5,038,888	240,001	52,060	5,330,949
Central Bank of Kuwait bonds	452,789	357,082	-	809,871
Kuwait Government treasury bonds	35,433	227,804	608,805	872,042
Loans, advances and Islamic financing to customers	4,170,497	2,091,383	9,241,522	15,503,402
Investments measured at amortised cost	57,787	145,830	645,194	848,811
Investments measured at FVOCI	441,264	205,917	2,057,810	2,704,991
Investments carried at fair value through statement of income	28,241	-	95,989	124,230
Investment in associates	-	-	31,425	31,425
Land, premises and equipment	-	-	362,801	362,801
Goodwill and other intangible assets	-	-	578,973	578,973
Other assets	148,402	34,397	77,646	260,445
	10,373,301	3,302,414	13,752,225	27,427,940
Liabilities and equity				
Due to banks and other financial institutions	6,097,926	1,675,433	317,125	8,090,484
Customer deposits	11,406,259	2,361,167	621,410	14,388,836
Certificates of deposit issued	329,808	116,771	4,549	451,128
Global medium term notes	-	-	220,124	220,124
Subordinated Tier 2 bonds	-	-	124,768	124,768
Other liabilities	349,948	3,185	98,157	451,290
Share capital and reserves	-	-	2,948,913	2,948,913
Proposed cash dividend	214,344	-	-	214,344
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	327,353	327,353
	18,398,285	4,156,556	4,873,099	27,427,940

Notes to the Consolidated Financial Statements (continued)

31 December 2019

30 RISK MANAGEMENT (continued)

30.2 LIQUIDITY RISK (continued)

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

2019	**Up to 3 months KD 000's**	**3 to 12 months KD 000's**	**Over 1 year KD 000's**	**Total KD 000's**
Financial Liabilities				
Due to banks and other financial institutions	5,729,714	1,763,398	133,267	7,626,379
Customer deposits	12,381,043	3,026,956	691,187	16,099,186
Certificates of deposit issued	328,343	212,896	-	541,239
Global medium term notes	-	6,250	236,333	242,583
Subordinated Tier 2 bonds	-	6,259	155,548	161,807
	18,439,100	5,015,759	1,216,335	24,671,194
Contingent liabilities and commitments				
Contingent liabilities	1,029,923	1,392,635	2,165,566	4,588,124
Irrevocable commitments	72,132	149,425	479,914	701,471
	1,102,055	1,542,060	2,645,480	5,289,595
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	2,201,357	1,293,436	246,059	3,740,852
Contractual amounts receivable	2,203,782	1,290,473	248,708	3,742,963

2018	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Financial Liabilities				
Due to banks and other financial institutions	6,120,935	1,707,497	333,250	8,161,682
Customer deposits	11,431,803	2,419,305	693,630	14,544,738
Certificates of deposit issued	330,899	118,132	4,747	453,778
Global medium term notes	-	6,256	242,871	249,127
Subordinated Tier 2 bonds	-	6,406	162,718	169,124
	17,883,637	4,257,596	1,437,216	23,578,449
Contingent liabilities and commitments				
Contingent liabilities	933,619	1,277,533	2,176,783	4,387,935
Irrevocable commitments	77,355	166,203	372,220	615,778
	1,010,974	1,443,736	2,549,003	5,003,713
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	2,196,769	573,000	110,312	2,880,081
Contractual amounts receivable	2,194,424	576,618	112,342	2,883,384

30 RISK MANAGEMENT (continued)

30.3 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.

30.3.1 Interest Rate Risk

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

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

Interest rate sensitivity

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

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

		2019		2018	
		Effect on profit KD 000's	**Effect on equity KD 000's**	Effect on profit KD 000's	Effect on equity KD 000's
Currency	**Movement in Basis points**				
KWD	+25	**7,588**	**-**	7,810	-
USD	+25	**2,174**	**(3)**	1,333	(17)
EUR	+25	**573**	**-**	1,165	-
GBP	+25	**550**	**-**	604	-
EGP	+25	**23**	**(37)**	67	(8)

Notes to the Consolidated Financial Statements (continued)

31 December 2019

30 RISK MANAGEMENT (continued)

30.3 MARKET RISK (continued)

30.3.2 Foreign Exchange Risk

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

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

The table below analyses the effect on profit of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase.

		2019	2018
		Effect on profit KD 000's	Effect on profit KD 000's
Currency	**% Change in currency rate**		
USD	+5	**3,071**	3,254
GBP	+5	**156**	49
EUR	+5	**(8)**	(7)
EGP	+5	**79**	(75)
Other	+5	**(298)**	(122)

30.3.3 Equity Price Risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through profit or loss) and on equity (as a result of change in the fair value of equity investments classified as FVOCI) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2019		2018	
Market indices	**% Change in equity price**	**Effect on profit KD 000's**	**Effect on equity KD 000's**	Effect on profit KD 000's	Effect on equity KD 000's
Kuwait stock exchange	+5	**128**	**10**	117	16
Qatar stock market	+5	**172**	**-**	132	-
UAE stock indices	+5	**230**	**1**	166	3
Saudi stock exchange	+5	**600**	**-**	638	-

30 RISK MANAGEMENT (continued)

30.4 OPERATIONAL RISK

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

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

31 CAPITAL

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

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

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2019 KD 000's	2018 KD 000's
Risk Weighted Assets	**20,428,019**	17,935,150
Capital required	**3,064,203**	2,690,273
Capital available		
Common Equity Tier 1 capital	**2,754,674**	2,478,695
Additional Tier 1 capital	**486,245**	257,780
Tier 1 capital	**3,240,919**	2,736,475
Tier 2 capital	**386,983**	353,724
Total capital	**3,627,902**	3,090,199
Common Equity Tier 1 capital adequacy ratio	**13.5%**	13.8%
Tier 1 capital adequacy ratio	**15.9%**	15.3%
Total capital adequacy ratio	**17.8%**	17.2%

Notes to the Consolidated Financial Statements (continued)

31 December 2019

31 CAPITAL (continued)

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2019 KD 000's	2018 KD 000's
Tier 1 capital	**3,240,919**	2,736,475
Total exposures	**31,865,265**	29,906,685
Leverage ratio	**10.2%**	9.2%

32 FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2019, funds under management were KD 4,469 million (2018: KD 4,390 million).

Group directory

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13001 Kuwait
Tel: +965 2242 2011
Fax: +965 2243 1888

CONSUMER BANKING GROUP

Retail Banking
Ext: 3034
Fax: 2241 6738

Domestic Branches
Ext: 2592
Fax: 2246 7929

Alternative Channels
Ext: 3393
Fax: 2246 7929

Direct Sales
Ext: 5003
Fax: 2259 5522

Consumer Lending
Ext: 3171
Fax: 2224 6865

Marketing
Ext: 3036
Fax: 2259 5679

Consumer Credit Collection
Ext: 2181
Fax: 2259 5671

Private Banking Group
Ext: 2226
Fax: 2241 8415 or
2224 6619

Domestic Corporate Banking
Ext: 2116
Fax: 2224 6643

Foreign Corporate, Oil and Trade Finance Group
Ext: 2307
Fax: 2242 6813

Treasury Group
Ext: 3566
Fax: 2241 9720

Credit Risk Management Group
Ext: 2417
Fax: 2246 4162

Economic Research Group
Ext: 5364
Fax: 2224 6973

Legal Affairs Group
Ext: 3091
Fax: 2244 5098

Human Resources
Ext: 5162
Fax: 2244 3250

International Banking Group

Regional Institutional Banking
Ext: 5328
Fax: 2224 6977

Please refer to international network for a complete listing

Operations Group
Ext: 3060
Fax: 2245 9233

Information Technology Group
Ext: 2711
Fax: 2245 9233

Group Financial Control
Ext: 3009
Fax: 2242 2730

International Legal Affairs
Ext: 2065
Fax: 2243 6208

Executive Office
Ext: 2230
Fax: 2246 2469

Public Relations
Ext: 3166
Fax: 2259 5804

Media Relations
Ext: 2259 2789
Fax: 2246 2469

Advertising
Ext: 2665
Fax: 2259 5805

Group Internal Audit
Ext: 5400
Fax: 2243 3835

Local branches

Ahmadi
Ahmed Al-Jaber
Airport
Ali Sabah Al-Salem
Al Hamra Tower
Al Rihab
Al Tadhamoun (Farwaniya)
Andalus
Ardiya
Arraya 2
Avenues
Bayan
Camp Arifjan
Cinema Al-Salmiya
Dahyat Abdullah Al-Salem
Daiyah
Dasma
Doha
Fahad Al-Salem
Fahaheel
Fahaheel Al Sahely
Faiha
Farwaniya
Fintas
Ghazali
Grand Avenues
Hadiya
Hawalli
Kheitan
Jabriya
Jahra
Jahra Commercial Branch
Jleeb Al-Shuyoukh
Kaifan
Kuwait National Petroleum Company
Kuwait Oil Company
Kuwait Petroleum
Corporation
Ministries Complex
Mishref
MTC Headquarters
Mubarak Al-Kabeer
Nuzha
Othman
Qadisiya
Qurain
Qurtuba
Ras Al-Salmiya
Rawdha
Riqqa
Rumaithiya
Saad Al-Abdullah
Sabah Al-Nasser
Sabah Al-Salem
Sabahiya
Sabhan
Salmiya
Salwa
Shamiah
Sharq
Shuwaikh
Shuwaikh Medical
Social Security (PIFSS)
Sour Street
South Surra
Surra
Watya
Yarmouk

Head Office Tel.: 2242 2011
Call Center Tel.: 1801801

For More Information About National Bank of Kuwait:

NBKPage
NBKGroup
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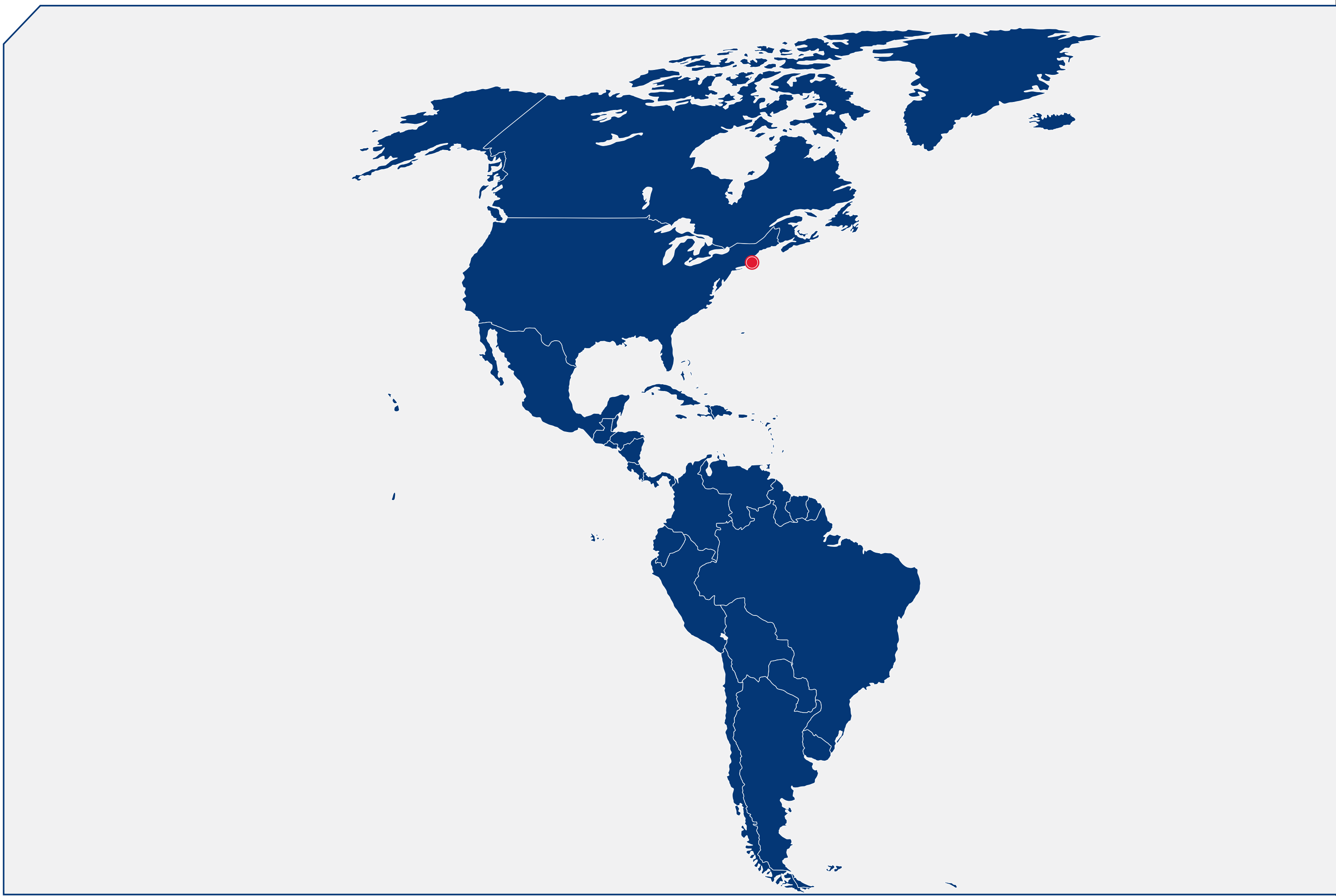
National Bank of Kuwait
1801801

International branches



Bahrain
National Bank of Kuwait SAKP
Bahrain Branch
GB Corp. Tower Block 346
Road 4626, Building 1411
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Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

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National Bank of Kuwait SAKP
Jeddah Branch
Al-Khalidiah District
Al-Mukmal Tower
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Jeddah 21444
Saudi Arabia
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Fax: +966 2 603 6318

United Arab Emirates
National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower
Sheikh Zayed Road
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Fax: +971 4 3888 588

Abu Dhabi Branch
Sheikh Rashid Bin Saeed Street
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P.O. Box 113567
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Fax: +971 2 2222 477

NBK Capital Partners Limited - DIFC, Dubai
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Dubai International Financial Centre
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Fax: +971 4 365 2805

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Amman -11194, Jordan
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Lebanon
National Bank of Kuwait (Lebanon) SAL
Sanayeh Head Office
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1107 2200 Beirut, Lebanon
Tel: +9611 759 700
Fax: +9611 747 866

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Fax: +9611 270 177

Bhamdoun Branch
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Fax: +9615260102

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Sadoun Street District 102
P.O. Box 3420
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+964 790 190 7098

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Fax: +202 26133978

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Head Office
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Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

Portman Square Branch
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France

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AZIA Center
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China
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Fax: +86-21-8036-0801

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(S.A.K.P)

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