

## IMPORTANT NOTICE

**THIS DOCUMENT MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (QIBS) WITHIN THE MEANING OF RULE 144A (RULE 144A) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT) OR (2) NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (REGULATION S)) AND ARE OUTSIDE OF THE UNITED STATES.**

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**Restrictions:** NOTHING IN THE DOCUMENT CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD DIRECTLY OR INDIRECTLY EXCEPT (1) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S; (2) IN THE UNITED STATES, ONLY TO QIBS; OR (3) PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE JOINT LEAD MANAGERS AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

WITHIN THE UNITED KINGDOM, THE DOCUMENT IS DIRECTED ONLY AT (A) PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (AS AMENDED, THE **FP ORDER**), OR (B) WHO ARE PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE FP ORDER, OR (C) TO WHOM IT MAY OTHERWISE LAWFULLY BE DISTRIBUTED IN ACCORDANCE WITH THE FP ORDER (ALL SUCH PERSONS IN (A), (B) AND (C) ABOVE TOGETHER BEING REFERRED TO AS **RELEVANT PERSONS**). THE DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE "*SUBSCRIPTION AND SALE*" IN THE DOCUMENT.

**CONFIRMATION OF YOUR REPRESENTATION:** In order to be eligible to view the attached document or make an investment decision with respect to the securities described herein, (1) each prospective investor in respect of the securities being offered outside of the United States in an offshore transaction pursuant to Regulation S must be a person other than a U.S. Person, (2) each prospective investor in respect of the securities being offered in the United States must be a QIB and (3) each prospective investor in respect of the securities being offered in the United Kingdom must be a Relevant Person. By accepting this e-mail and accessing, reading or making any other use of the attached document, you shall be deemed to have represented to Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc, Standard Chartered Bank, UBS AG London Branch and Watani Investment Company K.S.C.C. (together, the **Joint Lead Managers**) and each of National Bank of Kuwait S.A.K.P. (the **Bank**) and NBK Tier 1 Limited (the **Issuer**) (1) you have understood and agree to the terms set out herein, (2) in respect of the securities being offered in an offshore transaction pursuant to Regulation S, you are (or the person you represent is) a person other than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the document has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction;

and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) in respect of securities being offered and sold in reliance on Rule 144A, you are (or the person you represent is) a QIB, (4) in respect of the securities being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, (5) if you are a Hong Kong purchaser, your business involves the acquisition and disposal, or the holding, of securities (whether as principal or as agent) and you fall within the category of persons described as "professional investors" under the Securities and Futures Ordinance (Cap. 571) of Hong Kong and its relevant rules, (6) you consent to delivery by electronic transmission, (7) you will not transmit the document (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers and (8) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities described herein.

Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the document or for any statement made therein, in connection with the Bank, the Issuer or the offer of the Capital Securities (as defined in the document) (the **Offer**), or for any acts or omissions of the Bank, the Issuer or any other person in connection with the document and the Offer. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Joint Lead Managers or their respective affiliates, directors, officers, advisers or agents as to the accuracy, completeness, verification or sufficiency of the information set out in the document. Neither the Joint Lead Managers nor any of their respective affiliates, directors, officers, advisers or agents accepts any responsibility for any acts or omissions of the Issuer or any other person in connection with the document and the issue and offering of the Capital Securities.

The Joint Lead Managers are acting exclusively for the Bank and the Issuer and no one else in connection with the Offer. They will not regard any other person (whether or not a recipient of the document) as their client in relation to the Offer and will not be responsible to anyone other than the Bank and the Issuer for providing the protections afforded to its clients nor for giving advice in relation to the Offer or any transaction or arrangement referred to herein.

The materials relating to the offering do not constitute, and may not be used in connection with, an Offer or solicitation in any place where such Offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Bank and the Issuer in such jurisdiction.

Under no circumstances shall the document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the document who intend to subscribe for or purchase any securities to be issued are reminded that any subscription or purchase may only be made on the basis of the information contained in the final version of the document.

The document has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Bank, the Issuer, the Joint Lead Managers nor any person who controls or is a director, officer, employee or agent of the Bank, the Issuer, the Joint Lead Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version. By accessing the document, you consent to receiving it in electronic form. A hard copy of the document will be made available to you only upon request to the Joint Lead Managers.

You are reminded that the document has been delivered to you on the basis that you are a person into whose possession the document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver the document, electronically or otherwise, to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received this document by e-mail, you should not reply by e-mail to this communication. Any reply e-mail communications, including those you generate by using the "Reply" function on the e-mail software, will be ignored or rejected. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**Prohibition of Sales to Retail Investors in the EEA** – The Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the **EEA**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or (ii) a customer

within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**Prohibition of Sales to Retail Investors in the UK** – The Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (**UK**). For these purposes, a **retail investor** means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the **FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Capital Securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Capital Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**MIFID II Product Governance / Professional Investors and ECPs only target market** – There are no manufacturers for the purposes of MiFID II. Any person offering, selling or recommending the Capital Securities (a **distributor**) should consider (i) the target market for the Capital Securities to be eligible counterparties and professional clients only, each as defined in MiFID II, and (ii) all channels for distribution of the Capital Securities to eligible counterparties and professional clients to be appropriate. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Capital Securities (by either adopting or refining the target market) and determining appropriate distribution channels.

**UK MIFIR Product Governance / Professional Investors and ECPs only target market** – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Capital Securities has led to the conclusion that: (i) the target market for the Capital Securities is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA (**UK MiFIR**); and (ii) all channels for distribution of the Capital Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Capital Securities (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Capital Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to Section 309B(1)(a) and Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore, as amended or modified from time to time (the **SFA**), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309(A) of the SFA), that the Capital Securities are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in the Singapore Monetary Authority (the **MAS**) Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).



## NBK TIER 1 LIMITED

*(incorporated as a prescribed company with limited liability in the Dubai International Financial Centre)*

**unconditionally and irrevocably guaranteed by**

## NATIONAL BANK OF KUWAIT S.A.K.P.

*(incorporated as a public shareholding company in the State of Kuwait)*

### U.S.\$700,000,000 Perpetual Tier 1 Capital Securities

The U.S.\$700,000,000 Perpetual Tier 1 Capital Securities (the **Capital Securities**) shall be issued by NBK Tier 1 Limited (the **Issuer**) on 24 February 2021 (the **Issue Date**). The payments of all amounts due in respect of the Capital Securities will be unconditionally and irrevocably guaranteed by National Bank of Kuwait S.A.K.P. (the **Bank** and, in its capacity as the guarantor, the **Guarantor**) under a subordinated guarantee dated the Issue Date (the **Subordinated Guarantee**). The obligations of the Guarantor under the Subordinated Guarantee will be subordinated to all Senior Obligations (as defined herein) of the Guarantor, as more particularly described in Condition 4.2 (*Status of the Guarantee and Subordination*).

If a Non-Viability Event (as defined herein) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 8 (*Write-down at the Point of Non-Viability*). In such circumstances, the Securityholders' rights to payment of any amounts under or in respect of the Capital Securities shall, as the case may be, be cancelled or written-down *pro rata* among the Securityholders. See "*Risk Factors — Securityholders' right to receive repayment of the principal amount of the Capital Securities and the Securityholders' right for any further interest may be written-down in whole or in part upon the occurrence of a Non-Viability Event*".

Interest Payment Amounts (as defined in the Conditions) shall be payable subject to and in accordance with the terms and conditions set out in the "*Terms and Conditions of the Capital Securities*" (the **Conditions**) on the outstanding principal amount of the Capital Securities from (and including) the Issue Date to (but excluding) 24 February 2027 (the **First Reset Date**) at a rate of 3.625 per cent. per annum. If the Capital Securities are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Reset Date, Interest Payment Amounts shall be payable from (and including) the First Reset Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Reset Date and every six years thereafter, equal to the Reset Interest Rate (as defined in the Conditions). Interest Payment Amounts will (subject to the requirements in relation to payments of interest in accordance with Condition 5.6 (*Non-Payment Event*)) and the right of the Issuer and the Guarantor to cancel payments of interest in accordance with Condition 5.7 (*Non-Payment Election*)) be payable semi-annually in arrears on 24 February and 24 August in each year, commencing on 24 August 2021 (each, an **Interest Payment Date**). Payments on the Capital Securities will be made without withholding, deduction or retention for, or on account of, taxes, duties, assessments or other governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of any Relevant Jurisdiction (as defined in the Conditions), subject to Condition 9 (*Taxation*).

The Issuer and the Guarantor may elect, and in certain circumstances shall be required, not to make any interest payment falling due on the Capital Securities. Any Interest Payment Amounts not paid as aforesaid will not accumulate and any holder of the Capital Securities shall not have any claim in respect thereof.

The Capital Securities are undated and have no final maturity. Unless the Capital Securities have previously been redeemed or purchased and cancelled as provided in the Conditions, the Capital Securities may, at the option of the Issuer and the Guarantor, subject to the prior approval of the Central Bank of the State of Kuwait (the **Financial Regulator**), which shall include any successor entity having primary bank supervisory authority with respect to the Guarantor in the State of Kuwait, be redeemed at par (in whole but not in part) on the date falling six (6) months prior to the First Reset Date and on any date thereafter up to and including the First Reset Date or any Interest Payment Date thereafter, subject as further described in Condition 7 (*Redemption and Variation*). In addition, the Capital Securities may, in the event of a Tax Event or Capital Event (each as defined in the Conditions), be redeemed or varied at any time (in whole but not in part), subject as further described in Condition 7 (*Redemption and Variation*).

**An investment in the Capital Securities involves certain risks. For a discussion of these risks, see "*Risk Factors*".**

The Capital Securities may only be offered, sold or transferred in registered form in minimum principal amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Delivery of the Capital Securities in book-entry form will be made on the Issue Date. Capital Securities sold to non-U.S. persons in offshore transactions within the meaning of Regulation S (**Regulation S**) under the U.S. Securities Act of 1933, as amended (the **Securities Act**) (**Regulation S Capital Securities**) will initially be represented by an unrestricted global certificate (an **Unrestricted Global Certificate**) which will be registered in the name of a nominee for, and will be deposited with a common depository for, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Capital Securities sold in the United States to "qualified institutional buyers" (**QIBs**) (as defined in Rule 144A under the Securities Act (**Rule 144A**)) (**Rule 144A Capital Securities**) will initially be represented by a restricted global certificate (a **Restricted Global Certificate**), and together with the Unrestricted Global Certificate, the **Global Certificates** which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, the Depository Trust Company (**DTC**). Beneficial interests in the Global Certificates will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive individual certificates in respect of beneficial interests in the Unrestricted Global Certificate and the Restricted Global Certificate(s) (**Unrestricted Individual Certificates** and **Restricted Individual Certificates**, respectively, and together, the **Individual Certificates**) will not be issued except as described under "*Book Entry, Delivery and Form*".

This Prospectus has been approved by the Central Bank of Ireland (the **CBI**), in its capacity as competent authority under Regulation (EU) 2017/1129 (and any amendments thereto) (the **Prospectus Regulation**), as a prospectus. This Prospectus constitutes a prospectus for the purposes of the Prospectus Regulation. The CBI only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Capital Securities which are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Capital Securities. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (**Euronext Dublin**) for the Capital Securities to be admitted to its official list (the **Official List**) and to trading on its regulated market (the **Regulated Market**). References in this Prospectus to the Capital Securities being **listed** (and all related references) shall mean that the Capital Securities have been admitted to listing on the Official List and admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as amended (**MIIFID II**).

This Prospectus will be valid for a year from 23 February 2021. The obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when this Prospectus is no longer valid. For the purposes of this Prospectus, **valid** means valid for admissions to trading on a regulated market by or with the consent of the Issuer and the obligation to supplement this Prospectus is only required within its period of validity between the time when this Prospectus is approved and the closing of the offer period for the Capital Securities or the time when trading on a regulated market begins, whichever occurs later.

The Group has a long term rating of A and a short term rating of A-1 from S&P Global Ratings Europe Limited (**S&P**); a long term rating of A1 and a short term rating of P-1 by Moody's Investors Service Cyprus Ltd. (**Moody's**); and a long term rating of AA- and a short term rating of F1+ by Fitch Ratings Ltd. (**Fitch**). The Capital Securities have been assigned a rating of Baa3 by Moody's. Each of S&P and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009, as amended (the **CRA Regulation**). As such, each of S&P and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation. The rating issued by S&P to the Group is endorsed by S&P Global Ratings UK Limited, which is established in the United Kingdom and registered under Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the European (Withdrawal) Act 2018 (the **UK CRA Regulation**). The ratings issued by Moody's to the Group and the Capital Securities are endorsed by Moody's Investors Service Ltd., which is established in the United Kingdom and registered under the UK CRA Regulation. Fitch is established in the United Kingdom and registered under the UK CRA Regulation. Fitch appears on the latest update of the list of registered credit rating agencies (as of 1 January 2021) on the United Kingdom Financial Conduct Authority's Financial Services Register. The rating issued by Fitch to the Group is endorsed by Fitch Ratings Ireland Limited, which is established in the European Union and registered under the CRA Regulation. As such, Fitch Ratings Ireland Limited is included in the list of credit rating agencies published by ESMA on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. **A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

Neither the Capital Securities nor the Subordinated Guarantee have been, nor will be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Capital Securities are being offered and sold (i) to non-U.S. persons in offshore transactions in accordance with Regulation S; and (ii) within the United States to QIBs in accordance with Rule 144A.

Amounts payable under the Capital Securities, following the First Reset Date, will be calculated by reference to rates for U.S. Treasury securities which are published by the U.S. Federal Reserve System. As of the date of this Prospectus, the U.S. Department of Treasury does not appear on the register of administrators and benchmarks established and maintained by the ESMA pursuant to Article 36 of Regulation (EU) 2016/1011, as amended (the **EU Benchmarks Regulation**). As far as the Issuer is aware, the U.S. Department of Treasury does not fall within the scope of the EU Benchmarks Regulation by virtue of article 2 of the EU Benchmarks Regulation.

***Global Coordinators. Joint Bookrunners and Joint Lead Managers***

**Citigroup**  
**Standard Chartered Bank**

**HSBC**  
**UBS Investment Bank**

**J.P. Morgan**  
**Watani Investment Company K.S.C.C.**

The date of this Prospectus is 23 February 2021.

## IMPORTANT NOTICE

This Prospectus comprises a prospectus for the purposes of the Prospectus Regulation.

Each of the Issuer and the Bank accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Bank, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect its import.

Certain information contained in "*Risk Factors*", "*Description of the Group*" and "*Overview of Kuwait*" (as indicated therein) has been extracted from the following independent, third party sources: The International Monetary Fund (the **IMF**), the Organisation of Petroleum Exporting Countries (**OPEC**), the Sovereign Wealth Fund Institute, the Central Bank of the State of Kuwait (the **CBK**) and the Kuwait Central Statistical Bureau (the **CSB**). Each of the Issuer and the Bank confirms that all third party information contained in this Prospectus has been accurately reproduced and that, as far as it is aware and is able to ascertain from information published by the relevant third party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information contained in this Prospectus is stated where such information appears in the Prospectus. Where information has not been independently sourced, it is the Group's own information.

Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc, Standard Chartered Bank, UBS AG London Branch and Watani Investment Company K.S.C.C. (together, the **Joint Lead Managers**) have not independently verified the information contained herein. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer and the Bank in connection with the issuance of the Capital Securities, or for any acts or omissions of the Issuer, the Bank or any other person in connection with the Prospectus or the issuance of the Capital Securities.

No person is or has been authorised by the Issuer or the Bank or the Joint Lead Managers to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the issuance of the Capital Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Bank or any of the Joint Lead Managers.

Neither this Prospectus nor any other information supplied in connection with the issuance of the Capital Securities: (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer, the Bank or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the issuance of the Capital Securities should purchase any Capital Securities. Each investor contemplating purchasing any Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Bank. Neither this Prospectus nor any other information supplied in connection with the issuance of the Capital Securities constitutes an offer or invitation by or on behalf of the Issuer, the Bank or any of the Joint Lead Managers to any person to subscribe for or to purchase any Capital Securities.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Capital Securities shall in any circumstances imply that the information contained herein concerning the Issuer and the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issuance of the Capital Securities is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of each of the Issuer and the Bank during the life of the issuance or to advise any investor in the Capital Securities of any information coming to their attention.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Capital Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Capital Securities may be restricted by law in certain jurisdictions. The Issuer, the Bank and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that any Capital Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Bank or the Joint Lead Managers which is intended to permit a

public offering of any Capital Securities or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Capital Securities may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Capital Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of any Capital Securities. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of any Capital Securities in the United States, the United Kingdom, the European Economic Area (**EEA**), Hong Kong, Japan, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre (the **DIFC**)), the DIFC, the State of Kuwait (**Kuwait**), the Kingdom of Saudi Arabia, the Kingdom of Bahrain (**Bahrain**) and the State of Qatar (**Qatar**) (see "*Subscription and Sale*" and "*Transfer Restrictions*").

**The Capital Securities may not be a suitable investment for all investors. Each potential investor in the Capital Securities must determine the suitability of that investment in light of its own circumstances.** In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Capital Securities, the merits and risks of investing in the Capital Securities and the information contained in this Prospectus;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Capital Securities and the impact the Capital Securities will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Capital Securities, including where the currency for payments of principal or interest is different from the potential investor's currency;
- (d) understands thoroughly the terms of the Capital Securities and is familiar with the behaviour of any relevant indices and financial markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Capital Securities are complex financial instruments and are of high risk and are not a suitable or appropriate investment for all investors (see, in particular, "*MIFID II Product Governance / Professional Investors and ECPs only Target Market*", "*PRIIPs Regulation / Prohibition of Sales to Retail Investors in the EEA*" and "*PRIIPs Regulation/Prohibition of Sales to Retail Investors in the United Kingdom*" below). In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities similar to the Capital Securities. There are risks inherent in the holding of the Capital Securities, including the risks in relation to their subordination and the circumstances in which holders of the Capital Securities may suffer loss as a result of holding the Capital Securities. See "*Risk Factors*" for a discussion of certain considerations to be taken into account in connection with an investment in the Capital Securities. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Capital Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Capital Securities will perform under changing conditions, the resulting effects on the value of the Capital Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Capital Securities are legal investments for it; (b) the Capital Securities can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of any Capital Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Capital Securities under any applicable risk-based capital or similar rules.

### SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a prescribed company incorporated in the DIFC and the Guarantor is a public Kuwaiti shareholding company established in Kuwait. All of the officers and directors of the Issuer and the Guarantor named herein reside outside the United States and all or a substantial portion of the assets of each of the Issuer and the Guarantor and its officers and directors are located outside the United States. As a result:

- it may not be possible for investors to effect service of process outside the DIFC upon the Issuer or its officers and directors, or to enforce judgments against them predicated upon United States federal securities laws or the securities laws of any state or territory within the United States; and
- it may not be possible for investors to effect service of process outside Kuwait upon the Guarantor or its officers and directors, or to enforce judgments against them predicated upon United States federal securities laws or the securities laws of any state or territory within the United States.

The Capital Securities and the Subordinated Guarantee are governed by English law (and, in the case of Condition 3.1, DIFC law) and disputes in respect of them may be settled by arbitration under the Rules of the LCIA in London, England.

Investors may have difficulties in enforcing an arbitration award against the Issuer or the Guarantor in the courts of Kuwait to the extent that such arbitration award is deemed to be in contravention of Kuwaiti public policy rules and/or in view of the timing and requisite procedural formalities required for enforcing a foreign arbitral award. Moreover, judicial precedent in Kuwait has no binding effect on subsequent decisions and there is no formal or updated system of reporting court decisions in Kuwait. These factors create greater judicial uncertainty than would be expected in certain other jurisdictions. See "*Risk Factors – Enforcement under Kuwaiti Law*".

### AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Capital Securities that are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, each of the Issuer and the Guarantor will undertake in a deed poll dated 24 February 2021 (the **Deed Poll**) to furnish, upon the request of a holder of such Capital Securities or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Capital Securities remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and each of the Issuer and the Guarantor is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 (as amended, the **Exchange Act**) nor exempt from reporting requirements pursuant to and in compliance with Rule 12g3-2(b) thereunder.

### STABILISATION

In connection with the issue of the Capital Securities, J.P. Morgan Securities plc (the **Stabilisation Manager**) (or persons acting on behalf of the Stabilisation Manager) may over-allot Capital Securities or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Capital Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Capital Securities and 60 days after the date of the allotment of the Capital Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.



## **MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET**

There are no manufacturers for the purposes of MiFID II. Any person offering, selling or recommending the Capital Securities (a **distributor**) should consider (i) the target market for the Capital Securities to be eligible counterparties and professional clients only, each as defined in MiFID II, and (ii) all channels for distribution of the Capital Securities to eligible counterparties and professional clients to be appropriate. However, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Capital Securities (by either adopting or refining the target market) and determining appropriate distribution channels.

## **UK MIFIR PRODUCT GOVERNANCE PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET**

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Capital Securities has led to the conclusion that: (i) the target market for the Capital Securities is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Capital Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Capital Securities (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Capital Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

## **PRIIPS REGULATION / PROHIBITION OF SALES TO RETAIL INVESTORS IN THE EEA**

The Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## **UK PRIIPS REGULATION / PROHIBITION OF SALES TO RETAIL INVESTORS IN THE UNITED KINGDOM**

The Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Capital Securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Capital Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

## **SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION**

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as amended or modified from time to time (the **SFA**), and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**) the Issuer has determined, and hereby notifies

all relevant persons (as defined in Section 309A(1) of the SFA), that the Capital Securities are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the Singapore Monetary Authority (the **MAS**) Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

#### **NOTICE TO THE RESIDENTS OF THE KINGDOM OF SAUDI ARABIA**

This document may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of Saudi Arabia (the **Capital Market Authority**).

The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this document, you should consult an authorised financial advisor.

#### **NOTICE TO THE RESIDENTS OF THE KINGDOM OF BAHRAIN**

In relation to investors in Bahrain, Capital Securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing accountholders and accredited investors as defined by the Central Bank of Bahrain (the **CBB**) in Bahrain where such investors make a minimum investment of at least U.S.\$100,000, or any equivalent amount in another currency or such other amount as the CBB may determine.

This Prospectus does not constitute an offer of securities in Bahrain pursuant to the terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no Capital Securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase Capital Securities, whether directly or indirectly, to persons in Bahrain, other than to accredited investors for an offer outside Bahrain.

The CBB has not reviewed, approved or registered this Prospectus or related offering documents and it has not in any way considered the merits of the Capital Securities to be offered for investment, whether in or outside Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Prospectus. No offer of the Capital Securities will be made to the public in Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

#### **NOTICE TO RESIDENTS OF THE STATE OF QATAR**

The Capital Securities will not be offered, sold or delivered at any time, directly or indirectly, in Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Prospectus has not been and will not be reviewed or approved by, or registered with, the Qatar Financial Markets Authority, the Qatar Central Bank, the Qatar Stock Exchange or the Qatar Financial Centre Regulatory Authority in accordance with their regulations or any other regulations in Qatar (including the Qatar Financial Centre). The Capital Securities are not and will not be traded on the Qatar Stock Exchange. The Capital Securities and interests therein will not be offered to investors domiciled or resident in Qatar (including the Qatar Financial Centre) and do not constitute debt financing in Qatar (including the Qatar Financial Centre) under the Commercial Companies Law No. (11) of 2015 or otherwise under the laws of Qatar (including the Qatar Financial Centre).

#### **NOTICE TO RESIDENTS OF KUWAIT**

Unless all necessary approvals from the Kuwait Capital Markets Authority (the **CMA**) pursuant to Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities and its executive bylaws (each as amended) (the **CML Rules**), and the various resolutions, regulations, directives and instructions and announcements issued from time to time pursuant thereto, or in connection therewith (regardless of nomenclature), have been given in relation to the

marketing of, and sale of, the Capital Securities, the Capital Securities may not be offered for sale, nor sold, in Kuwait. Neither this Prospectus nor any of the information contained herein is intended to lead to the conclusion of any contract of whatsoever nature within Kuwait.

This Prospectus is not for general circulation to the public in Kuwait nor will the Capital Securities be sold by way of a public offering in Kuwait. In the event that the Capital Securities are intended to be purchased onshore in Kuwait, the same may only be so purchased through a licensed person duly authorised to undertake such activity pursuant to the CML Rules. Investors from Kuwait acknowledge that the CMA and all other regulatory bodies in Kuwait assume no responsibility whatsoever for the contents of this Prospectus or verify the validity and accuracy thereof. Prior to purchasing any Capital Securities, it is recommended that a prospective holder of any Capital Securities seeks professional advice from its advisors in respect to the contents of this Prospectus so as to determine the suitability of purchasing the Capital Securities.

## U.S. INFORMATION

This Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Capital Securities. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

**NEITHER THIS PROSPECTUS NOR THE CAPITAL SECURITIES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY SECURITIES COMMISSION OF ANY STATE IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CAPITAL SECURITIES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

The Capital Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Capital Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act), except in transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act and any applicable securities law of any state or other jurisdiction of the United States. Accordingly, the Capital Securities are being offered or sold to non-U.S. persons in offshore transactions in reliance on Regulation S and within the United States only to persons who are QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that the offer and sale of Capital Securities to it may be made in reliance on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Capital Securities and distribution of this Prospectus, see *Transfer Restrictions* and *"Subscription and Sale"*.

Each investor, by purchasing Capital Securities, agrees that the Capital Securities may be reoffered, resold, repledged or otherwise transferred only upon registration under the Securities Act or pursuant to the exemptions therefrom described under *"Transfer Restrictions"* and *"Subscription and Sale"*. As a prospective investor, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Each investor also will be deemed to have made certain representations and agreements as described in *"Transfer Restrictions"*. Any transfer in breach of the transfer restrictions set forth in *"Transfer Restrictions"* and *"Subscription and Sale"* will be null and void ab initio, and will not operate to transfer any rights to any transferee.

Each purchaser or holder of Capital Securities represented by a Restricted Global Certificate or any Capital Securities issued in exchange or substitution therefor will be deemed, by its acceptance or purchase of any such Capital Securities, to have made certain representations and agreements intended to restrict the resale or other transfer of such Capital Securities as set out in *"Transfer Restrictions"*.

## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be forward-looking statements. Forward-looking statements include statements concerning the Bank's plans, objectives, goals, strategies, future operations

and performance and the assumptions underlying these forward-looking statements. When used in this document, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of the Group*" and other sections of this Prospectus. The Bank has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Bank believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable as at the date of this Prospectus, if one or more of the risks or uncertainties detailed in the section entitled "*Risk Factors*" materialise, or if any of the Bank's underlying assumptions prove to be incomplete or inaccurate, the Bank's actual results of operations may vary from those expected, estimated or predicted.

These forward looking statements speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Bank expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward-looking statement is based.

## PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

### Historical Financial Statements

This Prospectus contains:

- the audited consolidated financial statements of the Group as at and for the year ended 31 December 2020 (with comparative data for the year ended 31 December 2019) (the **2020 Financial Statements**); and
- the audited consolidated financial statements of the Group as at and for the year ended 31 December 2019 (with comparative data for the year ended 31 December 2018) (the **2019 Financial Statements**);

In this Prospectus, the 2020 Financial Statements and the 2019 Financial Statements are together referred to as the **Annual Financial Statements**.

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the Central Bank of Kuwait in the State of Kuwait (**IFRS**) and comply with the regulations for financial services institutions as issued by the Central Bank of Kuwait in the State of Kuwait (the **CBK regulations**), and have been jointly audited by Ernst & Young Al Aiban, Al Osaimi & Partners with license no. 68A (**E&Y**) and Deloitte & Touche Al Wazzan & Co. with license no. 62A (**Deloitte**) in accordance with International Standards on Auditing as stated in their audit reports incorporated by reference in this Prospectus. The CBK regulations, including the recently issued CBK circulars on regulatory measures in response to COVID-19 and related CBK communications, require banks, including the Bank, and other financial institutions regulated by the CBK to adopt IFRS with the following amendments: (i) expected credit loss (**ECL**) on credit facilities is to be measured at the higher of the ECL amount computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions (**CBK instructions**) along with its consequent impact on related disclosures (as discussed in note 2 to the 2020 Financial Statements under the heading "*Measurement of ECLs*"); and (ii) modification losses on financial assets (consumer and other instalment loans and credit card receivables) arising from payment holidays to customers in response to COVID-19 are to be recognised as retained earnings, instead of in the consolidated statement of income as required by IFRS 9 (as discussed in note 33 to the 2020 Financial Statements under the heading "*Impact of COVID-19*").

The Group's financial year ends on 31 December and references in this Prospectus to "**2020**", "**2019**" and "**2018**" are to the 12 month period ending on 31 December in each year.

The Annual Financial Statements incorporated by reference in this Prospectus should be read in conjunction with the respective notes thereto. Prospective investors are advised to consult their professional advisers for an understanding of:

- (i) the differences between IFRS and U.S. generally accepted accounting principles (**US GAAP**) or any other systems of generally accepted accounting principles in the jurisdictions of such

prospective investors and how those differences might affect the financial information included or incorporated by reference in this Prospectus; and

- (ii) the impact that future additions to, or amendments of, IFRS may have on the Group's results of operations or financial condition, as well as on the comparability of the prior periods.

In addition, this Prospectus includes certain non-IFRS financial measures and ratios. See "*—Non-IFRS Financial Measures and APMs*" below.

Certain numerical figures set out in this Prospectus, including financial and operating data, have been rounded and some of these and other figures are also presented in KD millions or billions rather than in KD thousands as in the Annual Financial Statements. Therefore, the sums of amounts given in some columns or rows in the tables and other lists presented in this Prospectus may slightly differ from the totals specified for such columns or rows. Similarly, some percentage values presented in the tables in this Prospectus have been rounded and the totals specified in such tables may not add up to 100 per cent. Percentages and amounts reflecting changes over time periods relating to financial and other data set out in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" are calculated using the numerical data in the relevant Annual Financial Statements.

The financial information included or incorporated by reference in this Prospectus is not intended to comply with the applicable accounting requirements of the Securities Act and the related rules and regulations which would apply if the Capital Securities were being registered with the U.S. Securities and Exchange Commission (the SEC).

### **Terminology**

The Group conducts both conventional and, through its majority-owned subsidiary, Boubyan Bank K.S.C.P. (**Boubyan Bank**), Islamic banking activities. As a result, the Group earns both interest income and murabaha and Islamic financing income and incurs both interest expense and finance cost and distribution to depositors which give rise to both net interest income and net income from Islamic financing. For convenience, in certain places in this Prospectus, including "*Management's Discussion and Analysis of Financial Condition and Results of Operations*":

- interest income and murabaha and Islamic financing income are together referred to as "**finance income**"; and
- interest expense and finance cost and distribution to depositors are together referred to as "**financing cost**".

### **Average Balances and Interest Rates**

This Prospectus includes information relating to average balances of interest income and financing income-earning assets (together referred to as "**income-earning assets**") and interest expense and financing cost-bearing liabilities (together referred to as "**cost-bearing liabilities**") of the Group, the amounts of finance income and financing cost of the Group and the average rates at which finance income was earned on such assets and financing cost was incurred on such liabilities by the Group for the years ended 31 December 2020, 2019 and 2018. This information is presented in the sections "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Selected Statistical Data*". Unless otherwise specified in this Prospectus, average balances of assets and liabilities for the Group for the years ended 31 December 2020, 2019 and 2018 were calculated as the sum of assets or liabilities on a quarterly basis divided by five. The average interest rate for any line item is calculated by dividing finance income or financing cost, as applicable, by the average balance for such line item for the relevant period.

This Prospectus also includes information on changes in finance income or financing cost of the Group, which are attributed to either: (i) changes in average balances (volume change) of income-earning assets or cost-bearing liabilities; or (ii) changes in average rates (rate change) at which finance income was earned on such assets or at which financing cost was incurred on such liabilities. This information also appears in the section "*Selected Statistical Data*". Changes in the Group's finance income and financing cost have been allocated between changes in average volume and changes in average rates for the years ended 31 December 2020, 2019 and 2018. The volume and rate variances are calculated based on the movements of average balances over the period and changes in average rates on income-earning assets and cost-bearing liabilities.

The net change attributable to changes in both volume and rate has been allocated in line with the amounts derived for pure rate and volume variances.

The information with respect to the Group presented in "*Selected Statistical Data*" has not been prepared in accordance with, and is not intended to comply with, the applicable accounting requirements of the Securities Act and the related rules and regulations of the SEC which would apply if the Capital Securities were being registered with the SEC. In particular, the average balances and related data presented in "*Selected Statistical Data*" are based on materially less frequent averaging methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities. Prospective investors should be aware that the results of the analysis for the Group would likely be different if alternative or more frequent averaging methods were used and such differences could be material.

### **Non-IFRS Financial Measures and APMs**

This Prospectus contains references to certain non-IFRS measures, including capital adequacy, leverage and certain other ratios contained in "*Selected Consolidated Financial Data*" and referred to elsewhere in this Prospectus. In addition, all of the average information contained in "*Selected Statistical Data*" and referred to elsewhere in this Prospectus is also non-IFRS data. All of these measures constitute alternative performance measures (as defined in the European Securities and Markets Authority guidelines (the **ESMA Guidelines**) on Alternative Performance Measures (**APMs**)).

The Group believes that the APMs included in this Prospectus provide useful supplementary information to both investors and to the Group's management (**Management**), as they facilitate the evaluation of underlying operating performance and financial position across financial reporting periods. However, investors should note that, since not all companies calculate financial measurements, such as the APMs presented by the Group in this Prospectus, in the same manner, these are not always directly comparable to performance metrics used by other companies.

The APMs contained in this Prospectus should not be considered in isolation and are not measures of financial performance or liquidity under IFRS. These non-IFRS measures should not be considered as an alternative to revenues, profit or loss for the period or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities or any other measure of liquidity derived in accordance with IFRS. Non-IFRS measures do not necessarily indicate whether cash flow will be sufficient or available for cash requirements and may not be indicative of actual results of operations. In addition, the APMs in this Prospectus may not be comparable to other similarly titled measures used by other companies. The Group believes that net interest margin and other non-IFRS measures presented in this Prospectus are useful indicators of financial performance that are widely used by investors to monitor the results of banks generally. Because of the discretion that the Group and other companies have in defining these measures and calculating the reported amounts, care should be taken in comparing these measures with similar measures used by other companies.

The APMs contained in this Prospectus have also not been prepared in accordance with US GAAP, SEC requirements or the accounting standards of any other jurisdiction.

### **Monetary and Exchange Rate Policy**

Kuwait's monetary and exchange rate policy is set and managed by the CBK. The CBK's main monetary policy objective is to maintain monetary stability with the aim to mitigate the impacts of inflation and to enhance social and economic progress in Kuwait and the growth of national income.

The CBK's policy for the Kuwaiti dinar exchange rate aims at maintaining and enhancing the relative stability of the Kuwaiti dinar against other currencies and shielding the domestic economy against the impacts of imported inflation. These responsibilities reflect the importance of the exchange rate policy in the Kuwaiti economy where no restrictions are imposed on the movement of capital.

Since 1975, the Kuwaiti dinar has been pegged to an undisclosed weighted basket of international currencies of Kuwait's major trade and financial partner countries (the **Kuwaiti Dinar Basket**), except between January 2003 and May 2007, when the Kuwaiti dinar was pegged to the U.S. dollar within margins around a parity rate.

This exchange rate policy contributes to maintaining the relative stability of the KD exchange rate against other currencies and strengthens the CBK's ability to implement a monetary policy aimed at reducing inflationary pressures, particularly those resulting from fluctuations in the exchange rates of world currencies. The CBK has the ability to adjust the Kuwaiti Dinar Basket at its discretion.

The following table shows the Kuwaiti dinar per U.S.\$1.00 exchange rate based on daily data for the years ended 31 December 2020 and 31 December 2019.

	<b>High U.S.\$/KD</b>	<b>Low U.S.\$/KD</b>	<b>Difference</b>	<b>Difference (%)</b>
31 December 2020 .....	0.310	0.303	0.007	2.29
31 December 2019.....	0.304	0.303	0.001	0.59

Source: Central Bank of Kuwait

## Definitions

Capitalised terms which are used but not defined in any section of this Prospectus have the meanings attributed to them in the Conditions or any other section of this Prospectus. In addition, the following terms used in this Prospectus have the meanings defined below:

- references to "**GCC**" are to the Gulf Co-operation Council;
- reference to the "**Group**" are to the Bank and its subsidiaries taken as a whole;
- references to "**Kuwait**" are to the State of Kuwait;
- references to a "**Member State**" are references to a Member State of the European Economic Area; and
- references to the "**MENA region**" are to the Middle East and North Africa region.

## Certain Conventions

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments; accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In this Prospectus, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

All references in this Prospectus to:

- "**U.S. dollars**", "**U.S.\$**" and "**\$**" refer to United States dollars being the legal currency for the time being of the United States of America;
- "**dinar**" and "**KD**" refer to Kuwaiti dinar being the legal currency for the time being of Kuwait;
- "**euro**", "**EUR**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended;
- "**GBP**" refer to the British Pound, being the legal currency for the time being of the United Kingdom; and
- "**Egyptian pounds**" and "**EGP**" refer to the legal currency for the time being of the Arab Republic of Egypt.

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## **RISK FACTORS**

*Any investment in the Capital Securities is subject to a number of risks and uncertainties. Prospective investors should consider carefully the risks and uncertainties associated with the Group's business and any investment in the Capital Securities, together with all of the information that is included in this Prospectus, and should form their own view before making an investment decision with respect to the Capital Securities. In particular, prospective investors should evaluate the risks and uncertainties referred to or described below, which may have a material adverse effect on the Issuer's or the Group's business, results of operations and financial condition. Should one or more of the following events or circumstances occur at the same time or separately, the value of the Capital Securities could decline and an investor might lose part or all of its investment.*

*Each of the Issuer and the Bank believes that the factors described below represent the principal risks inherent in investing in the Capital Securities, but the Issuer's and the Bank's inability to pay interest, principal or other amounts on or in connection with the Capital Securities may occur for other reasons and the Issuer and the Bank do not represent that the statements below regarding the risks of holding the Capital Securities are exhaustive. Additional risks not presently known to the Issuer or the Bank or that the Issuer or the Bank currently deem immaterial may also impair the Issuer's or the Bank's ability to pay interest, principal or other amounts on or in connection with the Capital Securities.*

*This Prospectus also contains forward-looking statements that involve risks and uncertainties. The Issuer's and the Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Issuer and the Bank described below and elsewhere in this Prospectus. See "Cautionary Statement Regarding Forward-Looking Statements".*

### **FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE CAPITAL SECURITIES**

#### **The Issuer has a limited operating history and no material assets**

The Issuer is a prescribed company with limited liability, incorporated under the laws of the DIFC on 22 October 2020 and, accordingly, only has a limited operating history. The Issuer is a wholly owned subsidiary of the Guarantor. All proceeds from the issue of the Capital Securities will be lent by the Issuer to the Guarantor pursuant to the terms of the On-Loan Agreement (as defined in the Conditions). Payments of principal and interest under the Loan (as defined in the Conditions) by the Guarantor to the Issuer will fund the Issuer's payment obligations under the Capital Securities. The Guarantor's obligations under the On-Loan Agreement are subordinated in a manner equivalent to the subordination of its obligations under the Subordinated Guarantee, as described in Condition 4.2 (*Status of the Guarantee and Subordination*) and under the section entitled "*Use of Proceeds*".

As the Issuer does not have any other business operations, the Issuer's ability to fulfil its obligations under the Capital Securities is entirely dependent on the Guarantor's performance under the On-Loan Agreement. As a result, the Issuer is subject to all the risks to which the Guarantor is subject, to the extent such risks could limit the Guarantor's ability to satisfy in full and on a timely basis its obligations to the Issuer under the On-Loan Agreement. See "*Factors that may Affect the Bank's Ability to fulfil its Obligations in respect of Capital Securities, the Loan and/or the Subordinated Guarantee*".

### **FACTORS THAT MAY AFFECT THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS IN RESPECT OF CAPITAL SECURITIES, THE LOAN AND/OR THE SUBORDINATED GUARANTEE**

#### **Economic risks**

***Macro-economic and financial market conditions have materially adversely affected and may continue to materially adversely affect the Group's business, results of operations and financial condition***

The Group, in common with other financial institutions, is susceptible to changes in the macro-economic environment and the performance of financial markets generally. Following the significant fall in international oil prices in recent years, particularly following the impact of the COVID-19 pandemic, the economies of many oil producing countries in the Middle East, including Kuwait, have been adversely

impacted. See "*Risks Relating to the Region in which the Group Principally Operates— Kuwait's economy and government revenues are significantly impacted by, and are dependent upon, international oil prices*" below.

The Group's operations are concentrated in Kuwait and the MENA region. For the year ended 31 December 2020, 75.5 per cent. of the Group's net operating income was derived from its operations in Kuwait (compared to 75.4 per cent. for the year ended 31 December 2019 and 76.3 per cent. for the year ended 31 December 2018). As at 31 December 2020, 80.0 per cent. of its maximum exposure to credit risk (including contingent liabilities) was concentrated in the MENA region, principally in Kuwait.

As of December 2020, despite signs of economic recovery following the lockdowns and business closure measures put in place to address the COVID-19 pandemic, the Group believes that further reforms are required to boost longer-term growth potential, given the continued macro-economic and financial market fluctuations and downward trend in 2020. According to data published by the Kuwait Ministry of Finance, the fiscal deficit in Kuwait widened to 9.5 per cent. of GDP in the fiscal year ended 31 March 2020 from 3 per cent. of GDP in the previous fiscal year. Within the banking sector, borrowing costs, which increased in 2018 as the CBK raised its benchmark interest rate by 0.25 per cent. to 3.0 per cent., decreased in October 2019 as the CBK cut its benchmark rate by 0.25 per cent. to 2.75 per cent. On 4 March 2020, the CBK lowered its benchmark interest rate by 25bps to 2.50 per cent. followed by another decrease on 16 March by 100bps resulting in a benchmark rate of 1.50 per cent which has been maintained as of January 2021. During the same period, the U.S. Federal Reserve cut resulted in benchmark interest rates ranging between 0 per cent. to 0.25 per cent.

According to data published by the CBK, the exchange rate of the Kuwaiti dinar remained relatively stable against other currencies. During the fiscal year ended 31 March 2020, the average rate of Kuwaiti dinar against the US Dollar amounted to 304.340 fils to one US Dollar compared to 302.743 fils in the previous year. Despite this relative stability, the exchange rate of the Kuwaiti dinar against other currencies could fluctuate due to macro-economic volatility.

Outside Kuwait, the Group's largest operation within the MENA region is that of its 98.5 per cent. owned Egyptian subsidiary, National Bank of Kuwait – Egypt S.A.E. (**NBK Egypt**) which, for the year ended 31 December 2020, accounted for 8.1 per cent. of the Group's net operating income (compared to 8.0 per cent. for the year ended 31 December 2019). Egypt, in past years, and particularly since the 2011 Egyptian revolution, experienced a turbulent period including significant political unrest and multiple terrorist attacks which culminated in a period of economic instability, although economic conditions have been somewhat more positive since 2019, up to the COVID-19 outbreak. Egypt is still facing a number of risks, including high exposure to external shocks and high debt servicing costs, an acceleration in inflation which is currently moderate, as well as further economic fallout from the COVID-19 pandemic. In addition, through its consolidation of NBK Egypt, the Group is impacted by exchange rate movements in the Egyptian pound and any significant devaluation of the Egyptian pound could have a material adverse effect on the Group's business, results of operations and financial condition. Any developments of a similar nature involving the major GCC economies may also have a significant adverse effect on the Group.

Any significant deterioration in macro-economic conditions in the MENA region, and particularly in Kuwait and Egypt, could have a material adverse effect on the Group's business, results of operations and financial condition, in particular through increased provisions for credit losses and reduced demand for loans and other banking services. See also "*Credit risks—The Group's credit facilities and debt securities portfolios are concentrated by geography, sector and client*" below.

***The outbreak of communicable diseases around the world, in particular the COVID-19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations.***

The outbreak of communicable diseases on a global scale may affect investment sentiment and result in sporadic volatility in global markets. The coronavirus known as COVID-19 was first identified in Wuhan, Hubei Province, China in late 2019 and spread to most countries around the world. In March 2020, the United States, certain EU countries and countries in the Middle East, including Kuwait, have imposed varying levels of entry and other restrictions, which aimed to reduce in-person interactions. These measures, while designed to slow the spread of COVID-19, resulted in significant reductions in economic activity globally. Since it is currently unclear how long existing restrictions will be in place, the duration of possible future restrictions and what their ultimate impact will be on global and local economies.

According to the World Bank, the COVID-19 pandemic has negatively impacted the global economy, created significant volatility and disruption in financial markets, decreased interest rates and has pushed over 80 million people into extreme poverty in 2020. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities. The curfews and lockdown measures in Kuwait and certain other markets and slower economic activity, especially during the second quarter of the year, had a significant adverse impact on the Group which could continue in the future. The decrease in interest rates resulted in a reduction in the Group's interest margins while lower transaction volumes resulted in lower fees and commission income. Additionally, the impact of non-oil GDP contraction, lower oil prices and lockdown measures increased the level of uncertainty around cash flows for certain of the Group's customers, which has led to a significant increase in provision charges.

The COVID-19 pandemic is on-going and there is a significant risk of recurring outbreaks in affected countries and possible future mutations in the virus may prove difficult to contain. For example, many countries in Europe have re-introduced full or partial lockdowns in late 2020 and early 2021 in order to stem the "second wave" of higher infection rates. The extent to which the COVID-19 pandemic impacts the Group's business, results of operations, and financial condition, as well as the Group's regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. The Group may be forced to consider adjustments to specific elements of its operations and/or customer exposures including loan tenor extensions or adjustments to loan and credit card instalments. Any material change in the financial markets, the Kuwaiti economy or the global economy as a result of these events or developments may materially have an adverse effect on the Group's business, results of operations and financial condition. It should be noted that the impact of COVID-19, including actions taken to contain it, might heighten many of the other risks noted within these Risk Factors, including through increasing both the probability of negative impact as well as the severity of such impact.

#### **Credit risks**

***The Group may experience a higher level of customer and counterparty defaults arising from adverse changes in credit and recoverability which are inherent in the Group's business***

As a result of market conditions prevailing over the last few years, including the challenging economic environment in Kuwait, particularly in 2016 and 2017, together with other factors including the performance of international debt and equity markets, including political events such as the United Kingdom's secession from the European Union, the trade disputes between the United States and China, and, more recently, concerns about the spread of COVID-19, companies to which the Group directly extends credit have experienced, and may continue to experience, decreased revenues, financial losses, insolvency, difficulty in obtaining access to financing and increased funding costs and some of these companies have been unable to meet their debt service obligations or other expenses as they become due, including amounts payable to the Group.

Although the economy in Kuwait is beginning to open up, there can be no assurance that this will translate in the future into improvement in the performance of the Group's loans, advances and Islamic financing provided to customers or in the provisions and impairment losses. A resurgence of waves of COVID-19 could trigger further lockdowns of the economy and the Group remains exposed to adverse changes in credit and recoverability that are inherent in its business, which may cause it to experience a higher level of customer and counterparty defaults in the future.

As at 31 December 2020, the Group's loans, advances and Islamic financing provided to customers (before provisions), amounted to KD 18,192 million compared to KD 17,061 million as at 31 December 2019 and KD 16,009 million as at 31 December 2018. The Group's non-performing loans, advances and Islamic financing as at the same dates amounted to KD 312 million, KD 187 million and KD 222 million, respectively, equal to 1.72 per cent., 1.10 per cent. and 1.38 per cent., respectively, of the total. The increases in such non-performing assets in 2020 have primarily been from the services, real estate and construction sectors. The Group has also increased its general provisions to reflect the continuing uncertainty surrounding COVID-19.

Any such increase in customer and counterparty defaults could have a material adverse effect on the Group's business, results of operations and financial condition.

***The Group's credit facilities and debt securities portfolios are concentrated by geography, sector and client***

The Group's loans, advances and Islamic financing to customers and its debt securities portfolio (including its holding of Kuwaiti Government treasury bonds and CBK bonds) together constituted KD 23,251 million, or 78.2 per cent. of its total assets, as at 31 December 2020, KD 22,020 million, or 75.2 per cent. of its total assets, as at 31 December 2019 and KD 20,677 million, or 75.4 per cent. of its total assets, as at 31 December 2018.

In terms of geographical concentration, of the Group's total portfolio of loans, advances and Islamic financing as at 31 December 2020, the borrowers in respect of 87.9 per cent. were located in the MENA region (principally in Kuwait), (as at 31 December 2019: 89.7 per cent., as at 31 December 2018: 92.1 per cent.), and the borrowers in respect of the remaining 12.1 per cent. were located outside the MENA region (as at 31 December 2019: 10.3 per cent., as at 31 December 2018: 7.9 per cent.). In addition, the Group's debt securities portfolio has significant exposure to MENA region issuers which are principally Kuwaiti and other governments. As at 31 December 2020, KD 4,959 million, or 86.3 per cent., of the total portfolio comprised exposure primarily to MENA region issuers (KD 4,782 million, or 87.5 per cent. as at 31 December 2019 and KD 4,514 million, or 87.3 per cent. as at 31 December 2018).

As a result of the concentration of the Group's credit facilities and debt securities portfolios in Kuwait and the MENA region, any significant deterioration in general economic conditions in Kuwait or the MENA region could have a material adverse effect on the Group's business, results of operations and financial condition. In particular, since the Group has indirect exposure to the oil and gas sector including through entities and projects related to the sovereign, any deterioration in oil and gas prices may further adversely affect the Kuwait economy as a whole and may indirectly adversely impact the Group as a result of a deterioration in other sectors of the Kuwait economy.

In terms of sector concentration, the Group does not disclose the sectoral breakdown of its loans, advances and Islamic financing and debt securities portfolios, although it does disclose the sectoral breakdown of its financial assets and off-balance sheet items which represent its maximum exposure to credit risk and which totalled KD 33,843 million as at 31 December 2020, KD 32,981 million as at 31 December 2019 and KD 31,017 million as at 31 December 2018. The Group's maximum exposure to credit risk has concentrations of exposure to particular economic sectors, including banks and financial institutions which, as at 31 December 2020, accounted for KD 9,937 million, or 29.4 per cent. of its maximum total exposure to credit risk. Other significant sectoral concentrations as at 31 December 2020 were the retail/consumer segment, which accounted for KD 5,842 million, or 17.3 per cent., of the Group's maximum exposure to credit risk, the government sector, which accounted for KD 3,558 million, or 10.5 per cent., of the Group's maximum exposure to credit risk and the real estate sector, which accounted for KD 3,842 million, or 11.4 per cent., of the Group's maximum exposure to credit risk. Each of these sectors presents different levels of risk. For example, the banking sector is particularly exposed to adverse economic conditions, see "*Economic risks—Macro-economic and financial market conditions have materially adversely affected and may continue to materially adversely affect the Group's business, results of operations and financial condition*" above. In addition, the real estate market is cyclical and the retail/consumer segment is also impacted by economic conditions, particularly factors such as the deferral program announced as a result of COVID-19, inflation, unemployment, wage freezes and house price declines.

In terms of client concentration, the Group's 20 largest loans, advances and Islamic financing provided to customers outstanding as a percentage of its gross financing portfolio as at 31 December 2020 was 15 per cent. (2019: 16 per cent.). The Group is therefore particularly exposed to a default by the borrowers under any one or more of these large exposures.

Such defaults could have a material adverse effect on the Group's business, results of operations and financial condition.

***A substantial increase in impairment allowances, or incurred losses greater than the level of existing provisions for credit losses, would adversely affect the Group's results of operations and financial condition***

Credit facilities granted by the Group comprise loans and advances, Islamic financing to customers, letters of credit and financial guarantee contracts, and commitments to grant credit facilities.

Since 1 January 2018, in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK, the Group is required to recognise impairment allowances for credit facilities at an amount equal to the higher of (i) the ECL under IFRS 9 according to CBK guidelines and (ii) the provisions as required by CBK instructions. In 2020, the Group was exceptionally allowed to charge losses on financial assets (consumer and other instalment loans and credit card receivables) arising from payment holidays granted to customers in response to COVID-19 in relation to instalments due during the period 1 April 2020 to 30 September 2020 (referred to as "**modification losses**") directly against retained earnings, instead of recognising them in the consolidated statement of income as required by IFRS 9 (as discussed in note 33 to the 2020 Financial Statements under the heading "*Impact of COVID-19*"). The impact of the modification losses has been reflected in the asset values as at 31 December 2020. These payment holidays to customers and absence of delinquency experience during such period also temporarily disrupted the Bank's normal procedures in assessing the risk in the portfolio. With respect to other financial assets, the Group is required to adopt IFRS 9 in compliance with the requirements of Kuwait Law No. 1 of 2016 on the Promulgation of the Companies Law.

The Group's overall level of impairment allowances is based upon a wide range of factors, including the volume and type of lending and financing being conducted, the collateral held, applicable regulations, past due facilities, economic conditions and other factors related to the recoverability of various facilities. Although the Group endeavours to establish an appropriate level of impairment allowances in accordance with applicable requirements, there can be no assurance that the Group has taken sufficient impairment allowances, particularly as a result of the heightened uncertainty as a result of the ongoing impact of COVID-19. Accordingly, the Group may have to significantly increase its impairment allowances for credit losses in the future as a result of increases in non-performing assets, deteriorating economic conditions (especially from the impact of COVID-19) leading to increases in defaults and bankruptcies, or for other reasons. As at 31 December 2020, the Group's impaired loans ratio (defined as impaired loans as a percentage of total gross loans) was 1.72 per cent. (2019: 1.10 per cent.). The increase was primarily driven by the impact of COVID-19.

As at 31 December 2020, the Group had KD 312 million of impaired loans, advances and Islamic financing and its provision for credit losses thereon was KD 687 million, in each case calculated in accordance with CBK requirements. The Group's expected credit loss on credit facilities, determined in accordance with IFRS 9, was KD 605 million as at 31 December 2020. As at 31 December 2019, the Group had KD 187 million of impaired loans, advances and Islamic financing and its provision for credit losses thereon was KD 509 million, in each case calculated in accordance with CBK requirements. The Group's expected credit loss on credit facilities, determined in accordance with IFRS 9, was KD 395 million as at 31 December 2019.

As at 31 December 2020, the Group's provision for credit losses on loans, advances and Islamic financing covered 220.0 per cent. of its impaired loans, advances and Islamic financing (as at 31 December 2019: 272.2 per cent.).

Any significant increase in impairment allowances for credit losses reflecting a change in the Group's estimation of its expected credit losses, however caused, as well as the occurrence of losses in excess of the impairment allowances allocated made, would have an adverse effect on the Group's business, results of operations and financial condition.

***Collateral provided in favour of the Group may not be sufficient to cover any losses and certain security interests may not be legally enforceable in Kuwait***

The Group typically requires collateral in the form of cash and/or other assets in situations where the Group may not be able to exercise rights over pledged shares or where it enters into guarantees or other third party credit support arrangements for credit facilities granted to individuals and corporations.

The estimated fair value of the collateral which the Group held against its gross past due or impaired loans, advances and Islamic financing to customers as at 31 December 2020 was KD 201 million. Collateral held as security against impaired loans, advances and Islamic financing primarily relates to real estate and securities. Where the collateral is enforced and the value realised exceeds the outstanding debt owed to the relevant member of the Group, the excess is returned to the customer concerned and is not available for offset against other debts. Reflecting this fact and the fact that at the time when enforcement is required collateral values may be adversely affected, particularly if, for example, the enforcement results from a period of significant adverse economic conditions, there is no assurance that the value of the Group's

collateral will be sufficient to cover all defaulting debts, and any losses recorded in such case, to the extent they have not already been provided for, will be recorded as a charge to the Group's income statement.

The practice of pledging assets (such as securities portfolios and real estate assets) to obtain financing from a bank is subject to certain limitations and administrative restrictions under Kuwaiti law. In particular, such security over real estate mortgages will require a court order for enforcement. As a result, security over certain pledged assets may not be enforced in Kuwaiti courts. Accordingly, the Group may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third party credit support arrangements when debtors default on their financial obligations.

In addition, even if such security interests are enforceable in Kuwaiti courts, the time and costs associated with enforcing security interests in Kuwait may make it uneconomic for the Group to pursue such proceedings, adversely affecting the Group's ability to recover its credit losses. As at 31 December 2020, the Group had loans, advances and Islamic financing to customers (net of provisions) totalling KD 17,504 million (31 December 2019: KD 16,553 million, 31 December 2018: KD 15,503 million). For each of 2020, 2019 and 2018, respectively, on average 47 per cent. of the Group's loans, advances and Islamic financing to customers portfolio (excluding consumer loans and net of provisions) was secured by collateral, primarily comprising cash, shares and real estate collateral.

Any decline in the value or liquidity of collateral may prevent the Group from foreclosing on such collateral for its full value or at all in the event that a customer becomes insolvent and enters bankruptcy, and could thereby adversely affect the Group's ability to recover the full amounts advanced to the customer.

The occurrence of any of the foregoing could have a material adverse effect on the Group's business, results of operations and financial condition.

***The Group could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties***

The Group is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. This risk is particularly relevant to the Group since banks and other financial institutions represented 29.4 per cent. of the Group's maximum exposure to credit risk as at 31 December 2020 (2019: 32.0 per cent.)

Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009, concerns about, or a default by, one institution could also lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a particular counterparty may lead to market-wide liquidity problems and losses or defaults by the Group or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with whom the Group interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Group's ability to raise new funding and on its business, financial condition and results of operations.

**Liquidity risks**

***The Group's cash flow from its operations may not be sufficient at all times to meet its contractual and contingent payment obligations***

If the Group's cash flow from its operations is not sufficient to meet its short- and medium-term contractual and contingent payment obligations coming due, it could experience liquidity issues. Such liquidity issues could occur if the Group's available liquidity is not sufficient to enable it to service its debt, fulfil loan commitments or meet other on-or off-balance sheet payment obligations on specific dates, even if the Group continues to receive new deposits from customers, proceeds from new financings or its future revenue streams. Such liquidity issues could also arise if there is an unexpected outflow of customer deposits, if there is a material decline in the value of the Group's liquid securities portfolio or if the Group is unable to secure short-term funding at commercially acceptable rates to bridge this funding gap.

As at 31 December 2020, the Group had cash and short-term funds of KD 3,903 million (31 December 2019: 3,787 million, 31 December 2018: KD 2,967 million) and a liquid asset ratio (defined as the sum of

cash and short-term funds, CBK bonds, Kuwait Government treasury bonds, deposits with banks and investment securities excluding those at amortised cost, divided by total assets) of 34.1 per cent. (as at 31 December 2019: 36.2 per cent., as at 31 December 2018: 35.9 per cent.).

The Group is subject to the Basel III Liquidity Coverage Ratio (**LCR**) as adopted by the CBK. The LCR is a metric introduced by the Basel Committee on Banking Supervision as part of the Basel III criteria to measure a bank's ability to manage a sustained outflow of customer funds in a liquidity stress event over a 30-day period. 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. The LCR requires that banks have sufficient HQLAs in their liquidity buffer to cover the difference between expected cash outflows and expected capped cash inflows over a 30-day stressed period. Basel III requires the minimum value of the ratio be 100 per cent. (i.e., an institution's stock of HQLAs should at least equal projected total net cash outflows). The CBK introduced the LCR in a phased manner, setting benchmarks of 70 per cent. in 2016, 80 per cent. in 2017, 90 per cent. in 2018 and 100 per cent. from 2019. Kuwaiti banks are required to submit, along with existing liquidity reports, their LCR reports on a monthly basis (including daily figures for the month) for monitoring purposes as well as quarterly by major currency. The Group three months average LCR as at 31 December 2020 was 145.2 per cent. while the HQLA (post-factor) was KD 6,626 million and the net cash outflow was KD 4,569 million. (as at 31 December 2019: quarterly average HQLAs valued at KD 5,833 million and an average LCR ratio of 159.7 per cent.).

The Group's requirement to comply with the LCR and the associated requirement to maintain a significant buffer of HQLAs may affect the Group funding structure, causing more dependency on funding from non-financial sources and longer-term deposits. Moreover, the inherent cost of maintaining a HQLA portfolio of sufficient size and quality to cover regulatory outflow assumptions embedded in the LCR may adversely impact the return on assets. Additionally, the inherent costs associated with LCR compliance may place the Group at a competitive disadvantage to its peer financial institutions based in other GCC states that have yet to fully implement Basel III.

The Group is also subject to the Basel III Net Stable Funding Ratio (**NSFR**) as adopted by the CBK. The NSFR is a metric introduced by the Basel Committee on Banking Supervision as part of the Basel III criteria to measure a bank's ability to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits over reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. 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. Basel III requires the minimum value of the ratio be 100 per cent. (i.e., ASF divided by RSF must be greater than or equal to 100 per cent.) from 2016. Kuwaiti banks are required to submit, along with existing liquidity reports, their NSFR reports on a monthly basis (including a daily report for the month) for monitoring purpose. As at 31 December 2020, the Group had an NSFR ratio of 115.1 per cent. (2019: NSFR ratio of 111.1 per cent.).

The Group's requirement to comply with the NSFR and the associated requirement to maintain a significant buffer of stable funding may result in a shift in the Group's liabilities structure. Accordingly, the Group would depend even less on funding from financial institutions in favour of funding from the core business areas such as consumer and non-financial wholesale clients. Such a shift could adversely impact the Group's funding cost given the inherent cost associated with attracting funding from customer deposits, especially long-term deposits. The systemic need to adhere to regulatory ratios increases competition among banks to attract such deposits. The NSFR, like LCR, also places reliance on HQLA.

If, as a result of insufficient liquidity, the Group defaults on any contractual or contingent payment obligation, such default would have a material adverse effect on its business, results of operations and financial condition.

***The Group relies on short-term demand and time deposits as a major source of funding but primarily has medium- and long-term assets, which may result in asset-liability maturity gaps and this risk is increased by significant concentrations in the Group's customer deposit portfolio***

The Group is exposed to liquidity risk as a result of mismatches in maturity dates of assets and liabilities. In common with other banks in Kuwait, many of the Group's liabilities are short-term demand and time deposits, whereas its assets are generally medium to long-term loans. Mismatches between the Group's maturities of assets and liabilities could arise if the Group is incapable of obtaining new deposits or alternative sources of finance or the cost of obtaining them becomes prohibitive.

Although the Group has accessed wholesale funding, including through international financial markets, in order to diversify and increase the maturity of its funding sources, such borrowings have not eliminated the Group's asset-liability maturity gaps. As at 31 December 2020, 80.5 per cent. of the Group's funding (which comprises total liabilities and equity) had remaining maturities of one year or less or were payable on demand (as at 31 December 2019: 81.9 per cent., as at 31 December 2018: 82.2 per cent.).

The Group's customer deposits amounted to KD 17,104 million, or 66.9 per cent. of its total liabilities, as at 31 December 2020 (as at 31 December 2019: KD 15,931 million, or 63.7 per cent. of its total liabilities, as at 31 December 2018: KD 14,389 million, or 60.6 per cent. of its total liabilities). Deposits from the Kuwaiti government and its related agencies accounted for approximately 12 per cent. to 25 per cent. of the Group's total funding in the period between 1 January 2018 and 31 December 2020. In terms of liabilities, the Group's 20 largest customer deposits constituted 21 per cent. of its total customer deposits as at 31 December 2020 (as at 31 December 2019: 28 per cent. of total customer deposits, as at 31 December 2018: 28 per cent. of total customer deposits).

As at 31 December 2020, 85.6 per cent. of the Group's deposits had maturities of less than three months or were repayable on demand (as at 31 December 2019: 77.6 per cent., as at 31 December 2018: 79.3 per cent.), although as is typical in the Kuwaiti banking industry, these deposits have generally proved to be "sticky" in nature and a stable source of funding based on historical behaviour analysis. Nevertheless, they are effectively repayable on demand or very short notice.

The availability of deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time or may cause the Group to increase the return paid on its deposits to ensure it retains sufficient deposits. The Group may also experience outflows of deposits at times when liquidity is constrained generally in Kuwait and the MENA Region or when its major depositors experience short- or longer-term liquidity requirements. Particularly if international oil and gas prices fall significantly, the Group's large depositors (including the government and quasi-governmental depositors) may start to withdraw part or even all of their deposits with it. There has been a decrease in the Government and quasi-Government deposits from 2018 to 2020. Although the Group has been able to diversify its deposit base in recent years and increase its retail deposits, if a substantial portion of the Group's depositors, or any of its large depositors, withdraw their demand deposits or do not roll over their time deposits upon maturity, or the Group fails to refinance some of its large short- to medium-term borrowings, the Group may need to access more expensive sources to meet its funding requirements. No assurance can be given that the Group will be able to obtain additional funding on commercially reasonable terms as and when required, or at all. The Group's inability to refinance or replace such deposits with alternative funding could materially adversely affect the Group's liquidity, business, results of operations and financial condition and, in extreme cases, could, potentially, result in its insolvency.

***The Group has significant off-balance sheet credit-related commitments that may lead to potential losses***

As part of its normal banking business, the Group issues irrevocable commitments to extend credit, guarantees, letters of credit and acceptances. All of these are accounted for off-balance sheet until such time as they are actually funded or cancelled. Although these commitments are contingent they, nonetheless, subject the Group to related credit, liquidity and market risks. As at 31 December 2020, the Group had KD 5,704 million outstanding in contingent liabilities and irrevocable commitments to grant credit (as at 31 December 2019: KD 5,290 million), equal to 24.6 per cent. of its combined loans, advances and Islamic financing to customers and contingent liabilities and commitments (as at 31 December 2019: 24.2 per cent.).



Although the Group anticipates that not all of its obligations in respect of these commitments will be triggered and funds itself accordingly, it may have to make payments in respect of a substantial portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This would result in the Group needing to obtain additional funding, potentially at relatively short notice, which may not be readily available or may be significantly more expensive, which would reduce the Group's margins and adversely impact its operating income and profitability.

***A negative change in the Group's credit rating could limit its ability to raise funding and may increase its borrowing costs***

The Group has an issuer credit rating of A with stable outlook from S&P, a long-term bank deposits rating of A1 with a stable outlook from Moody's and a long-term foreign currency issuer default rating of AA- with negative outlook from Fitch. In September 2020, Moody's downgraded the long-term foreign currency deposits rating for the Group to A1 from Aa3. On 11 February 2021, Fitch revised the outlook on the Group's long-term foreign currency issuer default rating of AA to negative from stable. These ratings, which are intended to measure the Group's ability to meet its debt obligations as they mature, are an important factor in determining the Group's cost of borrowing funds.

There is no assurance that the Group's ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade of the Group's credit ratings, or a negative change in their outlook may limit the ability of the Group and any of its members to raise funding, increase the cost of borrowing of the Group and any of its members; and limit the ability of the Group and any of its members to raise capital, each of which could adversely affect its business, financial condition and results of operations. Moreover, actual or anticipated changes in the Group's credit rating may affect the market value of the Capital Securities.

According to each of Moody's, S&P and Fitch, a significant factor underpinning the Group's ratings is their assessment of support for the Group from the Kuwaiti authorities. Any negative change in the sovereign ratings of Kuwait could trigger a reduction in the Group's ratings. See "*Risks Relating to the Region in which the Group Principally Operates—The Kuwaiti Government is under no obligation to support the Group*" below.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Ratings may not reflect the potential impact of all risks related to structure, market, the risk factors discussed in this section and others that may affect the value of the Capital Securities.

## **Market risks**

***Changes in interest rate levels may affect the Group's net interest and Islamic debt margins and borrowing costs, and the value of assets sensitive to interest rates and spread changes may be adversely affected***

The Group's operations are affected by, among other things, fluctuations in interest rates and funding costs. In particular, the Group's activities depend on the Group's interest rate risk management, as well as the connections between market rates, interest and Islamic debt margins. The income from financings achieved by the Group largely depends on the level of the Group's interest-bearing and income-yielding assets and liabilities, as well as the average returns and yields thereon and funding costs.

Interest rates and funding costs are sensitive to many factors beyond the Group's control, including the policies of central banks, such as the CBK and the U.S. Federal Reserve, political factors and domestic and international economic conditions. For example, since 1 January 2016 the CBK raised its discount interest rate four times, from 2.0 per cent. to 3.0 per cent., with the last increase being in March 2018. The CBK then cut its discount interest rate from 3.0 per cent. to 2.75 per cent. in October 2019. Over the same period, the U.S. Federal Reserve increased its interest rate eight times from 0.5 per cent. to 2.5 per cent. in December 2018, although the U.S. Federal Reserve has cut its interest rate three times in 2019, most recently to 1.75 per cent. in October 2019. As a result of the COVID-19 pandemic, interest rates globally continued to be cut in 2020. In response to the negative impact of the COVID-19 pandemic on the Kuwait economy, on 4 March 2020 the CBK reduced the benchmark interest rate by 0.25 per cent. and subsequently further reduced the benchmark interest rate by 100 bps to 1.50 per cent., which is the lowest rate recorded. During the same period, the US Federal Reserve reduced its benchmark rate to between 0 to 0.25 per cent.

If interbank reference rates/yields rise, the costs payable on the Group's floating rate borrowings, which are denominated in Kuwaiti dinar, increases. The Group's marginal cost of funding may increase as a result of a variety of factors, including deterioration of conditions in the financial markets or loss of confidence by and between financial institutions. If the Group fails to pass on any increases in funding cost to its customers in a timely manner or at all due to market, competitive or other conditions, it could have a material adverse effect on its business, results of operations and financial condition. Given the repricing characteristics of the Group's balance sheet, the Group is generally exposed in a scenario of falling interest rate/yield.

In the case of certain retail loans denominated in Kuwaiti dinar, the Group is exposed to some interest rate risk, since interest rates on those loans are not re-priced for the first five years and then the subsequent permitted adjustments are restricted in amount.

Any shortage of liquidity in markets that are sources of funding for the Group could contribute to an increase in the Group's marginal borrowing costs. Similarly, any increase in interbank reference rates could also affect the value of certain assets that are subject to changes in applicable interest rates. The Group's interest/funding rate sensitivity position as at 31 December 2020, 2019 and 2018 was based on contractual re-pricing arrangements and is set out elsewhere in this Prospectus – see "*Risk Management—Principal Risks—Market Risk—Interest rate risk*".

***The Group may experience challenges with the transition to alternative benchmark rates following the cessation of LIBOR in 2021***

The Group has a significant amount of income-earning assets and a much lower amount of cost-bearing liabilities which have floating interest rates which are tied to LIBOR. The evolving developments surrounding the cessation of LIBOR quotations for various major currencies and the consequent adoption of alternative benchmark rates will impact the Group's financial products which use LIBOR as the reference rate. The Group believes that the main challenges to the transition will lie in dealing with the significant changes to documentation, valuation, models/infrastructure and operational processes, as well as the effects on legal, tax and accounting rules for both its assets and liabilities. The Group is monitoring the developments closely and is preparing transitional arrangements, including the introduction of 'fall back clauses' and aligning to recommendations from global and professional bodies. The Group established a committee to monitor updates on the transition process, however there are no assurances as to how various market participants may react upon interest rate volatility after the cessation of LIBOR which could have a material adverse effect on the Group's business, financial condition and results of operations.

***Changes in equity and debt securities prices may affect the values of the Group's investment portfolios***

The Group holds investment securities (both equity and fixed-income). A significant proportion of these investments are held at fair value through other comprehensive income and a small proportion are held at fair value through the statement of income. As a result, changes in the fair value of these securities from period to period are recorded in the Group's statement of comprehensive income or statement of income, as the case may be, and these changes can be material.

Any changes in the fair value of these securities, for example as a result of changing equity prices where the securities are quoted on an active market, has an impact on the Group's equity – see "*Risk Management—Principal Risks—Market Risk—Equity price risk*", which illustrates the Group's sensitivity to a 5 per cent. increase in relevant market indices as at 31 December 2020, 2019 and 2018. In addition, the Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. The Group cannot predict the amount of realised or unrealised gain or loss for any future period, and variations from period to period, which may be significant, are not indicative of future performance. Gains on the Group's investment portfolio may not continue to contribute to net income at levels consistent with those from recent periods or at all.

***The Group's financial condition and results of operations could be adversely affected by foreign exchange risks***

As a financial intermediary, the Group is exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match

the currencies of its assets and liabilities and any open currency position is maintained within the limits set by the CBK. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not, in all cases, protect the Group against such risks. See "*Risk Management—Principal Risks—Market Risk—Foreign exchange risk*", which illustrates the Group's sensitivity to a 5 per cent. strengthening in the exchange rate of a number of different currencies against the Kuwaiti dinar as at 31 December 2020, 2019 and 2018. As at 31 December 2020, 35 per cent. of the Group's gross portfolio of loans, advances and Islamic financing was denominated in currencies other than Kuwaiti dinar (namely, in order of largest exposure, U.S. dollars, Egyptian pounds, pounds Sterling and other currencies).

Certain foreign currency positions that are of a "structural" nature remain unhedged, principally relating to the Group's investments denominated in currencies other than the Kuwaiti dinar, in consolidated subsidiaries and branches and in associated entities.

***The Group's derivative transactions, which are designed to hedge its exposures to foreign exchange rate and interest rate risks, may not always be effective, may give rise to significant losses and do not protect the Group against all risks associated with foreign exchange rate and interest rate movements***

The Group enters into derivative transactions, such as interest rate swaps and forward foreign exchange contracts, both to manage its own interest rate risk on its interest bearing assets and liabilities and its foreign currency open positions and cash flows and to provide interest rate and foreign exchange rate solutions to its customers. These derivative contracts had a notional value of KD 6,268 million as at 31 December 2020 (as at 31 December 2019: KD 6,754 million, as at 31 December 2018: KD 5,212 million) and the Group's derivatives portfolio had a net negative fair value of KD 215 million as at 31 December 2020 (as at 31 December 2019: net negative fair value of KD 68 million, as at 31 December 2018: net positive fair value of KD 17 million). There is no assurance that the Group's derivative contracts will be successful in mitigating its interest rate and foreign exchange exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

Adverse movements in interest and foreign exchange rates may also adversely impact the revenues and financial condition of the Group's depositors and borrowers which, in turn, may impact the Group's deposit base and the quality of its exposures to certain borrowers.

Ultimately, there can be no assurance that the Group will be able to protect itself from any adverse effects of a currency revaluation or future volatility in interest rate or currency exchange rates, which could have a material adverse effect on its business, financial condition and results of operations.

## **Operational risks**

***The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks, which could result in material losses***

In the course of its business activities, the Group is exposed to a variety of risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. See "*Risk Management*". Investors should note that any failure to adequately control these risks could result in material adverse effects on the Group's business, results of operations and financial condition, as well as its general reputation in the market.

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis and global macroeconomic volatility in more recent times, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Reliance on such information could result in unexpected or unforeseen fluctuations in foreign

exchange rates or interest rates which could affect the Group's income or the value of its holdings of financial instruments. Changes in the fair value or future cash flows of a financial instrument could occur due to sudden changes in market prices resulting from factors specific to the individual financial instrument or from factors affecting all similar financial instruments traded in the market. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on its business, financial condition and results of operations.

The Group's risk management and internal control capabilities are also limited by the information tools and technologies available to it. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Group's business, results of operations and financial condition.

***The Group may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy***

The Group's ability to maintain and grow its business will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The Group is likely to face challenges in recruiting qualified personnel to manage its business. In common with other banks in the GCC, the Group experiences a shortage of qualified employees residing in Kuwait, which requires it to recruit from outside Kuwait. In addition, even after hiring its employees, the Group has faced challenges in retaining such employees due to the continued recruitment efforts of its competitors.

In recent years, the Kuwaiti Government has made a number of announcements regarding its intention to encourage a better balance of Kuwaitis and non-Kuwaiti nationals in the private-sector workforce. This process, known as "**Kuwaitisation**", involves the establishment of suggested ratios for the numbers of Kuwaiti nationals who should be employed by respective industries, with the Government's recommended policy for financial institutions being that 70 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2020 was 72.7 per cent. If the Group is not able to meet or exceed the Kuwaiti Government's minimum threshold for Kuwaiti employees, it may be subject to certain penalties, including an exclusion from participation in certain Kuwaiti Government-related tender processes, the imposition of fines by the Ministry of Social Affairs or the imposition of administrative or corrective action by the CBK and other governmental authorities.

The Group depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Group from implementing its strategies. The Group is also not insured against losses which may be incurred in the event of the loss of any member of its key personnel.

While the Group believes that it has effective staff recruitment, training and incentive programmes in place, its failure to recruit, train and/or retain necessary personnel, its inability to dismiss certain employees or the shortage of qualified Kuwaiti nationals or other nationals prepared to relocate to Kuwait, could have a material adverse effect on its business, results of operations and financial condition.

***The Group is exposed to risk of loss as a result of employee misrepresentation, misconduct and improper practice***

The Group's employees could engage in misrepresentation, misconduct or improper practice that could expose the Group to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter employee misconduct, and the precautions the Group takes to detect and prevent misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat employee misconduct will be successful. Such actions by employees could expose the Group to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Group's reputation, which would in turn materially adversely affect the Group's business, results of operations and financial condition.

***The Group's business may be adversely affected if there is any disturbance to its operational systems or a loss of business continuity***

The Group operates in businesses that are highly dependent on information systems and technologies and relies heavily on its financial, accounting and other data processing systems. For example, the Group depends on its systems to process a large number of transactions on an accurate and timely basis and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other systems, as well as the communication networks between its branches and main data processing centres, are critical to its business and its ability to compete effectively. If any of these systems do not operate properly or are disabled, the Group could suffer financial loss, a disruption of its business, liability to clients, regulatory intervention and reputational damage.

In addition, the Group's current information systems and technologies may not continue to be able to accommodate the Group's growth unless the Group continues to invest in upgrading its operational systems, for example the Group has recently implemented a new datacentre on Tier 2 model (Uptime Institute) as well as several systems on an Active – Active resilience model in the new datacentre. Any failure by the Group to accommodate growth, or an increase in costs related to its information systems, would have a material adverse effect on the Group's business. The cost of improving or upgrading the Group's information systems and technologies may be substantial and the cost of maintaining such systems is likely to increase from its current level.

The Group is subject to a growing threat to its information systems and customer data from cyber-attacks. Activists, rogue States and cyber criminals are among those targeting computer systems around the world. Risks to technology and cyber-security change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security which further necessitates the Group's continued investment in operational system upgrades. Failure to adequately manage cyber-security risk and continually review and update current processes in response to new threats could disrupt the Group's business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage the Group's reputation and/or brands, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's business operations and business processes are also vulnerable to damage or interruption from fires, floods, extreme weather, power loss, bomb threats, explosions or other forms of terrorist activity and other natural and man-made disasters or other extreme events. These systems may also be subject to criminal damage, vandalism, theft and similar wrongdoing, see further "*The Group's business is dependent on its information and technology systems which are subject to potential cyber-attack*" below. If there is a disaster or other disruption and the Group's disaster recovery plans are found to be inadequate for any reason (including, for instance, due to the Group's geographically concentrated operations), there could be an adverse impact on the Group's business, results of operations and financial condition.

If any of the foregoing were to occur, it could materially adversely affect the Group's businesses, results of operations and financial condition.

***Future events may be different from those reflected in the management assumptions and estimates used in the preparation of the Group's financial statements, which may cause unexpected losses in the future***

Accounting policies and methods are fundamental to how the Group records and reports its financial condition and results of operations. Pursuant to IFRS rules and interpretations in effect as at the date of this Prospectus, the Group is required to make certain estimates in preparing its financial statements, including accounting estimates to determine financial and credit loss reserves and the fair value of certain assets and liabilities, among other items.

Management has identified the most significant judgments and estimates made by it in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies*". These judgments and estimates include, for example, the determination of when certain assets (such as goodwill and investment in associates) may be impaired, the classification of financial assets, the determination of estimated credit losses and fair values of assets and liabilities.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Group has established policies and control procedures that are intended to ensure its significant accounting estimates and judgments are well-controlled and applied consistently. In addition, the policies and procedures are intended to ensure the process for changing methodologies occurs in an appropriate manner. However, due to the uncertainty surrounding the Group's judgments and the estimates pertaining to these matters, the Group cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future. Should the estimated values for such items prove substantially different to actual values, particularly because of significant and unexpected market movements, or if the methods by which such values were determined are revised in future IFRS rules or interpretations, the Group may experience unexpected losses.

### **Regulatory risks**

***The Group is subject to extensive regulation and changes in applicable laws or regulations, the interpretation and enforcement of such laws or regulations, or any failure by the Group to comply with these laws and regulations could have a material adverse effect on the Group***

The Group is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic, social and other objectives and limit their exposure to risk. These controls include liquidity regulations, Basel III capital adequacy and leverage regulations, credit risk regulations, concentration risk regulations and interest cap regulations, see "*Banking Industry and Regulation in Kuwait*". These controls include laws and regulations promulgated by the CBK, the Kuwait Capital Markets Authority (the CMA) and the Boursa Kuwait, as well as the laws and regulations of the other countries in which the Group operates, including the United States, the United Kingdom, France, Switzerland, China, Singapore, Lebanon, the Cayman Islands, Iraq, Saudi Arabia, Bahrain, Jordan, United Arab of Emirates and Egypt.

Any of these or the other regulations to which the Group is subject may limit its ability to increase its credit portfolio or raise capital or may increase its cost of doing business. Any future changes in laws or in CBK and other applicable regulations or policy and/or the manner in which they are interpreted or enforced may affect the Group's reserves, revenues and performance and may have a material adverse effect on the Group's business, results of operations and financial condition.

Furthermore, the Group's ability to satisfy minimum capital adequacy requirements may be adversely impacted by many factors, including, among other things: (i) an increase in risk-weighted assets at the Group; (ii) an increase in credit risk, credit losses or impairment allowances; (iii) an inability to obtain capital; (iv) the results of the Group's activities; (v) a decline in the value of the Group's securities portfolio; (vi) any inaccurate estimates adopted by the Group regarding the amount of capital required to cover operating risk; (vii) changes in accounting principles or recommendations related to the calculation of the capital adequacy ratio of banks; (viii) fluctuations in exchange rates which influence the value of assets denominated in foreign currencies; (ix) changes in interest rates; and (x) changes in regulations or in the methods by which the regulatory authorities, including the CBK, apply capital adequacy regulations. Any non-compliance with applicable regulatory guidelines could expose the Group to potential liabilities and fines. In addition, the potential adoption by the CBK (and the implementation phase) of the final (and future) standards published by the Basel Committee, including the revised standardised approach for credit risk and for market and operational risks and others, may have adverse impact on the Group's ability to satisfy minimum capital adequacy requirements.

***If the Group fails to comply with applicable anti-money laundering, anti-terrorism financing, sanctions and other related regulations, it could face fines and damage to its reputation***

In order to carry out and expand its businesses, it is necessary for the Group to maintain or obtain a variety of licences, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Group is unable to maintain or obtain the relevant licences, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired.

The Group is also required to comply with applicable know your customer, anti-money laundering and counter-terrorism financing laws and regulations in Kuwait and other jurisdictions where it operates,

including those related to countries subject to sanctions by the United States Office of Foreign Assets Control, similar regulations of the European Union (the EU) and other jurisdictions, and applicable anti-corruption laws in the jurisdictions in which it conducts business. To the extent that the Group fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged and it could be subject to fines or other monetary penalties, with consequent adverse effects on its business, financial condition and results of operations.

## **RISKS RELATING TO THE REGION IN WHICH THE GROUP PRINCIPALLY OPERATES**

### ***Kuwait's economy and government revenues are significantly impacted by, and are dependent upon, international oil prices***

The oil sector is the principal contributor to Kuwait's economy and oil revenues account for the majority of the Kuwaiti Government's total revenues and export earnings. According to the CSB, the oil sector (excluding refining) accounted for 56.6 per cent., 53.9 per cent. and 53.8 per cent. of Kuwait's real GDP in 2016, 2017 and 2018, respectively and a provisional 53.0 per cent. in 2019. The oil sector continues to be the main contributor to Kuwait's annual revenues, accounting for 89.3 per cent. of total Government revenues for the fiscal year ended 31 March 2020, according to the Kuwait Ministry of Finance. Accordingly, Kuwait's economy is significantly impacted by, and is dependent upon, international oil prices.

The OPEC Reference Basket price has fallen significantly since January 2020. In early March 2020, OPEC officials proposed a plan to the members of OPEC, including Kuwait, and other non-OPEC member countries, including Russia, to cut global production by 1.5 per cent. No agreement was reached, ending a three-year partnership between OPEC and major non-OPEC oil exporters. This also resulted in 'OPEC plus' failing to extend the agreement of cutting 2.1 million barrels per day that was set to expire at the end of March 2020. In March 2020, Saudi Arabia announced that it would raise oil output and discount its oil in April 2020. However, in early April 2020, 'OPEC plus' announced that it had reached an agreement to cut production by 9.7 million barrels a day, however this action failed to support sufficiently the oil market with prices falling in the days following that announcement. This agreement was extended until July 2020, beyond which a gradual easing of the cuts was scheduled. As a result of the above factors and the COVID-19 outbreak weakening the demand for oil, the OPEC Reference Basket price fell significantly. Furthermore, certain oil prices turned negative during April 2020 (with the West Texas Intermediate benchmark falling as low as minus U.S.\$37.63 a barrel), as weakened demand, as a result of the COVID-19 outbreak, led to buyers being paid to take oil due to storage capacity concerns. The OPEC Reference Basket price continued to fluctuate throughout 2020 and as of December 2020, had not returned to January 2020 levels. As at 31 December 2020, the OPEC Reference Basket price was 50.24.

Based on statistics published by the CSB, Kuwait's nominal GDP fell by 4.1 per cent. in 2016 before growing by 10.8 per cent. in 2017, 16.0 per cent. in 2018 and falling by a provisional 3.8 per cent. in 2019, whilst its real GDP grew by 2.9 per cent. in 2016, fell by 4.7 per cent. in 2017, grew by 1.2 per cent. in 2018 and grew by a provisional 0.4 per cent. in 2019. According to preliminary IMF data (as of October 2020), Kuwait's real GDP is projected to have declined by 8.1 per cent. in 2020 and is projected to increase by 0.6 per cent. in 2021. Kuwait's current account balance was also impacted, recording a deficit of KD 1.5 billion in 2016 before recovering to surpluses of KD 2.9 billion in 2017, KD 6.0 billion in 2018 and 6.7 billion in 2019, according to the CBK. The Kuwaiti Government also recorded fiscal deficits in each fiscal year from and including 2015/16 to and including 2019/2020, according to the Kuwait Ministry of Finance. The official Kuwaiti budget for 2020/2021, as published by the Kuwait Ministry of Finance, projects a deficit of KD 14.1 billion, although this is based upon an oil price assumption of U.S.\$30 per barrel. The Kuwait Ministry of Finance has recently released a draft budget for the fiscal year 2021/22 projecting a deficit of KD 12.1 billion based on an oil price of U.S.\$45.00 per barrel. The draft budget is expansionary with spending expected to increase by 7 per cent. over the previous year. Capital expenditures are targeted to be KD 3.5 billion. The budget is yet to be approved by parliament.

The impact on Kuwait's economy of prevailing low oil prices between mid-2014 and the end of 2016 also negatively impacted economic sectors which are, in part, dependent on the success of the oil and gas sector. For example, the Kuwaiti Government reduced government expenditure in each of 2015 and 2016 in light of the budgetary pressures caused by low or falling oil prices. The Kuwaiti Government also took steps to rationalise its subsidy framework, fully removing kerosene and diesel subsidies in January 2015, introducing new electricity and water tariff structures to reduce the related subsidies and partially removing gasoline subsidies in September 2016. The subsidy structure may be further reviewed in light of the drop

in oil prices in 2020 due to the COVID-19 pandemic, and government spending overall could fall. In addition, ancillary industrial activities related to oil and gas exploration and production are also negatively affected by low oil prices and sectors that are dependent on government consumption may be adversely affected by lower levels of economic activity that may result from lower government revenue from oil and gas production. Additionally, although the CBK has the ability to adjust the components of the Kuwaiti Dinar Basket against which the Kuwaiti dinar is pegged, there can be no assurance that the CBK will maintain the Kuwaiti Dinar Basket at its current level, which could lead to higher inflation and negatively affect confidence in the Kuwaiti economy.

In general, international prices for crude oil are affected by many factors over which the Group has no control, including: economic and political developments in oil-producing regions, particularly in the Middle East (see "*Kuwait is located in a region that has been subject to ongoing political and security concerns*" below) as well as globally, global and regional supply and demand, and expectations regarding future supply and demand, for oil products, including the price and availability of new technologies such as renewable energy and unconventional oil and gas extraction methods. In addition to this, international prices for crude oil may be affected by the ongoing impact of the COVID-19 pandemic and associated travel restrictions, the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices, and global weather and environmental conditions. Local and international environmental regulations designed to reduce carbon emissions and/or climate change and any other actions taken by major crude oil producing or consuming countries (based on the changing attitudes and sentiments of and actions by consumers generally globally towards products derived from or based on oil) may also impact the international price for crude oil.

There can be no assurance that these factors, in combination with others, will not result in a future decline (which may be prolonged) in oil prices, which may have an adverse effect on the Kuwaiti economy which, in turn, could have a material adverse effect on the Group's business, financial condition and results of operations and thereby affect the Issuer's or the Bank's ability to perform its obligations in respect of the Capital Securities.

***Kuwait is located in a region that has been subject to ongoing political and security concerns***

The majority of the Group's current operations and interests are located in Kuwait and the MENA region. The Group's results of operations are, and will continue to be, generally affected by financial, economic and political developments in or affecting Kuwait, the GCC and the wider MENA region and, in particular, by the level of economic activity in these regions which, in turn, is affected by the prevailing level of global crude oil prices. It is not possible to predict the occurrence of events or circumstances, such as war or hostilities, or the impact of such occurrences, and no assurance can be given that the Group would be able to sustain the operation of its business if adverse political events or circumstances were to occur. A general downturn or instability in certain sectors of the Kuwaiti or the regional economy could have an adverse effect on the Group's business, results of operations and financial condition.

Investors should also note that the Group's business and financial performance could be adversely affected by political, economic or related developments both within and outside the Middle East because of inter-relationships within the global financial markets. In addition, the implementation by the Kuwaiti Government of restrictive fiscal or monetary policies or regulations, including changes with respect to interest rates, new legal interpretations of existing regulations or the introduction of taxation or exchange controls could have a material adverse effect on the Group's business, financial condition and results of operations and thereby affect the Issuer's or the Bank's ability to perform its obligations in respect of any Capital Securities.

Although Kuwait generally enjoys domestic political stability and healthy international relations, it is located in a region that is strategically important and parts of this region have experienced regional geopolitical instability. The 1990 invasion of Kuwait by Iraqi forces and the subsequent United States led coalition to remove Iraqi forces has had a lingering effect on Kuwait's perception in the region as a vulnerable country, surrounded by aggressive neighbours, although full diplomatic relations with the Republic of Iraq have since been restored.

In recent years, there has been social and political unrest and/or armed conflict in a range of countries in the MENA region, including the Arab Republic of Egypt, the People's Democratic Republic of Algeria, Libya, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the Republic of Yemen, the Republic of Iraq, the Syrian Arab Republic, Palestine, the Republic of Tunisia, the Sultanate of Oman and the Republic



of Turkey, including the multinational conflict with the Islamic State of Iraq and the Levant (**ISIL**), also known as Daesh or ISIS. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict, the overthrow of existing leadership and governments and increased political uncertainty across the region. Certain of these recent and ongoing conflicts are a continuation of the significant political and military upheaval experienced since early 2011, commonly referred to as the "Arab Spring", which gave rise to several instances of regime change and increased political uncertainty in the MENA region. These situations have caused significant disruption to the economies of the affected countries and have had a destabilising effect on international oil and gas prices.

Tensions in the Gulf region have increased following the seizure by Iran of a British tanker in July 2019 and, more broadly, due to several incidents including oil tankers in the Strait of Hormuz and Gulf of Oman. On 14 September 2019, the Abqaiq processing facility and the Kurais oil field in Saudi Arabia were damaged to a significant extent in apparent drone attacks, which caused an immediate significant reduction in the output of Saudi Aramco, Saudi Arabia's national oil company. There can be no assurance that a similar incident could not occur elsewhere in the Gulf region. Furthermore, there can be no assurance what impact this incident will and any similar incidents in the future may have on global oil prices.

Furthermore, other world events could have an impact on the political and security situation in Kuwait and the wider MENA region. Since the 1990 Gulf War, Kuwait and the United States have enjoyed close economic and strategic ties. On 20 January 2017, Donald J. Trump was inaugurated as the 45<sup>th</sup> President of the United States (**President Trump**). On 8 May 2018, the United States announced its withdrawal from the comprehensive agreement between the U.N. Security Council's five permanent members plus Germany and Iran which was reached on July 2015, reinstating U.S. nuclear sanctions on the Iranian regime. The United States also announced that it would not renew exceptional waivers for importing Iranian oil for several oil-importing countries, effective from May 2019. On 2 January 2020 the United States carried out a military strike which killed a senior Iranian military commander. As a result of this military strike Iran launched missiles at a US base in Iraq. In November 2020, Joseph R. Biden, Jr. was elected as the 46<sup>th</sup> President of the United States on a platform of reversing many of President Trump's policies. Joseph R. Biden, Jr. became President of the United States in January 2021. Given his limited time in office so far, some of President Biden's foreign policy objectives, including trade, immigration, military and economic support of historic partners, and the U.S. relationship with Iran, have remained somewhat uncertain making his stance towards a continuing relationship with Kuwait and the wider region unclear. A shift in the relationship between Kuwait and the United States or changing U.S. political priorities in the region could have a material adverse effect on Kuwait's economic, political or financial condition. Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations and thereby affect the Issuer's or the Bank's ability to perform its obligations in respect of the Capital Securities.

### **The banking industry is competitive and the Group is exposed to significant competition in Kuwait**

The Group faces high levels of competition for all of its products and services in Kuwait. In particular, the Group competes with other domestic banks (both conventional and Islamic), in addition to the Kuwaiti branches of non-Kuwaiti banks, and such competition may increase. See "*Description of the Group—Competition In Kuwait*".

The Kuwaiti banking sector comprises five locally based conventional commercial banks and branches of 11 other non-Kuwaiti banks. In addition, a specialised bank, five banks operating according to the provisions of Islamic Shari'a (one of which is a subsidiary of the Group) and a branch of a Saudi Arabian bank are also licensed to operate in Kuwait. While the domestic consumer banking sector is dominated by Kuwaiti banks in terms of market share, particularly as a result of the relatively high barriers to entry for non-Kuwaiti banks, in terms of local licensing requirements, access to KD liquidity and the need for a Kuwaiti branch network, the Group faces greater competition from non-Kuwaiti banks in the domestic corporate and private banking sector.

The Group believes that, in order to compete effectively, it will need to continue to upgrade its existing IT capabilities and infrastructure, with a particular focus on automation and the need to move beyond frameworks towards a greater array of capabilities at higher rates in the deployment of technology-enabled solutions.

In addition, the Group believes the Bank's large size has been, to some extent, a constraint on its ability to grow its credit portfolio across different business groups as the size of its portfolio requires significantly

more effort to grow at a faster rate than smaller competitors in order to maintain the Bank's net market share. Separately, there have been a number of recently announced and completed bank mergers affecting banks in the GCC, particularly in the UAE. Should any future mergers involve one or more of the Bank's principal competitors in Kuwait, the Bank could face significantly increased competition.

The competitive nature of the Kuwaiti banking market and any failure by the Group to continue to compete successfully in Kuwait may adversely affect the Group's business, financial condition and results of operations.

### **The Kuwaiti Government is under no obligation to support the Group**

Following the global financial crisis in 2008 and its impact on the Kuwaiti banking sector, the Kuwaiti Government initiated several plans to support its domestic banks. Although the Kuwaiti Government has in the past supported the domestic banking industry, there can be no assurance that it will continue to provide support to the domestic banking industry in the future. Other than the Subordinated Guarantee from the Guarantor, the Capital Securities are not guaranteed by the Kuwaiti Government, any of the Bank's shareholders or any other party.

### **Tax changes in Kuwait may have an adverse effect on the Group**

As at the date of this Prospectus, the Group is not currently subject to corporation tax on its earnings within Kuwait and Kuwait does not impose value-added tax (VAT) on the sale of goods and services. However, investors should be aware that certain GCC states, not including Kuwait, have recently implemented VAT on goods and services as part of a GCC-wide VAT framework. Currently, the Kuwaiti Government has not announced plans to introduce VAT in 2021. In addition, the Kuwaiti Government is implementing fiscal reforms which may include introducing a proposed 10 per cent. corporate income tax in the future.

It is possible that, once VAT is introduced in Kuwait, the Group's costs would increase and its future profitability could be negatively affected. In addition, the proposed imposition of a tax on corporate earnings, if implemented and applied to the Group's operations in Kuwait, would reduce its profits available for distribution to shareholders through dividends.

### **Kuwait may introduce corporate income tax**

The Group is not currently subject to corporation tax on its earnings within Kuwait. However, on 14 March 2016 the Kuwait Cabinet of Ministers approved plans to implement a corporate tax of 10 per cent. on the annual profits of Kuwaiti incorporated entities (the **Proposed Corporate Income Tax**), which may be applicable to the Group for future financial years. As at the date of this Prospectus, the Proposed Corporate Income Tax does not have the force of law until such time as it has been ratified by the Kuwaiti Parliament, signed by the Emir and published in the Official Gazette. It is currently uncertain as to whether the Proposed Corporate Income Tax will be promulgated into law in the form in which it has been proposed by the Cabinet of Ministers, or at all. If the Kuwaiti authorities impose new tax regimes on the Group (whether in the form of the Proposed Corporate Income Tax or otherwise), or introduce any other changes in tax laws which make doing business in Kuwait less attractive, this may have a material adverse effect on the Group's business, results of operations, cash flows and financial condition.

### **The Kuwait legal system continues to develop and this may create an uncertain environment for investment and business activity**

Kuwait is in the process of developing governing institutions and legal and regulatory systems, which are not yet as firmly established as they are in Western Europe and the United States. Kuwait (together with other countries in the GCC region) has enacted measures to promote greater efficiency and certainty within its legal and regulatory systems. Among those measures, Kuwait and countries within the GCC region have assumed obligations under the General Agreement on Tariffs and Trade (the **GATT**) (as administered by the World Trade Organisation (the **WTO**)) and Kuwait has enacted legislation, *inter alia*, to extend foreign ownership of businesses. However, Kuwait may experience changes in its economy and government policies (including, without limitation, policies relating to the continued extension of the rights of foreign ownership pursuant to Kuwait's GATT/WTO obligations) that may affect the rights of holders of the Capital Securities.

The legal system in Kuwait may not provide the same degree of protection or require the levels of disclosure of information that would be the case in Western Europe or the United States. Any unexpected changes in

the legal systems in Kuwait may have a material adverse effect on the rights of holders of the Capital Securities or the investments that the Group has made or may make in the future, which may in turn have a material adverse effect on the Group's business, financial condition and results of operations.

**Investing in securities involving emerging markets countries, such as Kuwait, generally involves a higher degree of risk than investments in securities of issuers from more-developed countries**

Investing in securities involving emerging markets countries, such as Kuwait, generally involves a higher degree of risk than investments in securities of issuers from more-developed countries. In the case of Kuwait, these higher risks include those discussed in this section as well as higher volatility and limited liquidity in its markets, a heightened risk of sudden changes in the legal, economic and political environment, instability in neighbouring countries, a heightened risk of business dealings in jurisdictions with operating risks relating to fraud, bribery and corruption and lack of adequate infrastructure necessary to accelerate economic growth.

In addition, there can be no assurance that the market for securities bearing emerging market risk, such as the Capital Securities, will not be affected negatively by events elsewhere, especially in emerging markets. International investors' reactions to events occurring in one emerging market country or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment consequently becomes out of favour with such investors. If such a "contagion" effect were to occur, the trading price of the Capital Securities could be adversely affected by negative economic or financial developments in other emerging market countries, particularly in the MENA region, over which the Group has no control.

Additionally, emerging markets may be particularly susceptible to disruptions in the capital markets and the reduced availability of credit, or the increased cost of debt, which could result in their experiencing financial difficulty. No assurance can be given that this will not be the case in the future for Kuwait.

As a consequence, an investment in the Capital Securities carries risks that are not typically associated with investing in notes issued by issuers in markets which are more mature. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved.

**FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISKS ASSOCIATED WITH THE CAPITAL SECURITIES**

**The payment obligations of the Bank under the Loan and the Subordinated Guarantee and of the Issuer under the Capital Securities are subordinated and unsecured obligations**

Prospective investors should note that the payment obligations of the Bank under the Loan and the Subordinated Guarantee rank junior to all Senior Obligations of the Bank, *pari passu* with all *Pari Passu* Obligations of the Bank and senior to all Junior Obligations of the Bank. Accordingly, the payment obligations of the Bank under the Loan and the Subordinated Guarantee rank junior to all unsubordinated payment obligations of the Bank (including payment obligations to its depositors) and all subordinated payment obligations of the Bank except *Pari Passu* Obligations and Junior Obligations, and *pari passu* with all subordinated payment obligations of the Bank which rank or are expressed to rank *pari passu* with the Bank's payment obligations under the Subordinated Guarantee or the Loan (as applicable). The payment obligations of the Issuer under the Capital Securities are similarly subordinated, as described in Condition 3.1 (*Status of the Capital Securities and Subordination*).

Further, the payment obligations of the Bank under the Loan and the Subordinated Guarantee and the Issuer under the Capital Securities are unsecured and no collateral is or will be given by the Bank or the Issuer (as applicable) in relation thereto.

A holder of the Capital Securities may exercise its enforcement rights in relation to the Capital Securities only in the manner provided in Condition 12 (*Enforcement Event*). If the Bank were wound up, liquidated or dissolved, the Bank's liquidator would apply the assets of the Bank to satisfy all claims of creditors in respect of the Bank's Senior Obligations in priority to the claims of the Issuer under the Loan and of the holders of the Capital Securities and *pari passu* with creditors whose claims are in respect of the Bank's *Pari Passu* Obligations. In such case, there may not be sufficient assets to satisfy the claims of the holders of the Capital Securities in full.

### **No limitation on issuing senior securities; subordination**

Other than the limitations in relation to the issue of further Tier 1 Capital by the Bank as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Tier 1 Capital of the Bank can be issued that ranks senior to the Capital Securities, there is no restriction on the Bank (in its capacity as the Guarantor or otherwise) incurring additional indebtedness or on issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Capital Securities and the obligations of the Bank under the Loan or the Subordinated Guarantee. The issue of or the creation of any such Senior Obligations may reduce the amount recoverable by holders of the Capital Securities on a winding-up or liquidation of the Bank. Accordingly, in the winding-up or liquidation of the Bank and after payment of the claims of creditors in respect of the Bank's Senior Obligations, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Capital Securities. See also "*The payment obligations of the Bank under the Loan and the Subordinated Guarantee and of the Issuer under the Capital Securities are subordinated and unsecured obligations*".

### **Payments of Interest Payment Amounts are discretionary and conditional upon certain events and may be cancelled and are non-cumulative**

No Interest Payment Amounts are payable if either a Non-Payment Event or a Non-Payment Election occurs.

Pursuant to Condition 5.6 (*Non-Payment Event*), if a Non-Payment Event occurs, the Issuer shall not pay Interest Payment Amounts on the relevant Interest Payment Date. Non-Payment Events include, but are not limited to, where the Interest Payment Amount payable by the Issuer, when aggregated with any distributions payable by the Issuer and the Guarantor on any of their respective *Pari Passu* Obligations having the same date in respect of payment of such distributions (or otherwise due and payable on such date) as the date for payment of the Interest Payment Amount, exceeds, on the relevant date for payment of the relevant Interest Payment Amount, the Guarantor's Distributable Funds. As at 31 December 2020, the Guarantor's Distributable Funds amounted to KD 1.6 billion.

Pursuant to Condition 5.7 (*Non-Payment Election*), each of the Issuer and the Bank may in its sole discretion elect not to make payment of an Interest Payment Amount (in whole or in part) to holders of the Capital Securities on the corresponding Interest Payment Date.

In the event of a Non-Payment Event or a Non-Payment Election, certain restrictions on declaration of dividends and redemption of certain securities by the Issuer and the Guarantor will apply in accordance with Condition 5.9 (*Dividend and Redemption Restrictions*). However, the holders of the Capital Securities shall have no claim in respect of any Interest Payment Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and the consequential non-payment of any Interest Payment Amount in such a circumstance shall not constitute an Enforcement Event. Any such cancelled interest on the Capital Securities shall not be due and shall not accumulate or be payable at any time thereafter, and Securityholders shall have no rights thereto or to receive any additional interest or compensation or to take any action to cause the bankruptcy, liquidation, dissolution or winding-up of the Bank as a result of such cancellation.

Any actual or anticipated cancellation of interest on the Capital Securities will likely have an adverse effect on the market price of the Capital Securities. In addition, as a result of the interest cancellation provisions of the Capital Securities, the market price of the Capital Securities may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Bank's financial condition.

### **Perpetual Securities**

The Capital Securities are perpetual securities which have no scheduled redemption date. Holders of the Capital Securities have no ability to require the Issuer to redeem their Capital Securities other than in the limited circumstances described in Condition 12 (*Enforcement Event*). The Issuer has the option to redeem the Capital Securities in certain circumstances as more particularly described in Condition 7 (*Redemption and Variation*), although there is no assurance that it will do so.

This means that the holders of the Capital Securities have no ability to cash in their investment, except:

- (a) if the Issuer exercises its rights to redeem the Capital Securities in accordance with Condition 7 (*Redemption and Variation*);

- (b) in the limited circumstances described in Condition 12 (*Enforcement Event*) (subject to the subordination provisions contained in the Conditions and the Subordinated Guarantee); or
- (c) by selling their Capital Securities.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Capital Securities may limit their market value, which is unlikely to rise substantially above the price at which the Capital Securities can be redeemed.

There can be no assurance that holders of the Capital Securities will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Capital Securities. Further, there can be no assurance that a holder of Capital Securities will receive the full amount of their investment if they sell their Capital Securities or upon exercising their remedies pursuant to Condition 12 (*Enforcement Event*).

**Securityholders' right to receive repayment of the principal amount of the Capital Securities and the Securityholders' right for any further interest may be written-down in whole or in part upon the occurrence of a Non-Viability Event**

If a Non-Viability Event occurs at any time, the principal amount of the Capital Securities then outstanding will be written-down in whole or, in part on a *pro rata* basis pursuant to Condition 8 (*Write-down at the Point of Non-Viability*). See "*The circumstances triggering a Write-down are unpredictable*". Pursuant to a Write-down, the Capital Securities will be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) and all rights of any Securityholder for payment of any amounts under or in respect of the Capital Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event) shall, as the case may be, be cancelled or written-down *pro rata* among the Securityholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Guarantor should absorb losses prior to the Capital Securities, a Write-down in full or in part of the Capital Securities could occur prior to the ordinary shares of the Guarantor absorbing losses in full or even in part. A Write-down shall not constitute an Enforcement Event. As a result, in the case of a Write-down, Securityholders may lose the entire amount or, as the case may be, a material amount, of their investment in the Capital Securities. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 8 (*Write-down at the Point of Non-Viability*) has not been tested in Kuwait and therefore some degree of uncertainty may exist in its application.

In cases in which a Write-down in part is required pursuant to Condition 8 (*Write-down at the Point of Non-Viability*), a Write-down may occur on one or more occasions.

Furthermore, upon the occurrence of any Write-down in part pursuant to Condition 8 (*Write-down at the Point of Non-Viability*), Interest Payment Amounts will accrue on the reduced principal amount of the Capital Securities and their payment is subject to no Non-Payment Event (including, without limitation, the Guarantor having insufficient Distributable Funds or breach of Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Guarantor by the Financial Regulator)) or Non-Payment Election having occurred. See "*Payments of Interest Payment Amounts are discretionary and conditional upon certain events and may be cancelled and are non-cumulative*". Also, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event or any redemption at the option of the Issuer pursuant to Condition 7 (*Redemption and Variation*) will be by reference to such reduced principal amount of the Capital Securities.

The Guarantor's current and future Junior Obligations or *Pari Passu* Obligations might not include write-down or similar features comparable to those of the Capital Securities. As a result, it is possible that the Capital Securities will be subject to a Write-down, while certain Junior Obligations and/or *Pari Passu* Obligations remain outstanding and continue to receive payments and, as such, Securityholders may be subject to losses ahead of holders of certain Junior Obligations and/or *Pari Passu* Obligations.

### **The circumstances triggering a Write-down are unpredictable**

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside the Guarantor's control.

The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Financial Regulator in its complete discretion regarding, among other things, the viability of the Guarantor in circumstances that may be beyond the control of the Guarantor and with which the Guarantor or the Securityholders may not agree.

Due to the inherent uncertainty regarding the determination as to whether a Non-Viability Event has occurred, it will be difficult to predict when, if at all, a Write-down will occur. Accordingly, the trading behaviour of the Capital Securities is not necessarily expected to follow the trading behaviour of other types of subordinated securities. Any indication that the financial condition of the Guarantor is heading towards a condition that could result in the occurrence of a Non-Viability Event can be expected to have an adverse effect on the market price of the Capital Securities.

The financial viability of the Guarantor will also depend in part on decisions made by the Guarantor in relation to its business and operations, including the management of its capital position. In making such decisions, the Guarantor will not necessarily have regard to the interests of Securityholders and, in particular, the consequences for Securityholders of any such decisions and there can be no assurance in any such circumstances that the interests of the Guarantor, its shareholders and the Financial Regulator will be aligned with those of the Securityholders.

### **Variation upon the occurrence of a Capital Event or a Tax Event**

Upon the occurrence and continuation of a Capital Event or a Tax Event, the Issuer may, subject as provided in Condition 7.3 (*Redemption or Variation for Regulatory Reasons*) or Condition 7.4 (*Redemption or Variation for Taxation Reasons*) (as the case may be) at any time and without the need for any consent of the Securityholders, either redeem or vary the terms of the Capital Securities such that they become or remain (as appropriate) Qualifying Tier 1 Instruments.

A Capital Event is deemed to have occurred if the Bank is notified in writing by the Financial Regulator to the effect that (i) the outstanding principal amount of the Loan is excluded (in full or in part) from the consolidated Tier 1 Capital of the Bank, or (ii) the outstanding principal amount of the Capital Securities is excluded (in full or in part) from the consolidated Tier 1 Capital of the Bank (in each case, save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

A Tax Event means that the Issuer or the Bank has, will or would (as applicable) become required to pay additional amounts, as a result of any change in, or amendment to the laws, published practice or regulations of the United Arab Emirates (including the DIFC) or Kuwait or any political subdivision or authority thereof or therein having power to tax, or in each case as a result of any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after the Issue Date (and such requirement cannot be avoided by the Bank taking reasonable measures available to it).

The Capital Regulations, as in force from time to time, may oblige the Bank to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Capital Event or Tax Event was not reasonably foreseeable at the Issue Date.

The tax and stamp duty consequences of holding the Capital Securities following variation as contemplated in Condition 7.3 (*Redemption or Variation for Regulatory Reasons*) and Condition 7.4 (*Redemption or Variation for Taxation Reasons*) could be different for certain holders of the Capital Securities from the tax and stamp duty consequences for them of holding the Capital Securities prior to such variation and neither the Issuer nor the Bank shall be responsible to any holder of the Capital Securities for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the holders of the Capital Securities, no assurance can be given as to whether any of these changes will negatively affect any particular holder of the Capital Securities.

## **The Capital Securities may be subject to early redemption; redemptions conditional**

Upon the occurrence of a Tax Event or a Capital Event, the Issuer may, at any time, having given not less than 10 nor more than 30 days' prior notice to the holders of the Capital Securities in accordance with Condition 7.3 (*Redemption or Variation for Regulatory Reasons*) and Condition 7.4 (*Redemption or Variation for Taxation Reasons*) (as applicable) (which notice, subject to Condition 7.8, shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Capital Securities. The Issuer may also, at its discretion, having given not less than 10 nor more than 30 days' prior notice to the holders of the Capital Securities, redeem in accordance with Condition 7.2 (*Redemption at the Option of the Issuer*) all, but not some only, of the Capital Securities on the date falling six months prior to the First Reset Date and on any date thereafter up to and including the First Reset Date or on any Interest Payment Date thereafter.

Any redemption of the Capital Securities is subject to the requirements in Condition 7.1 (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior approval of the Financial Regulator (except to the extent that the Financial Regulator no longer requires). There can be no guarantee that the approval of the Financial Regulator will be received on time or at all.

In addition, if the Issuer (acting on the instructions of the Guarantor) has elected to redeem the Capital Securities, and, prior to the redemption, a Non-Viability Event occurs, the relevant redemption notice will be automatically rescinded and will be of no force and effect. Further, no notice of redemption shall be given in the period following the giving of a Non-Viability Notice and prior to the relevant Non-Viability Event Write-down Date.

There is no assurance that the holders of the Capital Securities will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Capital Securities. During any period when the Issuer may redeem, or is perceived to be able to redeem, the Capital Securities, the market value of the Capital Securities generally will not rise substantially above the outstanding principal amount of the Capital Securities payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

### **Modification**

The Conditions and the Agency Agreement contain provisions for calling meetings of holders of the Capital Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Capital Securities including holders of the Capital Securities who did not attend and vote at the relevant meeting and holders of the Capital Securities who voted in a manner contrary to the majority.

The Conditions also provide that the Conditions and the Subordinated Guarantee may be amended or modified without the consent of the Securityholders where such amendment or modification: (i) is of a formal, minor or technical nature or is made to correct a manifest error or is to comply with mandatory provisions of the law; or (ii) does not concern a Reserved Matter and is not materially prejudicial to the interests of the Securityholders.

The Conditions also provide that the Issuer may, without the consent or approval of the holders of the Capital Securities, vary the Conditions so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, as provided in Condition 7.3 (*Redemption or Variation for Regulatory Reasons*) and Condition 7.4 (*Redemption or Variation for Taxation Reasons*). See "- Variation upon the occurrence of a Capital Event or a Tax Event" above.

### **Trading in the clearing systems**

As the denomination of the Capital Securities is U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, it is possible that such Capital Securities may be traded in amounts in excess of U.S.\$200,000 that are not integral multiples of U.S.\$200,000. In such a case a holder of Capital Securities who, as a result of trading such amounts, holds an amount which is less than U.S.\$200,000 in his account with the relevant clearing system at the relevant time may not receive an Individual Certificate in respect of such holding (should Individual Certificates be printed) and would need to purchase a principal amount of Capital Securities such that its holding amounts to at least U.S.\$200,000 in order to be eligible to receive an Individual Certificate.

## **Investors in the Capital Securities must rely on DTC, Euroclear and Clearstream, Luxembourg procedures**

The Capital Securities will be represented by the Global Certificates. Except in the limited circumstances described in each Global Certificate, investors will not be entitled to receive Capital Securities in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate held through it. While the Capital Securities are represented by the Global Certificates, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants and the Issuer will discharge its payment obligations under the Capital Securities by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the Capital Securities. The Issuer shall have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates. Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Capital Securities so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

## **Risks related to the market generally**

### ***Resettable fixed rate instruments have a market risk***

A holder of an instrument with a fixed interest rate that will be reset during the term of the instrument (as will be the case for the Capital Securities with effect from each Reset Date if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating interest rates and uncertain interest income. While the expected interest rate on the Capital Securities is fixed until the First Reset Date (with a reset of the initial interest rate on the First Reset Date as set out in the Conditions and every six years thereafter), the current investment return rate in the capital markets (the **market return rate**) typically changes on a daily basis. As the market return rate changes, the market value of the Capital Securities may also change, but in the opposite direction. If the market return rate increases, the market value of the Capital Securities would typically decrease. If the market return rate falls, the market value of the Capital Securities would typically increase. Holders of the Capital Securities should be aware that movements in these market return rates can adversely affect the market value of the Capital Securities and can lead to losses for the holders of the Capital Securities if they sell the Capital Securities.

### ***Absence of secondary market/limited liquidity***

There is no assurance that a secondary market for the Capital Securities will develop or, if it does develop, that it will provide the holders of the Capital Securities with liquidity of investment or that it will continue for the life of the Capital Securities. The Capital Securities generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "*Perpetual Securities*"), are subordinated (see "*The payment obligations of the Bank under the Loan and the Subordinated Guarantee and of the Issuer under the Capital Securities are subordinated and unsecured obligations*") and payments of Interest Payment Amounts may be restricted in certain circumstances (see "*Payments of Interest Payment Amounts are conditional upon certain events and may be cancelled and are non-cumulative*").

Application has been made for the Capital Securities to be admitted to the Official List and for such Capital Securities to be admitted to trading on the Regulated Market. However, there can be no assurance that any such listing will occur or will enhance the liquidity of the Capital Securities.

Illiquidity may have an adverse effect on the market value of the Capital Securities. Accordingly, a holder of the Capital Securities may not be able to find a buyer to buy its Capital Securities readily or at prices that will enable the holder of the Capital Securities to realise a desired yield. The market value of the Capital Securities may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Capital Securities. Accordingly, the purchase of Capital Securities is suitable only for investors who can bear the risks associated with a lack of liquidity in the Capital Securities and the financial and other risks associated with an investment in the Capital Securities.



### ***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Capital Securities in U.S. dollars and the Guarantor will make any payments under the Loan and the Subordinated Guarantee in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (a) the Investor's Currency-equivalent yield on the Capital Securities; (b) the Investor's Currency-equivalent value of the principal payable on the Capital Securities; and (c) the Investor's Currency-equivalent market value of the Capital Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### **Taxation risks on payments**

Payments made by the Issuer and the Guarantor in respect of the Capital Securities and the Subordinated Guarantee, respectively, could become subject to taxation. Condition 9 (*Taxation*) requires the Issuer or Guarantor to pay additional amounts in certain circumstances in the event that any withholding, deduction or retention for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature is imposed, levied, collected, withheld or assessed by or on behalf of the UAE (including the DIFC) and/or Kuwait or any political subdivision or any authority thereof or therein having power to tax in respect of payments under the Capital Securities or the Subordinated Guarantee, as the case may be, such that net amounts received by the holders of the Capital Securities after such withholding, deduction or retention shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Capital Securities in the absence of such withholding, deduction or retention.

The circumstances described above may entitle the Issuer to redeem all (but not some only) of the Capital Securities or vary their terms. See "*Variation upon the occurrence of a Capital Event or a Tax Event*" and "*The Capital Securities may be subject to early redemption, redemptions conditional*".

### **The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Capital Securities which are "non-GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances**

Article 150 (bis) of Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities, introduced pursuant to Law No. 22 of 2015 (**Article 150 (bis)**), provides that, without prejudice to the tax on profits arising from the disposal of securities issued by companies listed on the Boursa Kuwait, the returns in respect of securities, bonds, financial sukuk and all other similar securities, regardless of the issuer, are exempt from taxes.

In addition, the Kuwait Ministry of Finance has issued Administrative Resolution No. 2028 of 2015 (the **Administrative Resolution**), which essentially endorses the provisions of Article 150 (bis).

However, the Kuwait Ministry of Finance's Department of Income Tax (**DIT**) has to date not always adopted consistent rulings on Kuwaiti tax matters more generally. Accordingly, to the extent that the exemption afforded by Article 150 (bis) is held not to apply to the Capital Securities, or to a particular holder of the Capital Securities, such Securityholder or the Securityholders which are non-GCC corporate entities may become subject to income tax in Kuwait (see "*Taxation — Kuwait*" for further details).

In addition, neither Article 150 (bis) nor the Administrative Resolution addressed the issue of whether or not there remains an obligation (as described under "*Taxation — Kuwait*") to deduct 5 per cent. of the amount of any payments made by the Guarantor to the Issuer or directly to the holders of the Capital Securities. Accordingly, there is a possibility that the deduction of the 5 per cent. obligation may be applied in certain circumstances, pending resolution of their tax position. The deducted 5 per cent. would be released by the Guarantor upon presentation to it by the Issuer (or, where applicable, by the holders of the Capital Securities) of a tax clearance certificate from the DIT. In any event, any deducted amounts would be required to be grossed up by the Guarantor pursuant to the provisions of the Conditions (see Condition

9 (Taxation)) and accordingly, in practice, a holder would not need to present such a tax clearance certificate.

To date there has been no official statement made publicly by the DIT regarding its interpretation of Article 150 (bis) or the Administrative Resolution and/or their application. Similarly, the Kuwaiti Courts (who will be the final arbiters on the matter) have not been required to interpret such provision to date. Therefore, it is not possible to state definitively how the DIT and/or the Kuwaiti Courts may implement or enforce the Taxation Laws (as defined in "*Taxation — Kuwait*") including Article 150(bis) in practice.

Prospective purchasers of the Capital Securities are advised to consult their tax advisers as to the consequences under Kuwaiti and other applicable tax laws of acquiring, holding and disposing of the Capital Securities and receiving payments under the Capital Securities.

See "*Taxation — Kuwait*" for further details.

### **Value Added Tax**

As at the date of this Prospectus, Kuwait does not impose value-added tax (VAT) on the sale of goods and services. However, investors should be aware that the GCC states, including Kuwait, have agreed to the implementation of a GCC-wide VAT Framework, to be introduced at a rate of 5 per cent (the **VAT Framework**). The national legislation in Kuwait implementing the framework has yet to be promulgated and no Kuwait-specific details of the regime have been released as at the date of this Prospectus. Therefore, although the Kuwait parliament has previously indicated that it will postpone its introduction of VAT until 2021, it is impossible to state with any accuracy if, and when, VAT will be introduced in Kuwait. Further, due to the wide discretion conferred to each GCC member state under the VAT Framework, the terms and conditions of the VAT regime, if introduced, are not known as at the date of this Prospectus. If the Guarantor becomes subject to VAT in Kuwait, its profitability may be adversely affected which may then impact its ability to fulfil its obligations under the Loan and the Subordinated Guarantee.

### ***Enforcement under Kuwaiti Law***

***The insolvency regime in Kuwait is relatively untested with limited guidance as to how the legislative framework will be applied in practice by the courts in Kuwait***

Notwithstanding that the provisions of the Subordinated Guarantee relating to the ranking of the Guarantor's payment obligations are expressed to be governed by English law, in the event of the Guarantor's insolvency, Kuwaiti bankruptcy law will apply and such law may adversely affect the Guarantor's ability to perform its obligations under the Subordinated Guarantee, and obtaining a final bankruptcy judgment in Kuwait may take several years. There is little precedent to predict how any claims by holders of the Capital Securities against the Guarantor would be resolved in the event of the Guarantor's insolvency and therefore there can be no assurance that holders of the Capital Securities will receive payment of their claims in full or at all in these circumstances.

### ***Enforceability of the Guarantor's obligations under the Subordinated Guarantee***

Under Kuwaiti law, the obligations of a guarantor are incidental to the obligations of the principal debtor, and the obligations of the guarantor will only be valid to the extent of the continuing obligations of the principal debtor. In addition, in order to enforce a guarantee under Kuwaiti law, the underlying debt obligation for which such guarantee has been granted may need to be proved before the Kuwaiti courts.

Accordingly, if Kuwaiti law is applied to the Subordinated Guarantee, the obligations of the Guarantor under the Subordinated Guarantee will be treated as incidental obligations and dependent on the validity and the enforceability of the Issuer's obligations under the Capital Securities and the Issuer's obligations under the Capital Securities may, therefore, need to be proved before the courts of Kuwait in order for the obligations of the Guarantor under the Subordinated Guarantee to be enforceable.

### ***There is a risk that the Kuwaiti Courts will assume jurisdiction***

The Capital Securities, the Subordinated Guarantee and the Agency Agreement each contain a provision to the effect that disputes arising thereunder will be referred to arbitration under the London Court of International Arbitration Rules (the **LCIA Rules**).

Nevertheless, if a claim is brought before the Kuwaiti Courts, the Kuwaiti Courts may still accept jurisdiction in any suit, action or proceedings in the situations identified in Articles 23, 24 and 26 of Kuwait Law No. 38 of 1980 (the Code of Civil and Commercial Procedure), as amended (the **Code**). These situations include (a) where the defendant in the proceedings expressly or impliedly accepted the jurisdiction of the Kuwaiti Courts, (b) where the defendant is a Kuwaiti national or is resident, domiciled or has a place of business or a chosen domicile in Kuwait or (c) if such legal proceedings relate to property (movable or immovable) located in Kuwait, an obligation is created, executed or required to be performed in Kuwait or a bankruptcy is declared in Kuwait.

There can therefore be no assurance that the Kuwaiti Courts will decline jurisdiction to adjudicate any dispute under the Capital Securities, the Subordinated Guarantee and the Agency Agreement, notwithstanding that the Capital Securities, the Subordinated Guarantee and the Agency Agreement provide that the parties have agreed that any disputes arising thereunder shall be referred to arbitration. The risk that the Kuwaiti Courts would assume jurisdiction on the proceedings is reduced, but not eliminated, in the event that (a) the respondent to a claim raises procedural defences as regards the jurisdiction, and (b) the existence of previous or simultaneous proceedings in, or *res judicata* judgments from, a competent jurisdiction outside Kuwait, on the subject matter and involving the same disputing parties. In addition to the foregoing, Article 173 of the Code provides that the Kuwaiti Courts have no jurisdiction to hear disputes which have been validly agreed to be referred to arbitration, **provided that** the party raising the existence of an arbitration provision does so before taking any substantive steps in the proceedings, or any other act or omission which would be considered a waiver of the right to seek arbitration. The Kuwaiti Courts will not recognise or give effect to the choice of the laws of England (or in the case of Condition 3.1 (*Status of the Capital Securities and Subordination*), the laws of the DIFC) to govern the Capital Securities, the Subordinated Guarantee and the Agency Agreement, nor enforce a foreign judgment or foreign arbitral award to the extent that any of such laws, judgments or arbitral awards are found by the Kuwaiti Courts to be contrary to rules of public order or morality of Kuwait.

***Securityholders will only be able to enforce their contractual rights under the Capital Securities, the Subordinated Guarantee and the Agency Agreement through arbitration under the LCIA Rules and LCIA awards relating to disputes arising under the Capital Securities may not be enforceable in Kuwait***

The Capital Securities, the Subordinated Guarantee and the Agency Agreement provide that Disputes arising thereunder will be referred to arbitration under the LCIA Rules. Securityholders will therefore only have recourse to LCIA arbitration in order to enforce their contractual rights under the Capital Securities, and will not have the right to bring proceedings relating to the Capital Securities before the English courts.

Kuwait is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **New York Convention**). A foreign arbitral award will be recognised and enforced in Kuwait (without re-trial or examination of the merits of the case) in accordance with the Code. Article 200 of the Code provides that foreign arbitral awards are to be recognised and enforced under the same conditions (applied *mutatis mutandis* to foreign arbitral awards) as are applied in respect of the enforcement of foreign judgments under Article 199 of the Code (as detailed below) save that, in addition, the subject matter of the award must be considered arbitrable under Kuwaiti law and the arbitral award must be enforceable in the jurisdiction in which it was rendered.

Article 199 of the Code requires that: (a) the courts of the jurisdiction by which the judgment was rendered must afford reciprocal treatment to judgments rendered in Kuwait; (b) the judgment must be rendered by a competent authority according to the law of the jurisdiction in which it was rendered; (c) the parties must have been duly summoned to appear and were duly represented at the proceedings; (d) the judgment must be final and non-appealable (*res judicata*) according to the law of the jurisdiction in which it was rendered; (e) the judgment must not contradict any prior judgment rendered by a Kuwaiti Court; and, finally (f) the judgment must not contain anything in conflict with the general morals or public order of Kuwait.

The requirement to establish reciprocal enforcement under Article 199 of the Code with respect to the recognition and enforcement of arbitral awards issued in England is satisfied as England and Kuwait are both signatories to the New York Convention. Enforcement of a foreign arbitral award in Kuwait requires the filing of an enforcement action in the Kuwaiti Courts. Proceedings before the Kuwaiti Courts, including enforcement actions, can take a relatively long time before a final and non-appealable judgment is issued.

There have not been many occasions in which the Kuwaiti Courts have been asked to consider the enforcement of foreign arbitral awards and so (notwithstanding that on those occasions when they have

been asked to do so they have shown that they will follow the provisions of the Code and enforce an arbitral award) there is not a large body of decided cases in which the practical implications of complying with Article 199 of the Code have been analysed.

### **Change in law**

The Conditions are governed by English law and (in the case of Condition 3.1 (*Status of the Capital Securities and Subordination*)) the laws of the DIFC, and the Subordinated Guarantee is governed by English law, in each case in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law or the laws of the DIFC after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer or the Guarantor to make payments under the Capital Securities or the Subordinated Guarantee, as applicable.

### **Credit ratings may not reflect all risks**

In addition to the rating of Baa3 assigned by Moody's, one or more independent credit rating agencies may assign credit ratings to the Capital Securities on an unsolicited basis. Any ratings of either the Group or the Capital Securities may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Capital Securities. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. Nevertheless, real or anticipated changes in the Bank's credit ratings or the ratings of the Capital Securities generally will affect the market value of the Capital Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes in the EEA, unless such ratings are issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Capital Securities changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Capital Securities may have a different regulatory treatment, which may impact the value of the Capital Securities and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the CBI shall be incorporated by reference in, and form part of, this Prospectus:

- (a) the consolidated financial statements of the Group as at and for the year ended 31 December 2020 together with the audit report thereon and the notes thereto (available at: <https://www.nbk.com/dam/jcr:7e09409a-4051-4180-96bd-1c0294e56d6b/NBK%20FS%2031%20Dec%202020%20-%20English.pdf>); and
- (b) the consolidated financial statements of the Group as at and for the year ended 31 December 2019 together with the audit report thereon and the notes thereto (available at: <https://www.nbk.com/dam/jcr:f752708f-2515-4a9c-91c3-42ed969f84a9/NBK-Financialsasof31122019-English-signed.pdf>).

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Fiscal Agent.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

## OVERVIEW OF THE ISSUANCE

The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Any decision to invest in the Capital Securities should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "Terms and Conditions of the Capital Securities" or elsewhere in this Prospectus shall have the same meanings in the following description.

<b>Issuer:</b>	NBK Tier 1 Limited
<b>Issuer Legal Entity Identifier (LEI):</b>	5493000G4QCCEE8YHF19
<b>Ownership of the Issuer:</b>	The authorised share capital of the Issuer is U.S.\$100 consisting of 100 shares of U.S.\$1 nominal value each, of which all 100 shares are fully paid up and issued. The Issuer is a wholly-owned subsidiary of the Guarantor.
<b>Administration of the Issuer:</b>	The affairs of the Issuer are managed by Maples Fund Services (Middle East) Limited, a corporate services provider regulated by the Dubai Financial Services Authority who will provide, <i>inter alia</i> , corporate administrative services and director services for and on behalf of the Issuer pursuant to the corporate services agreement dated 16 December 2020 between the Issuer and Maples Fund Services (Middle East) Limited. Maples Fund Services (Middle East) Limited's registered office is Unit C1407, Level 14, Burj Daman, Dubai International Financial Centre, P.O. Box 506734, Dubai, UAE.
<b>Guarantor:</b>	National Bank of Kuwait S.A.K.P.
<b>Description:</b>	U.S.\$700,000,000 Perpetual Tier 1 Capital Securities
<b>Global Coordinators and Joint Bookrunners:</b>	Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc, Standard Chartered Bank, UBS AG London Branch and Watani Investment Company K.S.C.C.
<b>Joint Lead Managers:</b>	Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc, Standard Chartered Bank, UBS AG London Branch and Watani Investment Company K.S.C.C.
<b>Fiscal Agent, Calculation Agent and Transfer Agent:</b>	Citibank N.A., London Branch
<b>Registrar:</b>	Citigroup Global Markets Europe AG
<b>Issue Date:</b>	24 February 2021
<b>Issue Price:</b>	100 per cent. of the aggregate principal amount of the Capital Securities
<b>Interest Payment Dates:</b>	Subject to Condition 5.6 ( <i>Non-Payment Event</i> ) and Condition 5.7 ( <i>Non-Payment Election</i> ), interest will be payable semi-annually in arrear on 24 February and 24 August in every year, commencing on 24 August 2021.
<b>Interest Payment Amounts:</b>	Subject to any redemption as provided for in Condition 7, interest will be payable on the outstanding principal amount at the rate of 3.625 per cent. per annum up to but excluding the First Reset Date

and, thereafter, at the Reset Interest Rate, calculated in accordance with Condition 5.3 (*Reset Interest Rate*).

If either the Issuer or the Guarantor makes a Non-Payment Election or a Non-Payment Event occurs, the Issuer shall not pay the corresponding Interest Payment Amounts and neither the Issuer nor the Guarantor shall have any obligation to make any subsequent payment in respect of any unpaid Interest Payment Amount, as more particularly described in Condition 5.6 (*Non-Payment Event*) and Condition 5.7 (*Non-Payment Election*). In such circumstances, interest will not be cumulative and any interest which is not paid will not accumulate or compound and Securityholders will have no right to receive such interest at any time, even if other interest is paid in the future.

<b>Form of Capital Securities:</b>	The Capital Securities will be issued in registered form. Capital Securities sold to non-U.S. persons in offshore transactions within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended (the <b>Securities Act</b> ) will initially be represented by an unrestricted global certificate (an <b>Unrestricted Global Certificate</b> ) which will be registered in the name of a nominee for, and will be deposited with a common depository for, Euroclear Bank SA/NV ( <b>Euroclear</b> ) and Clearstream Banking S.A. ( <b>Clearstream, Luxembourg</b> ). Capital Securities sold in the United States to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) will initially be represented by a restricted global certificate (a <b>Restricted Global Certificate</b> , and together with the Unrestricted Global Certificate, the <b>Global Certificates</b> ) which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, the Depository Trust Company ( <b>DTC</b> ). Beneficial interests in the Global Certificates will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Individual certificates evidencing holding of Capital Securities will be issued in exchange for interests in the relevant Global Certificate only in limited circumstances.
<b>Clearing Systems:</b>	Euroclear, Clearstream, Luxembourg and DTC.
<b>Denomination:</b>	The Capital Securities will be issued in registered form in principal amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Status of the Capital Securities:</b>	The Capital Securities constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and rank <i>pari passu</i> and without preference among themselves. The payment obligations of the Issuer under the Capital Securities will rank (a) junior to all Senior Obligations of the Issuer, (b) <i>pari passu</i> with all <i>Pari Passu</i> Obligations of the Issuer, and (c) senior to all Junior Obligations of the Issuer.
<b>Subordinated Guarantee of the Capital Securities:</b>	The obligations of the Guarantor under the Subordinated Guarantee constitute direct, unconditional, subordinated and unsecured obligations of the Guarantor. The payment obligations of the Guarantor in respect of the Subordinated Guarantee will rank (a) junior to all Senior Obligations of the Guarantor, (b) <i>pari passu</i> with all <i>Pari Passu</i> Obligations of the Guarantor, and (c) senior to all Junior Obligations of the Guarantor.

**Redemption and Variation:**

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer (acting on the instructions of the Guarantor) shall only have the right to redeem, purchase or vary them in accordance with the provisions of Condition 7 (*Redemption and Variation*) including, at the option of the Issuer, for taxation reasons or for regulatory reasons (each as described below).

Pursuant to Condition 7.2 (*Redemption at the Option of the Issuer*), the Issuer (acting on the instructions of the Guarantor) may, on the date falling six (6) months prior to the First Reset Date and on any date thereafter up to and including the First Reset Date or on any Interest Payment Date thereafter, on giving not less than 10 nor more than 30 days' notice to the Securityholders (which notice, subject to Condition 7.8, shall be irrevocable), redeem all, but not some only, of the Capital Securities at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption (unless a Non-Payment Event or, subject to Condition 5.7, a Non-Payment Election has occurred with respect to such interest).

Upon the occurrence and continuation of a Capital Event, the Capital Securities may be (i) redeemed at their outstanding principal amount, together with interest accrued but unpaid to but excluding the date fixed for redemption (unless a Non-Payment Event or, subject to Condition 5.7, a Non-Payment Election has occurred with respect to such interest) or (ii) varied, in each case subject to certain conditions being satisfied, including the prior approval of the Financial Regulator (unless no longer required by the Financial Regulator) at the option of the Issuer (acting on the instructions of the Guarantor) in whole, but not in part, on any date, on giving not less than 10 nor more than 30 days' notice to the Securityholders (which notice, subject to Condition 7.8, shall be irrevocable). See Condition 7.3 (*Redemption or Variation for Regulatory Reasons*).

Upon the occurrence of a Tax Event which cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it, the Capital Securities may be (i) redeemed at their outstanding principal amount, together with interest accrued but unpaid to but excluding the date fixed for redemption (unless a Non-Payment Event or, subject to Condition 5.7, a Non-Payment Election has occurred with respect to such interest) or (ii) varied, in each case subject to certain conditions being satisfied, including the prior approval of the Financial Regulator (unless no longer required by the Financial Regulator), at the option of the Issuer (acting on the instructions of the Guarantor) in whole, but not in part, on any date, on giving not less than 10 nor more than 30 days' notice to the Securityholders (which notice shall, subject to Condition 7.8, be irrevocable). See Condition 7.4 (*Redemption or Variation for Taxation Reasons*).

Any redemption or variation of the Capital Securities is subject to the conditions described in Condition 7.1 (*No Fixed Redemption Date and Conditions for Redemption and Variation*).

**Non-Viability Event:**

If a Non-Viability Event occurs, a Write-down shall occur on the relevant Non-Viability Event Write-down Date, as more particularly described in Condition 8 (*Write-down at the Point of Non-Viability*). In such circumstances, the Securityholders' rights



to payment of any amounts under or in respect of the Capital Securities shall, as the case may be, be cancelled or written-down *pro rata* among the Securityholders. See "*Risk Factors — Securityholders' right to receive repayment of the principal amount of the Capital Securities and the Securityholders' right for any further interest may be written-down in whole or in part upon the occurrence of a Non-Viability Event*".

**Enforcement Events:** Upon the occurrence of an Enforcement Event there are limited remedies available to a Securityholder. See Condition 12 (*Enforcement Event*).

**Withholding Tax:** All payments in respect of the Capital Securities by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding, deduction or retention for or on account of, any Taxes imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction, unless the withholding, deduction or retention of such Taxes is required by law.

In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as shall be necessary in order that the net amounts received by the Securityholders after such withholding, deduction or retention shall equal the respective amounts which would have been receivable in respect of the Capital Securities in the absence of the withholding, deduction or retention, subject to certain exceptions, all as described in Condition 9 (*Taxation*).

**Negative Covenant:** The Issuer and the Guarantor have agreed in the Conditions and the Subordinated Guarantee, respectively, not to amend, vary, waive, rescind, replace or revoke the On-Loan Agreement to the extent set out in Condition 10 (*On-Loan Agreement*).

**Ratings:** The Group has long-term ratings of A by S&P and A1 by Moody's, each with a stable outlook and AA- by Fitch with a negative outlook. The Capital Securities have been assigned a rating of Baa3 by Moody's.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

In general, European regulated investors are restricted from using a rating for regulatory purposes in the EEA, if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation. Similarly, in general, UK regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the UK and registered under the UK CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the UK but is endorsed by a credit rating agency established in the UK or (2) the rating is provided by a credit rating agency not established in the UK which is certified under the UK CRA Regulation.

**Listing and Admission to Trading:**

Application has been made to Euronext Dublin for the Capital Securities to be admitted to the official list and to trading on the Regulated Market of Euronext Dublin.

**Governing Law and Dispute Resolution:**

The Capital Securities (except for Condition 3.1 (*Status of the Capital Securities and Subordination*)) and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law. Condition 3.1 (*Status of the Capital Securities and Subordination*) will be governed by the laws of the Dubai International Financial Centre.

The Agency Agreement and the Subordinated Guarantee and any non-contractual obligations arising out of, or in connection with them will be governed by, and shall be construed in accordance with, English law. In respect of any dispute, claim, difference or controversy under the Capital Securities, the Agency Agreement and the Subordinated Guarantee, the Issuer has consented to arbitration in accordance with the Arbitration Rules of the LCIA.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Capital Securities in the United States, the United Kingdom, the European Economic Area, Hong Kong, Japan, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait, the Kingdom of Saudi Arabia, Kingdom of Bahrain and the State of Qatar and such other restrictions as may be required in connection with the offering and sale of the Capital Securities. See "*Subscription and Sale*".

**Risk Factors:**

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Capital Securities. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Capital Securities and risks relating to the structure of the Capital Securities. See "*Risk Factors*".

## TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

*The following is the text of the Conditions of the Capital Securities which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates in definitive form issued in respect of the Capital Securities. For so long as the Capital Securities are represented by a Global Certificate, these Conditions shall be modified by the terms of the relevant Global Certificate (see "Book Entry, Delivery and Form – The Global Certificates – Amendments to Conditions" in this Prospectus).*

The U.S.\$700,000,000 Perpetual Tier 1 Capital Securities (the **Capital Securities**, which expression shall in these Conditions, unless the context otherwise requires, include any further securities issued pursuant to Condition 16 and forming a single series with the Capital Securities) of NBK Tier 1 Limited (the **Issuer**) are issued subject to and with the benefit of an agency agreement dated the Issue Date (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, National Bank of Kuwait S.A.K.P. (the **Guarantor**) as guarantor, Citigroup Global Markets Europe AG as registrar (the **Registrar**) and Citibank N.A., London Branch as fiscal agent (the **Fiscal Agent** and, together with any other paying agents named in the Agency Agreement, the **Paying Agents**), as transfer agent (the **Transfer Agent**) and as calculation agent (the **Calculation Agent**) (together with the Fiscal Agent, the Registrar, the Transfer Agent and any other Paying Agents, the **Agents**). Copies of the Agency Agreement, the Subordinated Guarantee (as defined below) and the On-Loan Agreement (as defined below) are available for inspection and/or collection during normal business hours by the holders of the Capital Securities (the **Securityholders**) at the specified office of the Fiscal Agent.

The Issuer has authorised the creation, issue and sale of the Capital Securities for the sole purpose of making a U.S.\$700,000,000 subordinated loan (the **Loan**) to the Guarantor. The Issuer and the Guarantor have recorded the terms of the Loan in a loan agreement (the **On-Loan Agreement**) dated the Issue Date between the Issuer and the Guarantor.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement and the Subordinated Guarantee. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Subordinated Guarantee applicable to them. References in these Conditions to any Agent shall include any successor appointed under the Agency Agreement.

*The owners shown in the records of Euroclear Bank SA/NV (**Euroclear**), Clearstream Banking S.A. (**Clearstream, Luxembourg**) and the Depository Trust Company (**DTC**) of book-entry interests in the Capital Securities are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Subordinated Guarantee applicable to them.*

### 1. **Form, Denomination and Title**

#### 1.1 **Form and Denomination**

The Capital Securities are issued in registered form in amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. A capital security certificate (each a **Certificate**) will be issued to each Securityholder in respect of its registered holding of Capital Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders which the Issuer will procure to be kept by the Registrar.

*The Capital Securities are not issuable in bearer form.*

#### 1.2 **Title**

Title to the Capital Securities passes only by registration in the register of Securityholders. The holder of any Capital Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Securityholder** and (in relation to a Capital Security) **holder** means the Person in whose name a Capital Security is registered in the register of Securityholders.

## 2. **Transfers of Capital Securities and issue of Certificates**

### 2.1 **Transfers**

A Capital Security may be transferred by depositing the Certificate issued in respect of that Capital Security, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Transfer Agents.

### 2.2 **Delivery of new Certificates**

Each new Certificate to be issued upon transfer of Capital Securities will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Capital Security to the address specified in the form of transfer. For the purposes of this Condition 2.2, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or the relevant Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

*Except in the limited circumstances described in this Prospectus (see "Book Entry, Delivery and Form"), owners of interests in the Capital Securities will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Capital Securities are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.*

Where some but not all of the Capital Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Capital Securities not so transferred will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the Securityholder not so transferred to the address of such holder appearing on the register of Securityholders or as specified in the form of transfer.

### 2.3 **Formalities free of charge**

Registration of transfer of Capital Securities will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or the Registrar or any Transfer Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

### 2.4 **Closed Periods**

No Securityholder may require the transfer of a Capital Security to be registered during the period of 15 days ending on and including the due date for any payment of principal, premium or interest on that Capital Security.

### 2.5 **Regulations**

All transfers of Capital Securities and entries on the register of Securityholders will be made subject to the detailed regulations concerning transfer of Capital Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Securityholder who requests one.

## 3. **Status of the Capital Securities, Subordination and Limited Recourse**

### 3.1 **Status of the Capital Securities and Subordination**

The Capital Securities constitute direct, unconditional, subordinated (as described below) and unsecured obligations of the Issuer and rank *pari passu* and without preference among themselves.

The payment obligations of the Issuer under the Capital Securities will: (a) rank junior to all Senior Obligations of the Issuer; (b) rank *pari passu* with all *Pari Passu* Obligations of the Issuer; and (c) rank senior to all Junior Obligations of the Issuer.

Each holder of a Capital Security unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Capital Security. No collateral is or will be given for the payment obligations under the Capital Securities and any collateral that may have been or may in the future be given in connection with other indebtedness of the Issuer shall not secure the payment obligations under the Capital Securities.

### 3.2 **Limited Recourse and Agreement of Securityholders**

Save as provided in this Condition 3.2, the Capital Securities do not represent an interest in or obligation of any of the Issuer, the Guarantor, any of the Agents or any of their respective affiliates.

The payments received by the Issuer from the Guarantor (the **Relevant Assets**) are the sole source of payments on the Capital Securities. The net proceeds of the realisation of, or enforcement with respect to, the Relevant Assets may not be sufficient to make all payments due in respect of the Capital Securities. Securityholders, by subscribing for or acquiring the Capital Securities, acknowledge and agree that Maples Fund Services (Middle East) Limited has been appointed as the corporate services provider in relation to the Issuer (in such capacity the **Corporate Services Provider**), and that the directors of the Issuer are employees, directors and/or officers of the Corporate Services Provider. Notwithstanding anything contrary contained in these Conditions or the Agency Agreement or any other transaction document entered into by the Issuer in relation to or in connection with the Capital Securities (together with the Agency Agreement, the **Transaction Documents**), the Securityholders each agree that no recourse (whether under these Conditions or under any other Transaction Document) shall be had against any of (i) the Corporate Services Provider or its affiliates or (ii) the directors and/or secretary of the Issuer or their assets. The Securityholders further agree not to pursue any action or make any claim or demand or commence any proceedings against the Corporate Services Provider, its successors or assigns, directors, officers or employees present and future, or the directors and/or secretary of the Issuer as a result of the performance of the functions and services provided by the Corporate Services Provider and the directors and/or secretary of the Issuer pursuant to the corporate services agreement dated 16 December 2020 between the Issuer and the Corporate Services Provider.

## 4. **Guarantee and Issuer Covenants**

### 4.1 **Guarantee**

The payment of the principal and interest in respect of the Capital Securities has been unconditionally and irrevocably guaranteed by the Guarantor under a subordinated guarantee (the **Subordinated Guarantee**) dated the Issue Date and executed by the Guarantor. The original of the Subordinated Guarantee is held by the Fiscal Agent on behalf of, and copies are available for inspection by, the Securityholders at its specified office.

### 4.2 **Status of the Guarantee and Subordination**

The obligations of the Guarantor under the Subordinated Guarantee constitute direct, unconditional, subordinated and unsecured obligations of the Guarantor.

The payment obligations of the Guarantor in respect of the Subordinated Guarantee will (a) rank junior to all Senior Obligations of the Guarantor, (b) rank *pari passu* with all *Pari Passu* Obligations of the Guarantor and (c) rank senior to all Junior Obligations of the Guarantor. Each holder of a Capital Security unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Subordinated Guarantee. No collateral is or will be given for the payment obligations under the Subordinated Guarantee and any collateral that may have been or may in the future be given in connection with other indebtedness of the Guarantor shall not secure the payment obligations under the Subordinated Guarantee.

### 4.3 **Other Issues**

The Guarantor has agreed in the Subordinated Guarantee that, so long as any of the Capital Securities remain outstanding, the Guarantor will not, and will procure that neither the Issuer nor any of its other Subsidiaries will, issue any securities (regardless of name or designation) or create

any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or on a consolidated basis) issued Tier 1 Capital of the Guarantor if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding up or in respect of distribution or payment of interest and/or any other amounts thereunder) senior to the Capital Securities (in the case of the Issuer) and/or the Guarantor's payment obligations under the Subordinated Guarantee (in the case of the Guarantor). This prohibition will not apply if at the same time or prior thereto, these Conditions and the Subordinated Guarantee are amended to ensure that these Conditions and the Subordinated Guarantee have the benefit of such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Capital Securities and the Subordinated Guarantee rank *pari passu* with, and contain substantially similar rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

#### 4.4 Issuer Covenants

The Issuer covenants that, among other things, for so long as any Capital Security remains outstanding, it shall not:

- (a) incur any indebtedness in respect of borrowed money whatsoever (other than the Capital Securities and any other securities to be issued by the Issuer from time to time where the payment obligations of the Issuer rank *pari passu* with the payment obligations of the Issuer under the Capital Securities (such other securities being the **Equivalent Securities**)) or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) other than those in issue as at the Issue Date, except, in all cases, as contemplated by (i) the Transaction Documents; or (ii) the transaction documents relating to an issuance of Equivalent Securities;
- (b) secure any of its present indebtedness for borrowed money or present or future obligations by any lien, pledge, charge, mortgage or other security interest upon any of its present or future undertakings, assets, properties or revenues (other than those arising by operation of law if any);
- (c) sell, transfer, assign, participate, exchange, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) any of its assets;
- (d) use the net proceeds of the issue of the Capital Securities and any issue of Equivalent Securities for any purpose other than advancing such proceeds to the Guarantor or use the amounts paid to it by the Guarantor other than to make payments on the Capital Securities or the Equivalent Securities, as the case may be, when due;
- (e) have any subsidiaries or employees (other than directors);
- (f) redeem or buy-back any of its shares or pay any dividend or make any other distribution to its shareholders (except, in all cases, as contemplated by the Transaction Documents);
- (g) put to its directors or shareholders (i) any resolution for or appoint any liquidator for its winding up or (ii) any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it;
- (h) enter into any contract, transaction, amendment, obligation or liability, other than those entered into in connection with and for the purpose of issuing the Capital Securities or to be entered into in connection with and for the purpose of issuing any Equivalent Securities, advancing the proceeds of any such issuance to the Guarantor or the ongoing management and administration of the Issuer; or
- (i) consolidate or merge with any other Person.

## 5. **Interest**

### 5.1 **Interest Rate and Interest Payment Dates**

Subject to Conditions 5.6 and 5.7, the Capital Securities bear interest on their outstanding principal amount:

- (a) from and including the Issue Date to but excluding 24 February 2027 (the **First Reset Date**) at the rate of 3.625 per cent. per annum (the **Initial Interest Rate**) or, thereafter, at the relevant Reset Interest Rate;
- (b) payable semi-annually in arrear on 24 February and 24 August in each year (each an **Interest Payment Date**); and
- (c) the first interest payment (for the period from and including the Issue Date to but excluding 24 August 2021 (the **First Interest Payment Date**) and amounting to U.S.\$18.125 per U.S.\$1,000 in principal amount of Capital Securities) shall be made on the First Interest Payment Date.

### 5.2 **Calculation of interest amount due in respect of a partial Interest Period**

When interest is required to be calculated in respect of a period of less than a full Interest Period, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

### 5.3 **Reset Interest Rate**

The Calculation Agent will agree in the Agency Agreement that, on each U.S. Securities Determination Date at approximately 11.00 a.m. (New York time), it will determine the Reset Interest Rate for the immediately following Reset Period.

### 5.4 **Publication of Reset Interest Rate**

The Calculation Agent shall cause notice of the relevant Reset Interest Rate to be given to the Issuer, the Guarantor and to any stock exchange or other relevant authority on which the Capital Securities are at the relevant time listed (if then required by such stock exchange or other relevant authority), by no later than the first day of each Reset Period, and to Securityholders in accordance with Condition 14 as soon as possible after the determination thereof, and in no event later than the second Business Day thereafter. The Reset Interest Rate so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of manifest error.

### 5.5 **Notifications, etc. to be final**

All communications, notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5 by the Calculation Agent will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Calculation Agent, the Paying Agents and all Securityholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Guarantor or the Securityholders shall be attached to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 5.

### 5.6 **Non-Payment Event**

Notwithstanding this Condition 5, if any of the following events occurs (each, a **Non-Payment Event**), the Issuer shall not pay Interest Payment Amounts on any Interest Payment Date:

- (a) the Interest Payment Amount payable by the Issuer, when aggregated with any distributions payable by the Issuer and the Guarantor on any of their respective *Pari Passu* Obligations having the same date in respect of payment of such distributions (or otherwise due and payable on such date) as the date for payment of the Interest Payment Amount,

exceeds, on the relevant date for payment of the relevant Interest Payment Amount, the Guarantor's Distributable Funds;

- (b) the Guarantor is, on that Interest Payment Date, in breach of (or such payment would cause a breach of) the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Guarantor by the Financial Regulator); or
- (c) the Financial Regulator requires the Guarantor to procure that the Issuer does not pay the relevant Interest Payment Amount on that Interest Payment Date and/or requires the Guarantor not to meet its corresponding payment obligations under the Loan and/or the Subordinated Guarantee.

#### 5.7 **Non-Payment Election**

Notwithstanding this Condition 5, each of the Issuer and the Guarantor may in its sole discretion elect that any Interest Payment Amount will not be paid (in whole or in part) on any Interest Payment Date (a **Non-Payment Election**). The foregoing shall not, however, apply once the Issuer has given notice to Securityholders that the Capital Securities will be redeemed in whole in accordance with Condition 7.

#### 5.8 **Effect of Non-Payment Event or Non-Payment Election**

If either the Issuer or the Guarantor makes a Non-Payment Election or a Non-Payment Event occurs, then the Issuer (failing whom, the Guarantor) shall (a) in the case of a Non-Payment Election, 14 calendar days prior to such event, and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than five Business Days prior to the relevant Interest Payment Date, give notice to the Agents and the Securityholders in accordance with Condition 14 in each case providing details of the Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event. In the absence of notice of such Non-Payment Election or Non-Payment Event, as the case may be, having been given in accordance with this Condition 5.8, the fact of non-payment of the relevant Interest Payment Amount (or any part thereof) on the relevant Interest Payment Date shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Securityholders shall have no claim in respect of any Interest Payment Amount (or any part thereof) not paid as a result of either a Non-Payment Election or a Non-Payment Event (in each case, irrespective of whether notice of such Non-Payment Election or Non-Payment Event has been given in accordance with this Condition 5.8) and any non-payment of an Interest Payment Amount (or any part thereof) in such circumstances shall not constitute an Enforcement Event. Neither the Issuer nor the Guarantor shall have any obligation to make any subsequent payment in respect of any such unpaid and cancelled Interest Payment Amount (or any part thereof).

#### 5.9 **Dividend and Redemption Restrictions**

If any Interest Payment Amount (or any part thereof) is not paid as a consequence of a Non-Payment Event or a Non-Payment Election pursuant to Conditions 5.6 or 5.7 respectively, then, from the date of such Non-Payment Event or Non-Payment Election (the **Dividend Stopper Date**), neither the Issuer nor the Guarantor will, so long as any of the Capital Securities are outstanding:

- (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares issued by the Issuer or the Guarantor (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or
- (b) pay interest or any other distribution on any of its securities, ranking, as to the right of payment of dividend, distributions or similar payments, junior to, or *pari passu* with, the Capital Securities (excluding securities the terms of which do not at the relevant time enable the Issuer or the Guarantor, as the case may be, to defer or otherwise not to make such payment), only to the extent such restrictions on payment or distribution are permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time; or



- (c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares issued by it; or
- (d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any securities issued by the Issuer or the Guarantor, as the case may be, ranking, as to the right of repayment of capital, junior to, or *pari passu* with, the Capital Securities (excluding, in respect of such securities (i) any mandatory redemption in accordance with their terms or (ii) any mandatory conversion into, or exchange for, Ordinary Shares of the Guarantor in accordance with their terms), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time,

in each case unless or until two consecutive Interest Payment Amounts following the Dividend Stopper Date have been paid in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Securityholders).

## 6. **Payments**

### 6.1 **Payments in respect of the Capital Securities**

Payment of principal and premium (if any) and interest will be made by credit or transfer to the registered account of the Securityholder. Payments of principal and premium (if any) and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest Payment Amounts due on an Interest Payment Date will be paid to the holder shown on the register of Securityholders at the close of business on the date (the **record date**) being the fifteenth day before the due date for the relevant Interest Payment Date.

For the purposes of this Condition 6, a Securityholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the register of Securityholders at the close of business, in the case of principal and premium (if any), on the second Business Day (as defined below) before the due date for payment and, in the case of interest, on the relevant record date, and a Securityholder's registered address means its address appearing on the register of Securityholders at that time.

*Whilst the Capital Securities are represented by a Global Certificate and such Global Certificate is registered in the name of a nominee for Euroclear and Clearstream, Luxembourg or DTC, the record date will instead be close of business on the business day (being for this purpose a day on which each clearing system for which such Global Certificate is being held is open for business) before the relevant due date (see "Book Entry, Delivery and Form – The Global Certificates – Amendments to Conditions – Payment Record Date in this Prospectus").*

### 6.2 **Payments subject to Applicable Laws**

Payments in respect of principal, premium (if any) and interest on the Capital Securities are subject in all cases to (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

### 6.3 **No Commissions**

No commissions or expenses shall be charged to the Securityholders in respect of any payments made in accordance with this Condition 6.

### 6.4 **Payment on Business Days**

Where payment is to be made by credit or transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated on the Business Day preceding the due

date for payment or, in the case of a payment of principal and premium (if any) or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Securityholders will not be entitled to any further interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, or if the Securityholder is late in surrendering or cannot surrender its Certificate (if required to do so).

In this Condition 6 **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

#### 6.5 **Partial Payments**

If the amount of principal, premium (if any) or interest which is due on the Capital Securities is not paid in full, the Registrar will annotate the register of Securityholders with a record of the amount of principal, premium (if any) or interest in fact paid.

#### 6.6 **Agents**

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Agent and to appoint additional or replacement Agents **provided that**:

- (a) there will at all times be a Fiscal Agent, a Registrar and a Calculation Agent; and
- (b) so long as the Capital Securities are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority.

Notice of any such variation, termination or appointment and of any changes in specified offices will be given to the Securityholders promptly by the Issuer in accordance with Condition 14.

### 7. **Redemption and Variation**

#### 7.1 **No Fixed Redemption Date and Conditions for Redemption and Variation**

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer (acting on the instructions of the Guarantor) shall only have the right to redeem, purchase or vary them in accordance with the following provisions of this Condition 7.

The redemption of the Capital Securities or variation of the Conditions, in each case pursuant to this Condition 7, is subject to the following conditions:

- (a) the Guarantor having obtained the prior approval of the Financial Regulator;
- (b) the requirement that at the time when the relevant notice of redemption or variation is given and immediately following any redemption or variation (as applicable), the Guarantor is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Guarantor by the Financial Regulator); and
- (c) (in the case of Conditions 7.3 or 7.4 only) the requirement that the circumstance that entitles the Issuer to exercise its right of redemption or variation is a change of law, published practice or regulation (including in the case of Condition 7.3, Applicable Regulatory Capital Requirements) in the State of Kuwait or, in the case of Condition 7.4, of a Relevant Jurisdiction or a change in the interpretation or application of such law, published practice or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after the Issue Date,

(in the case of (a) and (b) above only, except to the extent that the Financial Regulator no longer so requires).

## 7.2 **Redemption at the Option of the Issuer**

Subject to Condition 7.1, the Issuer (acting on the instructions of the Guarantor) may, having given not less than 10 nor more than 30 days' notice to the Securityholders (in accordance with Condition 14) and the Fiscal Agent (which notice, subject to Condition 7.8, shall be irrevocable and shall specify the date fixed for redemption), redeem all but not some only of the Capital Securities on the date falling six (6) months prior to the First Reset Date and on any date thereafter up to and including the First Reset Date or on any Interest Payment Date thereafter at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption (unless a Non-Payment Event or, subject to Condition 5.7, a Non-Payment Election has occurred with respect to such interest).

Prior to the publication of any notice of redemption pursuant to this Condition 7.2, the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer and an Authorised Signatory of the Guarantor stating that all conditions precedent to the redemption of the Capital Securities pursuant to Condition 7.1 have been satisfied, and the Fiscal Agent shall be entitled to accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

## 7.3 **Redemption or Variation for Regulatory Reasons**

Subject to Condition 7.1, the Issuer (acting on the instructions of the Guarantor) may, if a Capital Event has occurred and is continuing, having given not less than 10 nor more than 30 days' notice to the Securityholders (in accordance with Condition 14) and the Fiscal Agent (which notice, subject to Condition 7.8, shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable)) (i) redeem all (but not some only) of the Capital Securities at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption (unless a Non-Payment Event or, subject to Condition 5.7, a Non-Payment Election has occurred with respect to such interest); or (ii) vary the terms of the Capital Securities so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the holders of the Capital Securities.

*The Capital Regulations, as in force from time to time, may oblige the Guarantor to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Capital Event was not reasonably foreseeable at the Issue Date.*

Prior to the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 7.3, the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer and an Authorised Signatory of the Guarantor stating that: (A) a Capital Event has occurred and is continuing as at the date of the certificate; (B) all other conditions precedent to the redemption or variation of the Capital Securities pursuant to Condition 7.1 have been satisfied; and (C) in the case of a variation only, the Guarantor shall certify that the varied Capital Securities are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 1 Instruments, and the Fiscal Agent shall be entitled to accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

A **Capital Event** is deemed to have occurred if the Guarantor is notified in writing by the Financial Regulator to the effect that (i) the outstanding principal amount of the Loan is excluded (in full or in part) from the consolidated Tier 1 Capital of the Guarantor; or (ii) the outstanding principal amount of the Capital Securities is excluded (in full or in part) from the consolidated Tier 1 Capital of the Guarantor (in each case, save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

#### 7.4 **Redemption or Variation for Taxation Reasons**

Subject to Condition 7.1, if a Tax Event has occurred, and that Tax Event cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it, the Issuer (acting on the instructions of the Guarantor) may at its option, having given not less than 10 nor more than 30 days' notice to the Securityholders (in accordance with Condition 14) and the Fiscal Agent (which notice, subject to Condition 7.8, shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable)) (i) redeem all (but not some only) of the Capital Securities at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption (unless a Non-Payment Event or, subject to Condition 5.7, a Non-Payment Election has occurred with respect to such interest); or (ii) vary the terms of the Capital Securities provided that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the holders of the Capital Securities.

*The Capital Regulations, as in force from time to time, may oblige the Guarantor to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Tax Event was not reasonably foreseeable at the Issue Date.*

Prior to the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 7.4, the Issuer shall deliver to the Fiscal Agent: (A) a copy of an opinion of a recognised independent tax adviser to the effect that a Tax Event has occurred; and (B) a certificate signed by two directors of the Issuer and an Authorised Signatory of the Guarantor stating that (i) the relevant Tax Event has occurred and cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it; (ii) that all other conditions precedent to the redemption or variation of the Capital Securities pursuant to Condition 7.1 and this Condition 7.4 (other than the notice described in the first paragraph of this Condition 7.4) have been satisfied; and (iii) in the case of a variation only, the Guarantor shall certify that the varied Capital Securities are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 1 Instruments, and the Fiscal Agent shall be entitled to accept the opinion and certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Securityholders.

For this purpose, a **Tax Event** means that:

- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws, published practice or regulations any Relevant Jurisdiction, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after the Issue Date; or
- (ii) the Guarantor has or (if a demand was made under the Subordinated Guarantee) would become obliged to pay additional amounts as provided or referred to in Condition 9 or in the Subordinated Guarantee or the Guarantor has or will become obliged to pay additional amounts under the On-Loan Agreement as a result of any such withholding, deduction or retention as is referred to in Condition 9 from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Capital Securities, in either case as a result of any change in, or amendment to, the laws, published practice or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after the Issue Date,

**provided, however, that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding, deduction or retention if a payment in respect of the Capital Securities was then due or (as the case may be) a demand under the Subordinated Guarantee was then made.

#### 7.5 **Taxes upon Variation**

In the event of a variation in accordance with Conditions 7.3 or 7.4, the Issuer will not be obliged to pay and will not pay any liability of any Securityholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Capital Securities **provided that** they become or, as appropriate, remain, Qualifying Tier 1 Instruments, including in respect of any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Securityholder.

#### 7.6 **Purchases**

Subject to the Guarantor: (a) obtaining the prior approval of the Financial Regulator (except to the extent that the Financial Regulator no longer so requires); and (b) being in compliance with the Applicable Regulatory Capital Requirements, the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries may at any time purchase the Capital Securities in any manner and at any price.

#### 7.7 **Cancellations**

All Capital Securities which are (a) redeemed or (b) purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries will forthwith be cancelled, and accordingly may not be reissued or resold.

#### 7.8 **No redemption following delivery of a Non-Viability Notice**

If the Issuer has elected to redeem the Capital Securities in accordance with this Condition 7 and prior to the redemption of the Capital Securities a Non-Viability Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and the Issuer shall give notice thereof to the Securityholders (in accordance with Condition 14), the Fiscal Agent and the Registrar as soon as practicable. Further, no notice of redemption shall be given in the period following the giving of a Non-Viability Notice and prior to the relevant Non-Viability Event Write-down Date.

#### 8. **Write-down at the Point of Non-Viability**

If a Non-Viability Event occurs, on the third Business Day following the occurrence of such Non-Viability Event, the Issuer will notify the Securityholders thereof in accordance with Condition 14 (a **Non-Viability Notice**). Upon provision of such Non-Viability Notice, a Write-down of the Capital Securities shall take place on the Non-Viability Event Write-down Date.

Following any Write-down of the Capital Securities in accordance with this Condition 8: (a) references in these Conditions to the **principal amount** or **outstanding principal amount** of the Capital Securities shall be construed accordingly; (b) the principal amount so written down (the **Write-down Amount**) will be cancelled and interest will continue to accrue only on the outstanding principal amount following such reduction, subject to Conditions 5.6 and 5.7, as described herein; and (c) the Write-down Amount may not be restored under any circumstances, including where the relevant Non-Viability Event is no longer continuing.

Any such Write-down shall not constitute an Enforcement Event. Securityholders acknowledge that there shall be no recourse to the Financial Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event.

*It is the Guarantor's current intention that a Write-down will take place: (1) after the Ordinary Shares in the Guarantor absorb losses (if and to the extent permissible under the relevant regulations applicable to the Guarantor at such time) and the Financial Regulator has not notified the Guarantor in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) simultaneously and pro rata with the write-down of any of the Guarantor's other obligations in respect of Tier 1 Capital and any other instruments related to the Guarantor's other obligations constituting Tier 1 Capital; and (3) prior to the write-down or write-off of any of the Guarantor's other obligations in respect of Tier 2 Capital and any other securities and other instruments related to the Guarantor's other obligations constituting Tier 2 Capital. However, the Guarantor may at any time depart from this policy at its sole discretion or if so required by the Applicable Regulatory Capital Requirements.*

In this Condition 8, **Business Day** means a day (other than a Friday or Saturday) on which commercial banks are open for business in the Dubai International Financial Centre and the State of Kuwait.

9. **Taxation**

9.1 **Payment without Withholding**

All payments in respect of the Capital Securities by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding, deduction or retention for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld or assessed by or on behalf of any Relevant Jurisdiction, unless the withholding, deduction or retention of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the Securityholders after the withholding, deduction or retention shall equal the respective amounts which would have been receivable in respect of the Capital Securities in the absence of the withholding, deduction or retention; except that no additional amounts shall be payable in relation to any payment in respect of any Capital Security:

- (a) held by or on behalf of a holder which is liable to the Taxes in respect of the Capital Security by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Capital Security; or
- (b) where the relevant Capital Security is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Business Day.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Capital Securities by or on behalf of the Issuer will be made net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, (or any regulations or agreements thereunder, or official interpretations thereof.), or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a **FATCA Withholding**). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

9.2 **Interpretation**

In these Conditions:

- (a) **Relevant Date** means the date on which the payment first becomes due, except that, if the full amount of the money payable has not been duly received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 14; and
- (b) **Relevant Jurisdiction** means the United Arab Emirates (including the Dubai International Financial Centre) or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Issuer) or the State of Kuwait or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Guarantor) or in either case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or the Guarantor, as the case may be, becomes subject in respect of payments made by it of principal and interest on the Capital Securities, or under the On-Loan Agreement or the Subordinated Guarantee (as applicable).

9.3 **Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Capital Securities shall be deemed also to refer to any additional amounts which may be payable under this Condition.

10. **On-Loan Agreement**

So long as any of the Capital Securities remains outstanding, the Issuer agrees, and the Guarantor has agreed under the Subordinated Guarantee, for the benefit of the Securityholders that it shall not amend, vary, waive, rescind, replace or revoke the On-Loan Agreement, or any provision thereof, in any manner which would have the effect of entitling the Issuer to exercise the option contained in Condition 7.3 (*Redemption or Variation for Regulatory Reasons*) to redeem the Capital Securities in circumstances where it would not otherwise be permitted to do so in accordance with such Condition.

11. **Prescription**

Subject to applicable law, claims in respect of interest and principal shall be prescribed and become void unless made within (i) 5 years from the Relevant Date, in the case of claims in respect of interest, and (ii) 10 years from the Relevant Date, in the case of claims in respect of principal.

12. **Enforcement Event**

12.1 **Enforcement Event**

An enforcement event (an **Enforcement Event**) shall occur if:

- (a) default is made in the payment of any principal or interest due under the Capital Securities or any of them and, in the case of interest only, the default continues for a period of five Business Days (as defined in Condition 6.4) (save, in the case of interest where such failure occurs solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election);
- (b) default is made in any payment due under the Subordinated Guarantee and the default continues for a period of 14 days; or
- (c) any one or more of the following events shall occur and be continuing:
  - (i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of Securityholders; or
  - (ii) any event occurs which under the laws of the Dubai International Financial Centre or the State of Kuwait or any other jurisdiction has an analogous effect to any of the events referred to in paragraph (i) above.

In the case of (a) or (b) above only, any Securityholder may institute proceedings for the dissolution and liquidation of the Guarantor.

In the case of (c) above only, any Securityholder may give written notice to the Issuer and the Guarantor at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, that such Capital Security is due and payable, whereupon the same shall, subject to Condition 3, become forthwith due and payable at its outstanding principal amount, together with accrued but unpaid interest (if any) to the date of repayment without presentation, demand, protest or other notice of any kind.

A Securityholder may at its discretion institute such steps, actions or proceedings against, subject to Condition 3.2, the Issuer or the Guarantor to enforce any other term or condition binding on the Issuer (including, without limitation, any breach of the provisions of Condition 4.4) or the Guarantor. However, in no event shall the Issuer or the Guarantor, by virtue of the institution of

any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

**12.2 No Other Remedies**

No remedy against the Issuer or the Guarantor other than as set out in this Condition 12 and petitioning for the winding up or liquidation of the Guarantor and the proving or claiming in any dissolution and liquidation of the Issuer or the Guarantor shall be available to the Securityholders whether for the recovering of amounts owing in respect of the Capital Securities or in respect of any breach by the Issuer or the Guarantor of any other obligation, condition or provision binding on it under the Capital Securities or the Subordinated Guarantee.

**13. Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**14. Notices**

**14.1 Notices to the Securityholders**

All notices to the Securityholders will be valid if mailed to them at their respective addresses in the register of Securityholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed. Any notice shall be deemed to have been given on the fourth day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

**14.2 Notices from the Securityholders**

Notices to be given by any Securityholder shall be in writing and given by lodging the same, together with the relevant Certificate, with the Fiscal Agent or, if the Certificates are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

**15. Meetings of Securityholders and Modification**

**15.1 Meetings of Securityholders**

The Agency Agreement contains provisions for convening meetings of the Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the Subordinated Guarantee or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Securityholders holding not less than one-tenth of the aggregate outstanding principal amount of the Capital Securities. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the Capital Securities for the time being outstanding or, at any adjourned meeting, one or more persons present whatever the principal amount of the Capital Securities so held or represented, except that a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Securityholders at which one or more persons holding or representing not less than two-thirds or, at any adjourned such meeting, not less than one-third of the aggregate outstanding principal amount of the Capital Securities form a quorum. An Extraordinary Resolution passed at any meeting of the Securityholders will be binding on all Securityholders, whether or not they are present at the meeting. This Condition 15.1 is without prejudice to Conditions 7.3 and 7.4.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the aggregate outstanding principal amount of the Capital Securities will take effect as if



it were an Extraordinary Resolution passed at a meeting of Securityholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

15.2 **Modification**

These Conditions, the Agency Agreement and the Subordinated Guarantee may be amended or modified without the consent of the Securityholders where such amendment or modification: (i) is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law; or (ii) does not concern a Reserved Matter and is not materially prejudicial to the interests of the Securityholders. Any modification shall be binding on the Securityholders and, unless the Fiscal Agent agrees otherwise, shall be notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 14. This Condition 15.2 is without prejudice to Conditions 7.3 and 7.4.

16. **Further Issues**

The Issuer may from time to time without the consent of the Securityholders create and issue further securities, having terms and conditions the same as those of the Capital Securities, or the same except for the date and amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Capital Securities. References in these Conditions to Capital Securities shall include (unless the context otherwise requires) any further securities issued pursuant to this Condition and forming a single series with the Capital Securities.

17. **Currency Indemnity**

If any sum due from the Issuer in respect of the Capital Securities or any order or judgment given or made in relation thereto has to be converted from the currency (the **first currency**) in which the same is payable under these Conditions or such order or judgment into another currency (the **second currency**) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Capital Securities, the Issuer shall indemnify each Securityholder, on the written demand of such Securityholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Securityholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. **Governing Law and Dispute Resolution**

18.1 **Governing Law**

The Agency Agreement, the Subordinated Guarantee, these Conditions (including the remaining provisions of this Condition 18) and the Capital Securities and any non-contractual obligations arising out of or in connection with them are governed by, and will be construed in accordance with, English law, save that Condition 3.1 shall be governed by the laws of the Dubai International Financial Centre.

18.2 **Arbitration**

Any dispute, claim, difference or controversy arising out of, relating to, or having any connection with the Capital Securities, these Conditions, the Agency Agreement or the Subordinated Guarantee (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of the nullity of any of them and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules (the **Rules**) of the

London Court of International Arbitration (the **LCIA**), which Rules (as amended from time to time) are incorporated by reference into this Condition 18.2. For these purposes:

- (a) the seat of arbitration shall be London, England;
- (b) there shall be three arbitrators each of whom shall be disinterested in the arbitration, shall have no connection with any party to the Dispute and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly shall each nominate one arbitrator. If one party or both fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party-nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and
- (c) the language of the arbitration shall be English.

**18.3 Appointment of Process Agent**

Each of the Issuer and the Guarantor irrevocably appoints Maples and Calder at its registered office at 11<sup>th</sup> Floor, 200 Aldersgate Street, London EC1A 4HD as its authorised agent for service of process in England. If for any reason such agent shall cease to be such agent for service of process or ceases to be registered in England, the Issuer and the Guarantor shall forthwith appoint a new agent for service of process in England and shall notify the Securityholders of such appointment. The Issuer and the Guarantor will procure that, so long as any of the Capital Securities remains outstanding, a person with an office in London shall be appointed to accept service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

**18.4 Waiver of Immunity**

To the extent that the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or the Guarantor or its assets or revenues, each of the Issuer and the Guarantor agrees not to claim and irrevocably and unconditionally waives such immunity to the fullest extent permitted by the laws or such jurisdiction. Further, each of the Issuer and the Guarantor irrevocably and unconditionally consents to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Disputes.

**18.5 Other Documents**

Each of the Issuer and the Guarantor has in the Agency Agreement and the Subordinated Guarantee appointed an agent in England for service of process, on terms substantially similar to those set out in Condition 18.3.

**19. Contracts (Rights of Third Parties) Act 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Capital Security, but this does not affect any right or remedy of any Person which exists or is available apart from that Act.

**20. Definitions**

In these Conditions:

**Applicable Regulatory Capital Requirements** means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Guarantor, including transitional rules and waivers granted in respect of the foregoing.

**Authorised Signatory** means any person who: (a) holds the office of Chairman or Vice-Chairman of the Guarantor from time to time, or (b) is duly authorised by the Guarantor to sign documents on its behalf.

**Basel III** means the reforms to the international regulatory capital framework issued by the Basel Committee (including, but not limited to, the Basel III Documents) as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital instruments and tier 2 capital instruments).

**Basel III Documents** means the Basel Committee document "A global regulatory framework for more resilient banks and banking systems" released by the Basel Committee on 16 December 2010 and revised in June 2011 and the Annex contained in its document "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" on 13 January 2011.

**Basel Committee** means the Basel Committee on Banking Supervision.

**Business Day** has the meaning given to it in Condition 6 (save as otherwise specified herein).

**Capital Event** has the meaning given to it in Condition 7.3.

**Capital Regulations** means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the State of Kuwait, including those of the Financial Regulator, including, without limitation, the Instructions, and in each case, as amended or superseded from time to time.

**Code** has the meaning given to it in Condition 6.2.

**Common Equity Tier 1 Capital** means capital of the Guarantor qualifying as (or which would qualify, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, common equity tier 1 capital in accordance with the Capital Regulations.

**Distributable Funds** means the amount of the Guarantor's consolidated retained earnings, reserves and profits (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in the most recent audited or (as the case may be) auditor reviewed consolidated financial statements of the Group, subject as otherwise defined in the Capital Regulations from time to time.

**Enforcement Event** has the meaning given to it in Condition 12.

**Equivalent Securities** has the meaning given to it in Condition 4.4.

**Extraordinary Resolution** has the meaning given to it in the Agency Agreement.

**Financial Regulator** means the Central Bank of the State of Kuwait and/or any successor entity having primary bank supervisory authority with respect to the Guarantor in the State of Kuwait.

**First Interest Payment Date** has the meaning given to it in Condition 5.

**First Reset Date** has the meaning given to it in Condition 5.

**H.15 (519)** means the weekly statistical release designated as such, or any successor or replacement publication, published by the Board of Governors of the United States Federal Reserve System and **most recent H.15 (519)** means the H.15 (519) published closest in time but prior to the applicable U.S. Securities Determination Date. The H.15 (519) may be currently obtained at the following website: <https://www.federalreserve.gov/releases/h15/>.

**Initial Interest Rate** has the meaning given to it in Condition 5.1.

**Instructions** means the final instructions entitled "*Implementing Capital Adequacy Standards – Basel III – for conventional banks*" issued by the Financial Regulator on 24 June 2014, as may be amended or superseded from time to time.

**Interest Payment Amount** means the amount of interest due on each Capital Security on an Interest Payment Date (assuming, for this purpose, that a Non-Payment Event has not occurred and a Non-Payment Election has not been made with respect to such amount of interest).

**Interest Payment Date** has the meaning given to it in Condition 5.1.

**Interest Period** means the period from and including the Issue Date to but excluding the First Interest Payment Date, and each successive period from and including an Interest Payment Date to but excluding the next Interest Payment Date.

**Issue Date** means 24 February 2021.

**Junior Obligations** means (i) in the case of the Issuer, all claims of the holders of Ordinary Shares of the Issuer and any other subordinated payment obligations of the Issuer which rank, or are expressed to rank, junior to the payment obligations of the Issuer under the Capital Securities, and (ii) in the case of the Guarantor, all claims in respect of the Ordinary Shares of the Guarantor and all payment obligations of the Guarantor in respect of its Common Equity Tier 1 Capital and any other subordinated payment obligations of the Guarantor which rank, or are expressed to rank, junior to the obligations of the Guarantor under the Subordinated Guarantee.

**Margin** means 2.875 per cent. per annum.

**Non-Payment Election** has the meaning given to it in Condition 5.7.

**Non-Payment Event** has the meaning given to it in Condition 5.6.

**Non-Viability Event** means that the Financial Regulator has informed the Guarantor in writing that it has determined that a Trigger Event has occurred.

**Non-Viability Event Write-down Date** means the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than 10 Business Days (as defined in Condition 8) after the date of the Non-Viability Notice.

**Non-Viability Notice** has the meaning given to it in Condition 8.

**Ordinary Shares** means the ordinary shares of the Issuer or the Guarantor, as the case may be.

**Pari Passu Obligations** means (in the case of the Issuer) all subordinated payment obligations of the Issuer which rank, or are expressed to rank, *pari passu* with the Capital Securities and (in the case of the Guarantor) all subordinated payment obligations of the Guarantor which rank, or are expressed to rank, *pari passu* with the Guarantor's payment obligations under the Subordinated Guarantee.

**Person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

**Qualifying Tier 1 Instruments** means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) issued directly or indirectly by the Guarantor that:

- (a) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) consolidated Tier 1 Capital of the Guarantor;
- (b) have terms and conditions not materially less favourable to a Securityholder than the Capital Securities (as reasonably determined by the Guarantor (**provided that** in making this determination the Guarantor is not required to take into account the tax treatment of the new instrument in the hands of all or any holders of the Capital Securities, or any transfer or similar taxes that may apply on the acquisition of the new instrument) **provided that** a certification to such effect of an Authorised Signatory of the Guarantor shall have been delivered to the Fiscal Agent prior to the variation of the terms of the instruments);

- (c) will constitute direct or indirect (whether by a guarantee or equivalent support undertaking) obligations of the Guarantor;
- (d) rank, on a winding up of the Guarantor, at least *pari passu* with the obligations of the Guarantor in respect of the Subordinated Guarantee as specified in Condition 4.2;
- (e) have at least the same outstanding principal amount and the same interest payment or distribution dates as the Capital Securities and at least equal interest or distribution rate or rate of return as the Capital Securities;
- (f) are listed on the same stock exchange as the Capital Securities (if the Capital Securities were so listed immediately prior to the variation);
- (g) have, to the extent such payment is not cancelled, the same claim to accrued but unpaid distributions;
- (h) (where the instruments are varied prior to the First Reset Date) have the same First Reset Date as the Capital Securities;
- (i) have the same optional redemption dates as the Capital Securities, save that any right to redeem the Capital Securities prior to the sixth anniversary of the Issue Date may be disapplied if such right to redeem would cause a Capital Event; and
- (j) preserve the obligations of the Issuer and the Guarantor (as applicable) as to amounts payable upon any redemption and the ranking of any claims in a winding-up or dissolution of the Issuer or the Guarantor (as applicable) under the Capital Securities, and which may include such technical changes as necessary to reflect the requirements of Tier 1 Capital under the Capital Regulations then applicable to the Guarantor (including, without limitation, such technical changes as may be required in the adoption and implementation of Basel III).

**Relevant Six-Year Reset Rate** means, in respect of each Reset Period: (i) a rate (expressed as a decimal) determined on the relevant U.S. Securities Determination Date to be the per annum rate equal to the weekly average yield to maturity for U.S. Treasury securities with a maturity of six years and trading in the public securities markets; or (ii) if there is no such published U.S. Treasury security with a maturity of six years and trading in the public securities markets, then the rate will be determined on the relevant U.S. Securities Determination Date by interpolation between the most recent weekly average yield to maturity for two series of U.S. Treasury securities trading in the public securities market: (A) one maturing as close as possible to, but earlier than, the immediately following Reset Date; and (B) the other maturity as close as possible to, but later than the immediately following Reset Date, in each case as published in the most recent H.15 (519). If the Issuer cannot procure the determination of the Relevant Six-Year Reset Rate on the relevant U.S. Securities Determination Date pursuant to the methods described in (i) and (ii) above, then the Relevant Six-Year Reset Rate will be: (i) equal to the rate applicable to the immediately preceding Reset Period; or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.750 per cent.

**Reserved Matter** has the meaning given to it in the Agency Agreement.

**Reset Date** means the First Reset Date and every date that falls six, or a multiple of six, years after the First Reset Date.

**Reset Interest Rate** means, in respect of any Reset Period, the rate per annum which is determined by the Calculation Agent to be the aggregate of the Margin and the Relevant Six-Year Reset Rate.

**Reset Period** means the period from and including the First Reset Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

**Senior Obligations** means all unsubordinated payment obligations of the Issuer or the Guarantor, as the case may be (including, in the case of the Guarantor, payment obligations to its depositors),

and all subordinated payment obligations (if any) of the Issuer or the Guarantor, as the case may be, except *Pari Passu* Obligations and Junior Obligations.

**Subsidiary** means, in relation to any Person (the **first Person**) at any particular time, any other Person (the **second Person**) whose affairs and policies the first Person controls or has the power to control, whether by ownership or share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise.

**Tax Event** has the meaning given to it in Condition 7.4.

**Tier 1 Capital** means capital, other than Common Equity Tier 1 Capital, qualifying as (or which would qualify, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations.

**Tier 2 Capital** means capital qualifying as (or which would qualify, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, tier 2 capital in accordance with the Capital Regulations.

**Trigger Event** has the meaning given to it in the Instructions.

*For the definition of "Trigger Event" as set out in the Instructions, see "Banking Industry and Regulation in Kuwait – Banking Regulation – Capital Adequacy Regulations" in this Prospectus.*

**U.S. Government Securities Business Day** means any day except for a Saturday, Sunday or a day on which the U.S. Securities Industry and Financial Markets Association recommends that the fixed-income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

**U.S. Securities Determination Date** means the second U.S. Government Securities Business Day before the commencement of the Reset Period for which the rate will apply.

**Write-down** means:

- (a) the Capital Securities shall be cancelled (in the case of a write-down in whole) or written-down in part on a *pro rata* basis (in the case of a write-down in part) as determined by the Guarantor in accordance with the prevailing Capital Regulations; and
- (b) all rights of any Securityholder for payment of any amounts under or in respect of the Capital Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event) shall, as the case may be, be cancelled or written-down *pro rata* among the Securityholders and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased.

**Write-down Amount** has the meaning given to it in Condition 8.

All references in these Conditions to **U.S. dollars** and **U.S.\$** are to the lawful currency of the United States of America.

All references in these Conditions to **indebtedness** shall be deemed to include any debt, or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a* and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by the Guarantor or the Issuer (as applicable).

## BOOK ENTRY, DELIVERY AND FORM

### *The Global Certificates*

The Capital Securities will be evidenced on issue by (i) in the case of Regulation S Capital Securities, the Unrestricted Global Certificate deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Capital Securities, one or more Restricted Global Certificates deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, DTC.

Beneficial interests in the Unrestricted Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-Entry Procedures for the Global Certificates*". Beneficial interests in a Restricted Global Certificate may only be held through DTC at any time. See "*—Book-Entry Procedures for the Global Certificates*". By its acquisition of a beneficial interest in a Restricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in each Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to a Restricted Global Certificate, as set forth in Rule 144A, and the Capital Securities will bear the legends set forth thereon regarding such restrictions, as described under "*Transfer Restrictions*". A beneficial interest in the Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Certificate in denominations greater than or equal to the minimum denominations applicable to interests in the Restricted Global Certificate only, and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Restricted Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Restricted Global Certificate will, upon transfer, cease to be an interest in the Unrestricted Global Certificate, and become an interest in the Restricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Restricted Global Certificate for as long as it remains such an interest. Any beneficial interest in the Restricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate, will, upon transfer, cease to be an interest in the Restricted Global Certificate and become an interest in the Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Unrestricted Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Capital Securities, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Capital Securities in definitive form (the **Individual Certificates**). The Capital Securities are not issuable in bearer form.

### *Amendments to Conditions*

Each Global Certificate contains provisions that apply to the Capital Securities that they represent, some of which modify the effect of the Conditions as set out in this Prospectus. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Global Certificates which, according to the Conditions, require presentation and/or surrender of a Certificate will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Capital Securities.

*Payments on business days:* In the case of all payments made in respect of a Global Certificate, **Business Day** means any day which is a day on which banks are open for general business (including dealings in foreign currencies) in New York City.

*Payment Record Date:* Each payment in respect of a Global Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the **Record Date**) where **Clearing System Business Day** means a day on which each clearing system for which such Global Certificate is being held is open for business.

*Notices:* Notwithstanding Condition 14 (*Notices*), while all the Capital Securities are represented by Global Certificates and such Global Certificates are registered in the name of DTC's nominee or deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Securityholders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Securityholders in accordance with Condition 14 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

#### *Write-down*

For so long as the Capital Securities are represented by Global Certificates, any Write-down will be effected in DTC, Euroclear and Clearstream, Luxembourg in accordance with their operating procedures by way of a reduction in the pool factor.

#### *Exchange for Individual Certificates*

##### *Exchange*

The relevant Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Capital Securities in definitive, registered form if: a Global Certificate is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Certificate or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC, (B) in the case of an Unrestricted Global Certificate only, Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (C) any Enforcement Event occurs.

The Registrar will not register the transfer of, or exchange of interests in, a Global Certificate for Individual Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Capital Securities.

##### *Delivery*

In such circumstances, the relevant Global Certificate shall be exchanged in full for Individual Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Securityholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Capital Securities and (b) in the case of the Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Individual Certificates issued in exchange for a beneficial interest in the Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".



## *Legends*

The holder of an Individual Certificate may transfer the Capital Securities evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Restricted Individual Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Restricted Individual Certificate, the Issuer will deliver only Restricted Individual Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

### ***Book-Entry Procedures for the Global Certificates***

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Capital Securities and cross-market transfers of the Capital Securities associated with secondary market trading. See "*—Settlement and Transfer of Capital Securities*".

#### *Euroclear and Clearstream, Luxembourg*

The Unrestricted Global Certificate representing the Regulation S Capital Securities will have an ISIN and Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (such investors in Euroclear, Clearstream, Luxembourg or DTC, **Direct Participants**) or indirectly (such investors in Euroclear, Clearstream, Luxembourg or DTC, **Indirect Participants** and together with Direct Participants, **Participants**) through organisations which are accountholders therein.

#### *DTC*

The Restricted Global Certificate representing the Rule 144A Capital Securities will have an ISIN, Common Code and CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The custodian and DTC will electronically record the principal amount of the Capital Securities held within the DTC system.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Restricted Global Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Capital Securities only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Global Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*—Exchange for Individual Certificates*", DTC will surrender the Restricted Global Certificate for exchange for individual Restricted Individual Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

#### ***Relationship of Participants with Clearing Systems***

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Capital Securities evidenced by a Global Certificate, the common depository by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Capital Securities for so long as the Capital Securities are evidenced by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder of such Global Certificate in respect of each amount so paid. None of the Issuer or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

#### ***Settlement and Transfer of Capital Securities***

Subject to the rules and procedures of each applicable clearing system, purchases of Capital Securities held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Capital Securities on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **Beneficial Owner**) will in turn be recorded on the Direct Participant and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Capital Securities held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Capital Securities, unless and until interests in any Global Certificate held within a clearing system are exchanged for Individual Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Capital Securities held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Capital Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect

Participants, the ability of a person having an interest in the Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

*Trading between Euroclear and/or Clearstream, Luxembourg Participants*

Secondary market sales of book-entry interests in the Capital Securities held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Capital Securities held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

*Trading between DTC Participants*

Secondary market sales of book-entry interests in the Capital Securities between DTC participants will occur in the ordinary way in accordance with DTC rules and are expected to be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

*Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser*

When book-entry interests in Capital Securities are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Certificate, as the case may be (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time (or such other time as the relevant clearing system may require), on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the relevant Restricted Global Certificate will instruct the Registrar to (i) decrease the amount of Capital Securities registered in the name of Cede & Co. and evidenced by such Restricted Global Certificate of the relevant class and (ii) increase the amount of Capital Securities registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Unrestricted Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

*Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser*

When book-entry interests in the Capital Securities are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time (or such other time as the relevant clearing system may require), one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Restricted Global Certificate who will in turn deliver such book-entry interests in the Capital Securities free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Capital Securities registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Unrestricted Global Certificate; and (ii) increase the amount of Capital Securities registered in the name of Cede & Co. and evidenced by the Restricted Global Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer nor any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

*Pre-issue Trades Settlement*

It is expected that delivery of Capital Securities will be made against payment therefore on the Issue Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Capital Securities in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date will be required, by virtue of the fact the Capital Securities initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Capital Securities may be affected by such local settlement practices, and purchasers of Capital Securities between the date of pricing and the Issue Date should consult their own advisors.

## **USE OF PROCEEDS**

The estimated net proceeds from the issue of the Capital Securities, after deduction of commissions will be U.S.\$697,900,000. The proceeds from the issue of the Capital Securities will be used by the Issuer to finance the Loan to the Bank pursuant to the On-Loan Agreement in a form which meets or exceeds the requirements of Tier 1 Capital under the Capital Regulations. The Loan will be used by the Bank to support its Tier 1 Capital for the purpose of maintaining its capital adequacy and for its general corporate purposes, which may include (without limitation) funding, in whole or in part, any purchase of the U.S.\$700,000,000 Perpetual Tier 1 Capital Securities issued by NBK Tier 1 Financing Limited and guaranteed by the Bank pursuant to the tender offer for such securities announced on 16 February 2021.

## DESCRIPTION OF THE ISSUER

### General

The Issuer was incorporated in the DIFC on 22 October 2020 as a prescribed company under the Companies Law, DIFC Law No. 5 of 2018 and the Prescribed Company Regulations 2019 with registered number 4176.

### Registered office

The Issuer's registered office is c/o Maples Fund Services (Middle East) Limited, Unit C1407, Level 14, Burj Daman, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates, and its telephone number is +971 4511 4200.

### Business of the Issuer

The primary purpose of the Issuer is to issue the Capital Securities and any Equivalent Securities and to undertake any ancillary activities. The Issuer is a newly formed DIFC entity and, as at the date of the Prospectus, has not commenced business and does not have any substantial assets or liabilities save for its interest in the On-Loan Agreement pursuant to which it will, on the Issue Date, lend the proceeds of the Capital Securities to the Bank.

### Administration

Maples Fund Services (Middle East) Limited acts as the corporate service provider of the Issuer (in such capacity, the **Corporate Service Provider**). The office of the Corporate Service Provider serves as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement dated 16 December 2020 entered into between the Issuer and the Corporate Service Provider (the **Corporate Services Agreement**), the Corporate Service Provider has agreed to perform in the DIFC and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Issuer and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Issuer and the Corporate Service Provider have also entered into a registered office and company secretarial services agreement (the **Registered Office Agreement**) for the provision of registered office facilities to the Issuer. In consideration of the foregoing, the Corporate Service Provider will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and Registered Office Agreement provide that either the Issuer or the Corporate Service Provider may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least one month's notice in writing to the other party with (in the case of the Corporate Services Agreement) a copy to the DIFC Registrar of Companies.

The Corporate Service Provider will be subject to the overview of the Issuer's Board of Directors.

The Corporate Service Provider's principal office is Level 14, Burj Daman, Dubai International Financial Centre, PO Box 506734, Dubai, United Arab Emirates.

The directors of the Issuer are employees and/or officers of the Corporate Service Provider. The Issuer has no employees and is not expected to have any employees in the future.

### Directors

The directors of the Issuer are:

<u>Name</u>	<u>Principal Occupation</u>
Norbert Neijzen.....	Regional Head of Fiduciary, Middle East at Maples Fund Services (Middle East) Limited
Sedef Kufrevi .....	Vice President at Maples Fund Services (Middle East) Limited

No director of the Issuer has any actual or potential conflicts of interest between the director's private interests and the director's duties to the Issuer.

The directors of the Issuer do not hold any direct, indirect, beneficial or economic interest in any of the shares of the Issuer.

As a matter of DIFC law, each director of the Issuer is under a duty to act honestly and in good faith with a view to the best interests of the Issuer, regardless of any other interests the director may have.

The business address of the directors of the Issuer is c/o Maples Fund Services (Middle East) Limited, Unit C1407, Level 14, Burj Daman, Dubai International Financial Centre, PO Box 506734, Dubai, United Arab Emirates.

**Secretary**

Maples Fund Services (Middle East) Limited – see address above.

**Share capital**

The Issuer has an authorised share capital of U.S.\$100 consisting of 100 shares of U.S.\$1 nominal value each, of which all 100 shares have been issued and fully paid up as at the date of this Prospectus. The Issuer is a wholly-owned subsidiary of the Guarantor.

## SELECTED CONSOLIDATED FINANCIAL DATA

The financial information in this section should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Annual Financial Statements and the related notes thereto. The financial information in this section as at and for (i) the years ended 31 December 2020 and 31 December 2019 has been derived from the 2020 Financial Statements and (ii) the year ended 31 December 2018 has been derived from the comparative data for the year ended 31 December 2018 included in the 2019 Financial Statements.

### CONSOLIDATED STATEMENT OF INCOME

	Year ended 31 December		
	2020	2019	2018
	<i>(KD thousands)</i>		
Interest income.....	756,984	986,526	897,218
Interest expense.....	(266,752)	(421,618)	(330,882)
<b>Net interest income.....</b>	<b>490,232</b>	<b>564,908</b>	<b>566,336</b>
Murabaha and other Islamic financing income.....	225,137	211,317	186,089
Finance cost and Distribution to depositors.....	(81,902)	(87,001)	(61,972)
<b>Net income from Islamic financing.....</b>	<b>143,235</b>	<b>124,316</b>	<b>124,117</b>
<b>Net interest income and net income from Islamic financing.....</b>	<b>633,467</b>	<b>689,224</b>	<b>690,453</b>
Net fees and commissions.....	145,981	157,152	150,176
Net investment income.....	2,041	8,419	2,140
Net gains from dealing in foreign currencies.....	38,159	39,343	39,026
Other operating income.....	22,873	1,379	1,424
<b>Non-interest income.....</b>	<b>209,054</b>	<b>206,293</b>	<b>192,766</b>
<b>Net operating income.....</b>	<b>842,521</b>	<b>895,517</b>	<b>883,219</b>
Staff expenses.....	(174,442)	(175,731)	(159,984)
Other administrative expenses.....	(102,058)	(98,852)	(98,555)
Depreciation of premises and equipment.....	(33,432)	(26,493)	(14,703)
Amortisation of intangible assets.....	(1,647)	(3,198)	(3,096)
<b>Operating expenses.....</b>	<b>(311,579)</b>	<b>(304,274)</b>	<b>(276,338)</b>
<b>Operating profit before provision for credit losses and impairment losses.....</b>	<b>530,942</b>	<b>591,243</b>	<b>606,881</b>
Provision charge for credit losses and impairment losses.....	(246,438)	(129,715)	(179,692)
<b>Operating profit before taxation.....</b>	<b>284,504</b>	<b>461,528</b>	<b>427,189</b>
Taxation.....	(25,842)	(35,536)	(33,240)
<b>Profit for the year.....</b>	<b>258,662</b>	<b>425,992</b>	<b>393,949</b>
<b>Attributable to:</b>			
Shareholders of the Bank.....	246,341	401,291	370,709
Non-controlling interests.....	12,321	24,701	23,240

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December		
	2020	2019	2018
	<i>(KD thousands)</i>		
<b>Assets</b>			
Cash and short term funds.....	3,903,371	3,787,173	2,966,707
Central Bank of Kuwait bonds.....	830,233	823,229	809,871
Kuwait Government treasury bonds.....	462,922	662,175	872,042
Deposits with banks.....	1,027,373	1,909,081	2,364,242
Loans, advances and Islamic financing to customers.....	17,504,342	16,552,598	15,503,402
Investment securities.....	4,728,778	4,214,562	3,678,032
Investment in associates.....	5,195	35,297	31,425
Land, premises and equipment.....	426,963	433,540	362,801
Goodwill and other intangible assets.....	581,881	582,927	578,973
Other assets.....	246,333	270,171	260,445
<b>Total assets.....</b>	<b>29,717,391</b>	<b>29,270,753</b>	<b>27,427,940</b>
<b>Liabilities</b>			
Due to banks and other financial institutions.....	5,981,573	7,581,929	8,090,484
Customer deposits.....	17,104,232	15,930,577	14,388,836



	<b>As at 31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
		<i>(KD thousands)</i>	
Certificates of deposit issued.....	918,862	538,611	451,128
Other borrowed funds*.....	808,665	351,960	344,892
Other liabilities.....	763,004	608,516	451,290
<b>Total liabilities</b> .....	<b>25,576,336</b>	<b>25,011,593</b>	<b>23,726,630</b>
<b>Equity</b>			
Share capital.....	685,019	652,399	621,332
Proposed bonus shares .....	34,250	32,620	31,067
Statutory reserve .....	342,511	326,199	310,666
Share premium account.....	803,028	803,028	803,028
Treasury shares .....	-	(39,258)	(65,425)
Treasury shares reserve.....	34,961	25,115	14,010
Other reserves .....	1,410,240	1,633,641	1,448,579
<b>Equity attributable to shareholders of the Bank</b> ....	<b>3,310,009</b>	<b>3,433,744</b>	<b>3,163,257</b>
Perpetual Tier 1 Capital Securities .....	438,438	438,438	210,700
Non-controlling interests.....	392,608	386,978	327,353
<b>Total equity</b> .....	<b>4,141,055</b>	<b>4,259,160</b>	<b>3,701,310</b>
<b>Total liabilities and equity</b> .....	<b>29,717,391</b>	<b>29,270,753</b>	<b>27,427,940</b>

\* In the 2020 Financial Statements, Other borrowed funds includes Global medium term notes, Subordinated Tier 2 bonds, Sukuk issued and Medium term borrowing from banks and financial institutions. Accordingly, 2018 numbers have been regrouped for ease of comparison.

## SELECTED RATIOS

	<b>As at and for the year ended 31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Performance measures</b>			
Return on average assets <sup>(1)</sup> .....	0.82	1.42	1.38
Return on average equity <sup>(2)</sup> .....	7.0	12.3	12.0
Cost to income ratio <sup>(3)</sup> .....	37.0	34.0	31.3
<b>Financial ratios</b>			
Net interest margin <sup>(4)</sup> .....	2.21	2.56	2.69
Yield <sup>(5)</sup> .....	3.43	4.45	4.23
Funding cost <sup>(6)</sup> .....	1.39	2.14	1.72
Net profit margin <sup>(7)</sup> .....	29.2	44.8	42.0
<b>Asset quality</b>			
Impaired loans ratio <sup>(8)</sup> .....	1.72	1.10	1.38
Loan loss coverage ratio <sup>(9)</sup> .....	220.0	272.2	228.1
Liquidity coverage ratio <sup>(10)</sup> .....	145.2	159.7	163.0
Loans to customer and financial institution deposits ratio <sup>(11)</sup> ..	87.4	83.2	81.1
Loans to total deposits ratio <sup>(12)</sup> .....	72.9	68.8	67.6
Liquid asset ratio <sup>(13)</sup> .....	34.1	36.2	35.9
<b>Other ratios</b>			
Common Equity Tier 1 capital adequacy ratio <sup>(14)(15)</sup> .....	13.6	13.5	13.8
Tier 1 capital adequacy ratio <sup>(14)(16)</sup> .....	16.0	15.9	15.3
Total capital adequacy ratio <sup>(14)(17)</sup> .....	18.4	17.8	17.2
Financial leverage ratio <sup>(18)</sup> .....	10.3	10.2	9.2
Net stable funding ratio <sup>(19)</sup> .....	115.1	111.1	112.6

### Notes:

- (1) Profit for the year attributable to shareholders of the Bank (as set out in the consolidated statement of income in each of the Annual Financial Statements) divided by average assets for the year (as shown in "Selected Statistical Data"). Average assets for the year were calculated as the sum of total assets on a quarterly basis divided by five.
- (2) Profit for the year attributable to shareholders of the Bank less interest paid on Tier 1 Capital (which is not included in shareholders' equity) divided by average shareholders' equity (being equity attributable to shareholders of the Bank as set out in the consolidated statement of financial position in each of the Annual Financial Statements) for the year. Average shareholders' equity for the year were calculated as the sum of shareholders' equity on a quarterly basis divided by five. Shareholders' equity is adjusted for proposed dividend of KD 137,004 thousand as at 31 December 2020, KD 226,373 thousand as at 31 December 2019, KD 214,344 thousand as at 31 December 2018 and KD 174,493 thousand as at 31 December 2017.
- (3) Operating expenses (as set out in the consolidated statement of income in each of the Annual Financial Statements) divided by net operating income (as set out in the consolidated statement of income in each of the Annual Financial Statements).

- (4) Net interest income and net income from Islamic financing (each as set out in the consolidated statement of income in each of the Annual Financial Statements) divided by average income-earning assets for the year (as shown in "*Selected Statistical Data*"). Average income earning assets for the year were calculated as the sum of income earning assets on a quarterly basis divided by five. Income earning assets comprise cash and short term funds, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, deposits with banks, loans, advances and Islamic financing to customers and investment securities.
- (5) Interest income and income from Islamic financing (each as set out in the consolidated statement of income in each of the Annual Financial Statements) divided by average income-earning assets for the year.
- (6) Interest expense and financing costs and distribution to depositors (each as set out in the consolidated statement of income in each of the Annual Financial Statements) divided by the average cost-bearing liabilities for the year (as shown in "*Selected Statistical Data*"). Average cost-bearing liabilities for the year were calculated as the sum of cost-bearing for the year were liabilities on a quarterly basis divided by five.
- (7) Profit for the year attributable to shareholders of the Bank divided by net operating income for the year.
- (8) Impaired loans (being past due and impaired loans, advances and Islamic financing to customers as set out in, note 30.1.5 to each of the Annual Financial Statements) as a percentage of total gross loans (being loans, advances and Islamic financing to customers as set out in the first two tables to note 13 to each of the Annual Financial Statements).
- (9) Loan loss provisions (being provision for credit losses as set out in note 13 to each of the Annual Financial Statements) as a percentage of impaired loans.
- (10) The Liquidity coverage ratio is calculated based on the Central Bank of Kuwait's guidelines which are in line with Basel III recommendations. The Liquidity coverage ratio is calculated on a daily basis as the ratio of High Quality Liquid Assets (post factors) to the expected Net Cash Outflows over a 30-day period. The quarterly simple average is computed based on the daily LCR for the quarter and is calculated in accordance with the requirements of CBK Circular number 2/RB/345/2014 dated 23 December 2014.
- (11) Loans, advances and Islamic financing to customers (as set out in the statement of financial position in each of the Annual Financial Statements) divided by the sum of customer deposits and deposits from financial institutions.
- (12) Loans, advances and Islamic financing to customers divided by the sum of customer deposits, due to banks and other financial institutions and certificates of deposits issued (the latter as set out in the statement of financial position in each of the Annual Financial Statements).
- (13) The sum of cash and short term funds, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, deposits with banks and investment securities (each as set out in the statement of financial position in each of the Annual Financial Statements) excluding investment securities at amortised cost (as set out in note 14 to each of the Annual Financial Statements), divided by total assets (as set out in the statement of financial position in each of the Annual Financial Statements).
- (14) Calculated in accordance with CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014.
- (15) Common Equity Tier 1 capital adequacy ratio is defined as Common Equity Tier 1 capital divided by risk-weighted assets at a given date (as set out in note 31 to each of the Annual Financial Statements).
- (16) Tier 1 capital adequacy ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date (as set out in note 31 to each of the Annual Financial Statements).
- (17) Total capital adequacy ratio is defined as total capital resources divided by risk-weighted assets at a given date (as set out in note 31 to each of the Annual Financial Statements).
- (18) 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).
- (19) Calculated in accordance with the requirements of CBK Circular number 2/BS/356/2015 dated 25 October 2015 from 2018.

## SELECTED STATISTICAL DATA

The following selected statistical data is included for analytical purposes and has been taken or derived from the Annual Financial Statements or unaudited management accounts based on accounting records. This section should be read in conjunction with the information in "Selected Consolidated Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Annual Financial Statements appearing elsewhere in this Prospectus. For further information, see also "Presentation of Certain Financial and other Information—Average Balances and Interest Rates".

### AVERAGE BALANCES AND RATIO INFORMATION

The following tables show the average quarterly balances of the Group's assets and liabilities and the related interest income or expense for the periods indicated. For the purposes of the following tables, the average balances have been calculated on the basis of quarterly averages.

	Year ended 31 December									
	2020					2019				
	Average balance		Interest earned/paid		Average yield/rate	Average balance		Interest earned/paid		Average yield/rate
	Amount	% of total	Amount	% of total	%	Amount	% of total	Amount	% of total	%
	<i>(KD thousands, except percentages)</i>									
<b>Income-earning assets</b>										
Cash and short term funds and deposits with banks.....	5,332,719	18.6	54,698	5.6	1.03	5,222,009	19.4	113,605	9.5	2.18
Central Bank of Kuwait bonds.....	828,075	2.9	15,254	1.6	1.84	818,747	3.0	24,391	2.0	2.98
Kuwait Government treasury bonds.....	558,988	2.0	12,541	1.3	2.24	779,730	2.9	23,667	2.0	3.04
Loans, advances and Islamic financing to customers.....	17,396,036	60.8	733,644	74.7	4.22	16,135,504	60.0	835,153	69.7	5.18
Investment securities.....	4,500,255	15.7	165,984	16.9	3.69	3,956,960	14.7	201,026	16.8	5.08
<b>Total income-earning assets.....</b>	<b>28,616,073</b>	<b>100.0</b>	<b>982,121</b>	<b>100.0</b>	<b>3.43</b>	<b>26,912,950</b>	<b>100.0</b>	<b>1,197,843</b>	<b>100.0</b>	<b>4.45</b>
<b>Cost-bearing liabilities</b>										
Due to banks and other financial institutions.....	6,762,986	26.9	89,836	25.8	1.33	7,498,093	31.6	166,831	32.8	2.22
Customer deposits.....	17,063,694	67.9	235,519	67.6	1.38	15,247,543	64.3	310,296	61.0	2.04
Certificates of deposit issued.....	702,996	2.8	6,879	2.0	0.98	617,170	2.6	17,063	3.4	2.76
Other borrowed funds.....	588,031	2.3	16,420	4.7	2.79	350,327	1.5	14,429	2.8	4.12
<b>Total cost-bearing liabilities.....</b>	<b>25,117,707</b>	<b>100.0</b>	<b>348,654</b>	<b>100.0</b>	<b>1.39</b>	<b>23,713,134</b>	<b>100.0</b>	<b>508,619</b>	<b>100.0</b>	<b>2.14</b>
Net interest spread <sup>(1)</sup> .....					2.04					2.31
Net finance income.....					633,467					689,224
Net interest margin <sup>(2)</sup> .....					2.21					2.56

<sup>(1)</sup> Net interest spread is the difference between the yield (finance income divided by average income-earning assets on a quarterly basis divided by five) and funding costs (financing cost divided by the average cost-bearing liabilities on a quarterly basis divided by five).

<sup>(2)</sup> Net interest margin is net finance income divided by average income-earning assets for the year, with average income-earning assets calculated as the sum of income-earning assets on a quarterly basis divided by five.

	Year ended 31 December					
	2018					
	Average balance		Interest earned/paid		Average yield/rate	
	Amount	% of total	Amount	% of total	%	
	<i>(KD thousands, except percentages)</i>					
<b>Income-earning assets</b>						
Cash and short term funds and deposits with banks.....	5,394,879	21.1	96,177	8.9	1.78	
Central Bank of Kuwait bonds.....	754,015	2.9	17,377	1.6	2.30	
Kuwait Government treasury bonds.....	951,335	3.7	24,408	2.3	2.57	
Loans, advances and Islamic financing to customers.....	15,095,661	58.9	788,250	72.8	5.22	
Investment securities.....	3,432,713	13.4	157,094	14.5	4.58	
<b>Total income-earning assets.....</b>	<b>25,628,602</b>	<b>100.0</b>	<b>1,083,307</b>	<b>100.0</b>	<b>4.23</b>	
<b>Cost-bearing liabilities</b>						
Due to banks and other financial institutions.....	7,750,944	33.9	122,515	31.2	1.58	
Customer deposits.....	14,227,249	62.3	244,523	62.2	1.72	
Certificates of deposit issued.....	516,619	2.3	12,092	3.1	2.34	
Other borrowed funds.....	342,862	1.5	13,724	3.5	4.00	
<b>Total cost-bearing liabilities.....</b>	<b>22,837,674</b>	<b>100.0</b>	<b>392,854</b>	<b>100.0</b>	<b>1.72</b>	
Net interest spread <sup>(1)</sup> .....					2.51	

Year ended 31 December					
2018					
Average balance		Interest earned/paid		Average yield/rate	
Amount	% of total	Amount	% of total	%	
<i>(KD thousands, except percentages)</i>					
Net finance income .....				690,453	
Net interest margin <sup>(2)</sup> .....				2.69	

<sup>(1)</sup> Net interest spread is the difference between the yield (finance income divided by average income-earning assets on a quarterly basis divided by five) and funding costs (financing cost divided by the average cost-bearing liabilities on a quarterly basis divided by five).

<sup>(2)</sup> Net interest margin is net finance income divided by average income-earning assets for the year, with average income-earning assets calculated as the sum of income-earning assets on a quarterly basis divided by five.

The following table shows the Group's quarterly net interest margin data for the periods indicated.

	31 December 2020	30 September 2020	30 June 2020	31 March 2020	31 December 2019
Yield on income-earning assets <sup>(1)</sup> .....	3.08%	3.14%	3.44%	4.03%	4.31%
Funding cost on cost-bearing liabilities <sup>(2)</sup> ..	0.98%	1.14%	1.54%	1.88%	2.11%
Net interest margin <sup>(3)</sup> .....	2.22%	2.13%	2.09%	2.38%	2.46%

<sup>(1)</sup> Yield on income-earning assets is finance income divided by average income earning assets for the period.

<sup>(2)</sup> Funding costs on cost-bearing liabilities is financing cost divided by average cost bearing liabilities for the period.

<sup>(3)</sup> Net interest margin is net finance income divided by average income-earning assets for the period.

## NET CHANGES IN FINANCE INCOME AND FINANCING COST – VOLUME AND RATE ANALYSIS

The following tables show a comparative analysis of net changes in finance income and financing cost by reference to changes in average volume and rates for the period indicated. Net changes in net finance income are attributed to either changes in average balances (volume changes) or changes in average rates (rate change) for income-earning assets and cost-bearing liabilities. Volume change is calculated as the change in volume multiplied by the previous rate, while rate change is the change in rate multiplied by the previous volume. The rate/volume change (change in rate multiplied by change in volume) is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total. Average balances represent the average of the quarterly balances for the respective period.

Year ended 31 December 2020/2019						
Increase (decrease) due to changes in						
Volume		Rate		Net change		
Amount	% of total	Amount	% of total	Amount	% of total	
<i>(KD thousands, except percentage)</i>						
<b>Finance income</b>						
Cash and short term funds, deposits with banks <sup>(1)</sup> .....	2,462	2.3	(61,369)	19.1	(58,907)	27.3
Central Bank of Kuwait bonds .....	281	0.3	(9,418)	2.9	(9,137)	4.2
Kuwait Government treasury bonds .....	(5,790)	(5.5)	(5,335)	1.7	(11,126)	5.2
Loans, advances and Islamic financing to customers <sup>(1)</sup> .....	74,059	69.7	(175,568)	54.5	(101,509)	47.1
Investment securities <sup>(1)</sup> .....	35,197	33.1	(70,239)	21.8	(35,042)	16.2
<b>Total finance income</b> .....	<b>106,209</b>	<b>100.0</b>	<b>(321,930)</b>	<b>100.0</b>	<b>(215,721)</b>	<b>100.0</b>
<b>Financing cost</b>						
Due to banks and other financial institutions	(15,066)	(42.5)	(61,929)	31.7	(76,995)	48.1
Customer deposits <sup>(1)</sup> .....	43,949	123.9	(118,726)	60.8	(74,777)	46.7
Certificates of deposit issued .....	2,793	7.9	(12,977)	6.6	(10,184)	6.4
Other borrowed funds <sup>(1)</sup> .....	3,790	10.7	(1,799)	0.9	1,991	(1.2)
<b>Total financing cost</b> .....	<b>35,466</b>	<b>100.0</b>	<b>(195,431)</b>	<b>100.0</b>	<b>(159,965)</b>	<b>100.0</b>
<b>Net change in net finance income</b> .....	<b>70,743</b>		<b>(126,499)</b>		<b>(55,757)</b>	

<sup>(1)</sup> These line items aggregate conventional and Islamic income and cost streams.

	Year ended 31 December					
	2019/2018					
	Increase (decrease) due to changes in					
	Volume		Rate		Net change	
Amount	% of total	Amount	% of total	Amount	% of total	
<i>(KD thousands, except percentages)</i>						
<b>Finance income</b>						
Cash and short term funds, deposits with banks.....	(2,966)	(4.1)	20,394	48.7	17,428	15.2
Central Bank of Kuwait bonds .....	1,591	2.2	5,423	13.0	7,014	6.1
Kuwait Government treasury bonds <sup>(1)</sup> .....	(5,209)	(7.2)	4,467	10.7	(741)	(0.6)
Loans, advances and Islamic financing to customers ....	53,751	73.9	(6,848)	-16.4	46,903	41.0
Investment securities .....	25,527	35.1	18,405	44.0	43,932	38.4
<b>Total finance income .....</b>	<b>72,694</b>	<b>100.0</b>	<b>41,842</b>	<b>100.0</b>	<b>114,536</b>	<b>100.0</b>
<b>Financing cost</b>						
Due to banks and other financial institutions.....	(3,855)	(22.1)	48,171	49.0	44,316	38.3
Customer deposits .....	18,441	105.6	47,332	48.1	65,773	56.8
Certificates of deposit issued.....	2,574	14.7	2,397	2.4	4,971	4.3
Other borrowed funds.....	303	1.7	402	0.4	705	0.6
<b>Total financing cost.....</b>	<b>17,463</b>	<b>100.0</b>	<b>98,302</b>	<b>100.0</b>	<b>115,765</b>	<b>100.0</b>
<b>Net change in net finance income.....</b>	<b>55,231</b>		<b>(56,460)</b>		<b>(1,229)</b>	

<sup>(1)</sup> Rate/volume change amounting to KD 0.8 million has been considered in entirety in volume change for 2019/2018.

## NET FINANCE INCOME AND NET OPERATING INCOME – GEOGRAPHICAL ANALYSIS

The tables below show a geographical analysis of net finance income and net operating income for the periods indicated.

	Year ended 31 December 2020		
	Domestic	International	Total
	<i>(KD thousands)</i>		
Net finance income .....	470,799	162,668	633,467
Net operating income .....	636,422	206,099	842,521
	Year ended 31 December 2019		
	Domestic	International	Total
	<i>(KD thousands)</i>		
Net finance income .....	507,790	181,434	689,224
Net operating income .....	674,849	220,668	895,517
	Year ended 31 December 2018		
	Domestic	International	Total
	<i>(KD thousands)</i>		
Net finance income .....	519,927	170,526	690,453
Net operating income .....	673,959	209,260	883,219

## CUSTOMER LOAN PORTFOLIO - ANALYSIS

The following table shows the Group's customer loan portfolio comprising loans, advances and Islamic financing to customers, net of impairment allowances, by type as at the dates indicated.

	As at 31 December		
	2020	2019	2018
	<i>(KD thousands)</i>		
Corporate .....	12,106,352	11,423,765	10,694,324
Retail.....	6,085,214	5,637,569	5,314,786

	As at 31 December		
	2020	2019	2018
Less: allowance for impairment .....	(687,224)	<i>(KD thousands)</i> (508,736)	(505,708)
<b>Total loans, advances and Islamic financing to customers, net</b> .....	<b>17,504,342</b>	<b>16,552,598</b>	<b>15,503,402</b>

The following table shows the Group's customer loan portfolio net of impairment allowances as at the dates indicated specified by location of the Group's markets and customers.

	MENA	Other	Total	Impairment allowances	Net Total
	<i>(KD thousands)</i>				
<b>Loans, advances and Islamic financing, net</b>					
At 31 December 2020 .....	15,986,938	2,204,628	18,191,566	(687,224)	17,504,342
At 31 December 2019 .....	15,306,586	1,754,748	17,061,334	(508,736)	16,552,598
At 31 December 2018 .....	14,746,389	1,262,721	16,009,110	(505,708)	15,503,402

The following table shows the Group's customer loan portfolio by maturity as at the dates indicated.

	As at 31 December					
	2020		2019		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>(KD thousands, except percentages)</i>					
Demand of less than 3 months .....	5,094,225	29%	4,082,071	24.7%	4,170,497	26.9%
From 3 to 12 months .....	2,021,684	12%	2,653,219	16.0%	2,091,383	13.5%
Above 1 year .....	10,388,433	59%	9,817,308	59.3%	9,241,522	59.6%
<b>Total</b> .....	<b>17,504,342</b>	<b>100%</b>	<b>16,552,598</b>	<b>100.0%</b>	<b>15,503,402</b>	<b>100.0%</b>

The following table shows the composition of the Group's gross customer loan portfolio by currency exposure as at the dates indicated.

	As at 31 December					
	2020		2019		2018	
	<i>(KD thousands)</i>					
Currency						
KD .....			11,874,650		11,274,488	11,077,305
Other <sup>(1)</sup> .....			6,316,916		5,786,845	4,931,805
<b>Total</b> .....			<b>18,191,566</b>		<b>17,061,334</b>	<b>16,009,110</b>

<sup>(1)</sup> Other comprises currency exposure from other currencies, namely, in order of largest exposure, the U.S. dollars, Egyptian pounds, pounds sterling and other currencies.

The following table shows the Group's non-performing loans, advances and Islamic financing to customers as at the dates indicated.

	As at 31 December			Change from prior period	
	2020	2019	2018	2020/2019	2019/2018
	<i>(KD thousands, except percentage)</i>				
Neither past due nor impaired <sup>(1)</sup> .....	17,698,93				
Past due and not impaired <sup>(2)</sup> .....	6	16,749,070	15,668,282	949,866	1,080,788
Past due and impaired <sup>(3)</sup> .....	180,249	125,361	119,134	54,888	6,227
	312,381	186,903	221,694	125,478	(34,791)
	<b>18,191,56</b>				
<b>Total loans, advances and Islamic financing</b> .....	<b>6</b>	<b>17,061,334</b>	<b>16,009,110</b>	<b>1,130,232</b>	<b>1,052,224</b>
Less: allowance for impairment .....	687,224	508,736	505,708	178,488	3,028
	<b>17,504,34</b>				
<b>Total</b> .....	<b>2</b>	<b>16,552,598</b>	<b>15,503,402</b>	<b>951,744</b>	<b>1,049,196</b>
Allowance for loan impairment as a percentage of total loans, advances and Islamic financing .....	3.7%	3.0%	3.2%	0.7%	-0.2%
Allowance for loan impairment as a percentage of non-performing loans, advances and Islamic financing .....	220.0%	272.2%	228.1%	-52.2%	-44.1%
Non-performing loans as a percentage of total loans, advances and Islamic financing .....	1.7%	1.1%	1.4%	0.6%	-0.3%

<sup>(1)</sup> Loans, advances and Islamic financing to customers that are neither past due nor show any evidence of impairment.

- (2) Loans, advances and Islamic financing to customers between one and 90 days past due are not considered impaired, unless evidence is available to indicate the contrary.
- (3) Loans, advances and Islamic financing to customers over 90 days past due.

The following table shows the total amount of past due but not impaired loans, advances and Islamic financing to customers as at the dates indicated.

	As at 31 December		
	2020	2019	2018
	<i>(KD thousands)</i>		
Up to 30 days past due .....	113,802	74,582	84,909
Past due 31-60 days .....	51,056	40,036	26,092
Past due 61-90 days .....	15,391	10,743	8,133
<b>Total</b> .....	<b>180,249</b>	<b>125,361</b>	<b>119,134</b>

The following table shows the Group's total amount of past due but not impaired loans, advances and Islamic financing to customers by business segment as at 31 December 2020, 2019 and 2018.

	As at 31 December 2020			As at 31 December 2019			As at 31 December 2018		
	Corporate	Retail	Total	Corporate	Retail	Total	Corporate	Retail	Total
	<i>(KD thousands)</i>								
Up to 30 days past due .....	76,833	36,969	113,802	31,800	42,782	74,582	41,808	43,101	84,909
Past due 31-60 days .....	20,695	30,361	51,056	21,309	18,727	40,036	7,367	18,725	26,092
Past due 61-90 days .....	8,952	6,439	15,391	6,611	4,132	10,743	4,445	3,688	8,133
<b>Total</b> .....	<b>106,480</b>	<b>73,769</b>	<b>180,249</b>	<b>59,720</b>	<b>65,641</b>	<b>125,361</b>	<b>53,620</b>	<b>65,514</b>	<b>119,134</b>

The following table shows the Group's impaired loans, advances and Islamic financing to customers by business segment as at the dates indicated. Impairment is identified as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

	As at 31 December		
	2020	2019	2018
Corporate .....	208,322	84,723	117,690
Retail .....	104,059	102,180	104,004
<b>Total</b> .....	<b>312,381</b>	<b>186,903</b>	<b>221,694</b>

The following table shows the Group's gross customer loan portfolio by industry before allowance for impairment as at the dates indicated.

	As at 31 December					
	2020		2019		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
	<i>(KD thousands, except percentages)</i>					
Trading .....	1,307,067	8%	1,354,041	8%	1,446,979	9%
Manufacturing .....	1,474,805	8%	1,225,407	7%	971,838	6%
Banks and other financial institutions..	1,193,787	6%	1,211,483	7%	907,150	6%
Construction .....	469,568	2%	282,395	2%	276,162	2%
Real estate .....	3,860,211	21%	3,555,907	21%	3,339,255	21%
Retail .....	6,085,214	33%	5,615,972	33%	5,314,786	33%
Government .....	44,209	1%	157,624	1%	77,342	0%
Other .....	3,756,705	21%	3,658,505	21%	3,675,598	23%
<b>Total</b> .....	<b>18,191,566</b>	<b>100%</b>	<b>17,061,334</b>	<b>100%</b>	<b>16,009,110</b>	<b>100%</b>

## DEPOSITS

Deposits placed with the Group comprise customer deposits, amounts due to banks and other financial institutions and certificates of deposit issued. The following table shows the types of deposits placed with the Group as at the dates indicated.

	As at 31 December		
	2020	2019	2018
	<i>(KD thousands)</i>		
Customer deposits .....	17,104,232	15,930,577	14,388,836
Due to banks and other financial institutions .....	5,981,573	7,581,929	8,090,484

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>(KD thousands)</i>		
Certificates of deposit issued.....	918,862	538,611	451,128
<b>Total deposits</b> .....	<b>24,004,667</b>	<b>24,051,117</b>	<b>22,930,448</b>

The following table shows customer deposits placed with the Group by location as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>(KD thousands)</i>		
Domestic.....	12,849,741	11,597,598	10,728,814
International.....	4,254,491	4,332,979	3,660,022
<b>Total customer deposits</b> .....	<b>17,104,232</b>	<b>15,930,577</b>	<b>14,388,836</b>

## MATURITY PROFILE

The following tables show the maturity profile of the Group's major assets and liabilities as at the dates indicated. The contractual maturities of assets and liabilities have been determined based on contractual cash flows and maturity dates. This does not necessarily take account of effective maturities. The Group defines effective maturities as maturities reflecting customer behaviour patterns.

	<b>As at 31 December 2020</b>			
	<b>Up to 3 months</b>	<b>3 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
	<i>(KD thousands)</i>			
<b>Assets</b>				
Cash and short term funds, deposits with banks.....	4,735,951	165,864	28,929	4,930,744
Central Bank of Kuwait bonds.....	518,803	311,430	-	830,233
Kuwait Government treasury bonds.....	-	35,500	427,422	462,922
Loans, advances and Islamic financing to customers.....	5,094,225	2,021,684	10,388,433	17,504,342
Investment securities.....	517,128	752,978	3,458,672	4,728,778
Investment in associates.....	-	-	5,195	5,195
Land, premises and equipment.....	-	-	426,963	426,963
Goodwill and other intangible assets.....	-	-	581,881	581,881
Other assets.....	157,800	23,223	65,310	246,333
<b>Total assets</b> .....	<b>11,023,907</b>	<b>3,310,679</b>	<b>15,382,805</b>	<b>29,717,391</b>
<b>Liabilities and equity</b>				
Due to banks and other financial institutions.....	4,878,897	1,091,685	10,991	5,981,573
Customer deposits.....	14,636,146	1,811,947	656,139	17,104,232
Certificates of deposit issued.....	633,231	285,631	-	918,862
Other borrowed funds.....	-	-	808,665	808,665
Other liabilities.....	429,421	16,101	317,482	763,004
Share capital and reserves.....	-	-	3,173,005	3,173,005
Proposed cash dividend.....	137,004	-	-	137,004
Perpetual Tier 1 Capital Securities.....	-	-	438,438	438,438
Non-controlling interests.....	-	-	392,608	392,608
<b>Total liabilities and equity</b> .....	<b>20,714,699</b>	<b>3,205,364</b>	<b>5,797,328</b>	<b>29,717,391</b>
<b>Liquidity gap<sup>(1)</sup></b> .....	<b>(9,690,792)</b>	<b>105,315</b>	<b>9,585,477</b>	<b>-</b>
<b>Cumulative liquidity gap</b> .....	<b>(9,690,792)</b>	<b>(9,585,477)</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> This figure represents the maturity gap between total assets and total liabilities, and is the sum of (A) the maturity gaps between assets and liabilities maturing in less than three months, between three months and twelve months and more than one year, and (B) assets with no maturity less liabilities with no maturity.

	<b>As at 31 December 2019</b>			
	<b>Up to 3 months</b>	<b>3 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
	<i>(KD thousands)</i>			
<b>Assets</b>				
Cash and short term funds, 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
Investment securities.....	462,839	467,986	3,283,737	4,214,562
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



	As at 31 December 2019			
	Up to 3 months	3 to 12 months	Over 1 year	Total
	<i>(KD thousands)</i>			
<b>Total assets</b> .....	<b>10,588,186</b>	<b>4,018,101</b>	<b>14,664,466</b>	<b>29,270,753</b>
<b>Liabilities and equity</b>				
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
Other borrowed funds.....	-	-	351,960	351,960
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
<b>Total liabilities and equity</b> .....	<b>19,054,768</b>	<b>4,909,954</b>	<b>5,306,031</b>	<b>29,270,753</b>
<b>Liquidity gap<sup>(1)</sup></b> .....	<b>(8,466,582)</b>	<b>(891,853)</b>	<b>9,358,435</b>	<b>-</b>
<b>Cumulative liquidity gap</b> .....	<b>(8,466,582)</b>	<b>(9,358,435)</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> This figure represents the maturity gap between total assets and total liabilities, and is the sum of (A) the maturity gaps between assets and liabilities maturing in less than three months, between three months and twelve months and more than one year, and (B) assets with no maturity less liabilities with no maturity.

	As at 31 December 2018			
	Up to 3 months	3 to 12 months	Over 1 year	Total
	<i>(KD thousands)</i>			
<b>Assets</b>				
Cash and short term funds, 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
Investment securities.....	527,292	351,747	2,798,993	3,678,032
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
<b>Total assets</b> .....	<b>10,373,301</b>	<b>3,302,414</b>	<b>13,752,225</b>	<b>27,427,940</b>
<b>Liabilities and equity</b>				
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
Other borrowed funds.....	-	-	344,892	344,892
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
<b>Total liabilities and equity</b> .....	<b>18,398,285</b>	<b>4,156,556</b>	<b>4,873,099</b>	<b>27,427,940</b>
<b>Liquidity gap<sup>(1)</sup></b> .....	<b>(8,024,984)</b>	<b>(854,142)</b>	<b>8,879,126</b>	<b>-</b>
<b>Cumulative liquidity gap</b> .....	<b>(8,024,984)</b>	<b>(8,879,126)</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> This figure represents the maturity gap between total assets and total liabilities, and is the sum of (A) the maturity gaps between assets and liabilities maturing in less than three months, between three months and twelve months and more than one year, and (B) assets with no maturity less liabilities with no maturity.

## INVESTMENT PORTFOLIO

The following table shows details of the Group's investment securities measured at amortised cost for the periods indicated.

	As at 31 December	As at 31 December	As at 31 December
	2020	2019	2018
	<i>(KD thousands)</i>		
Debt securities – Government (Non-Kuwait).....	833,188	810,156	848,811
Central Bank of Kuwait bonds.....	830,233	823,229	809,871
Kuwait Government treasury bonds.....	462,922	662,175	872,042

	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>	<b>As at 31 December 2018</b>
	<i>(KD thousands)</i>		
<b>Total</b> .....	<b>2,126,343</b>	<b>2,295,560</b>	<b>2,530,724</b>

The following table shows details of the Group's investment securities measured at fair value through other comprehensive income for periods indicated.

	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>	<b>As at 31 December 2018</b>
	<i>(KD thousands)</i>		
Debt securities – Government (Non-Kuwait) .....	1,813,428	1,661,773	1,271,827
Debt securities – Non-Government .....	1,787,677	1,510,270	1,371,165
Equities .....	37,531	43,125	61,999
<b>Total</b> .....	<b>3,638,636</b>	<b>3,215,168</b>	<b>2,704,991</b>

For information regarding the fair value of the Group's investments at amortised cost and fair value through other comprehensive income, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Position—Investment securities*".

#### RETURN ON EQUITY AND ASSETS

The following table shows the Group's return on average assets, return on equity, equity payout ratio and equity to assets ratio as at the dates indicated.

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>(KD thousands)</i>		
Return on average assets <sup>(1)</sup> .....	0.82%	1.42%	1.38%
Return on equity <sup>(2)</sup> .....	7.0%	12.3%	12.0%
Equity payout ratio <sup>(3)</sup> .....	55.6%	56.4%	57.8%
Equity to asset ratio <sup>(4)</sup> .....	10.5%	11.2%	11.0%

<sup>(1)</sup> Profit for the year attributable to shareholders of the Bank divided by average total assets for the year, with average total assets calculated as the sum of assets on a quarterly basis divided by five.

<sup>(2)</sup> Profit for the year attributable to shareholders of the Bank less interest paid on Tier 1 capital divided by average shareholders' equity for the year, with average shareholders' equity calculated as the sum of shareholders' equity on a quarterly basis divided by five. Shareholders' equity is adjusted for proposed dividend of KD 137,004 thousand as at 31 December 2020, KD 226,373 thousand as at 31 December 2019, KD 214,344 thousand as at 31 December 2018 and KD 174,493 thousand as at 31 December 2017.

<sup>(3)</sup> Proposed dividends for the period divided by profit for the year attributable to shareholders of the Bank.

<sup>(4)</sup> Average shareholders' equity for the year divided by average total assets for the year, with average shareholders' equity and average total assets each calculated as described above.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of the Group's results of operations and financial condition should be read in conjunction with "Selected Consolidated Financial Data" and the Annual Financial Statements which appear elsewhere in this Prospectus. For further information, see also "Presentation of Certain Financial and other Information".*

*This discussion and analysis contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the heading "Risk Factors".*

### OVERVIEW

The Group was the first indigenous bank and the first shareholding company to be established in Kuwait. It is the only banking group in Kuwait to have access to both the conventional and Islamic banking markets.

The Group's core businesses are consumer and private banking, corporate banking, Islamic banking (offered through its majority-owned subsidiary, Boubyan Bank) and investment banking and asset management (offered through its majority-owned subsidiary, NBK Capital). The Group is a regional banking group, focused on offering its products and services in Kuwait and other countries within the MENA region, including Bahrain, Egypt, Iraq, Jordan, Lebanon, Saudi Arabia and the United Arab Emirates, in each of which it has a presence through a subsidiary or branches.

The Group currently operates through six financial reporting segments:

- Consumer and private banking;
- Corporate banking;
- Investment banking and asset management;
- Islamic banking;
- Group centre; and
- International.

The Group's strategy is built on three cornerstones which guide the priorities that it sets for each business unit and internal function. These cornerstones are:

- defending its core business, which is conventional retail and wholesale banking in Kuwait, by maintaining its market share and achieving above market growth in target segments;
- growing outside its core business, including through Islamic finance both within and outside Kuwait, continuous expansion in the MENA region, and particularly Egypt, and building a global network that facilitates its clients' trade and investments; and
- improving profitability in terms of cost to income and return on equity by introducing capital productivity into day-to-day decision making.

As at 30 September 2020, and based on the Group's financial statements and the publicly available financial statements of the Group's main domestic competitors for the same period, the Group was the largest bank in Kuwait in terms of: (i) total assets; (ii) total loans (which, in the Group's case, also includes Islamic financing to customers); and (iii) total customer deposits.

As at 31 December 2020, the Group's customer loan portfolio amounted to KD 17.5 billion and its total customer deposits were KD 17.1 billion. In the year ended 31 December 2020, the Group's net operating income was KD 843 million and its profit for the period was KD 259 million, of which KD 246 million was attributable to shareholders of the Bank. In the year ended 31 December 2019, the Group's net operating

income was KD 896 million and its profit for the year was KD 426 million, of which KD 401 million was attributable to shareholders of the Bank.

## **SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS**

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

### **Impact of COVID-19 Pandemic**

The geographic expanse and operational nature of the Group's business has meant that the COVID-19 pandemic has had a significant impact. Net profit attributable to shareholders for the year ended 31 December 2020 was KD 246 million, a decrease of 38.6 per cent. compared to the year ended 31 December 2019, principally reflecting the impact of the COVID-19 pandemic. The COVID-19 pandemic has affected the Group at all levels, particularly when considering the unpredictability of the spread of the virus as well as government and global responses. The highly integrated nature of the world economy today further exacerbated the speed and degree of spread of COVID-19 and the negative impact on business globally. While governments around the world have taken restrictive measures in an effort to control the outbreak, these measures negatively impacted economic activity and business sentiment. From business shutdowns to curfews and border closures, these measures, along with the change in business sentiment created a severe shock to world economies with global GDP expected to contract by 4.3 per cent. during 2020 (according to data published by the World Bank in January 2021). The impact of the pandemic in the GCC region was even more severe due to the resultant large drop in oil prices and its impact on economic activity and budget deficits. Most GCC countries saw their fiscal positions weakened with large budget deficits projected for 2020 (according to data published by the World Bank).

The Group's business was impacted in most of its locations leading to more challenging operating environments across the Group's network. In Kuwait, the domestic economy was similarly pressured due to long periods of curfews which negatively impacted the Group's operations. In October 2020, the World Bank estimated GDP in Kuwait to contract by around 7.9 per cent. in 2020 due to the restrictive measures implemented in Kuwait. As a result, the Group downgraded certain exposures which had a corresponding increase to the Group's expected credit losses in 2020. The Group similarly increased its general provisions for this period. The first COVID-19 case was confirmed in Kuwait on 24 February, followed by a sequence of government decisions that started with business closures on 9 March and escalated to a complete lockdown during the month of May. Kuwait began a gradual opening of the economy in the beginning of June and as of the date of this document. Kuwait is in phase four of the five-phased plan to return to some form of normal activity. Since the beginning of the pandemic and curfew measure implementation, the Group worked closely with the Government and the Central Bank of Kuwait to provide support to the economy in a quick and efficient way and to support its customers in their financial needs. Moreover, the Group supported government efforts to combat the spread of the pandemic by contributing to the KD 10 million fund created by Central Bank of Kuwait and donated KD 1 million to Kuwait's Red Crescent Society. The Central Bank of Kuwait initiated macro-prudential measures and reduced certain regulatory requirements in an effort to increase the banking sector's resilience and enable it to play a more active role throughout the crisis. These measures included lowering the banking sector's capital and liquidity requirements and dropping the discount rate to historically low levels which ultimately reached 1.5 per cent. The Group also took proactive measures and activated emergency plans during the early stages of the crisis in order to protect its employees and ensure business continuity including strict health and precautionary controls to ensure a safe environment for its staff and customers. Concurrently, the Group sought to leverage the flexibility of its business model, providing support and advice to customers facing financial difficulties and relying heavily on the Group's digital capabilities to maintain the level of service quality and accessibility that customers would expect in normal times. In this context, and without jeopardizing the Group's future business plans, the Group initiated cost-cutting initiatives to reduce the impact of the pandemic on profitability. In coordination with the Central Bank of Kuwait and the Kuwait Banking Association, the Group participated in all initiatives aimed at lifting the pressures customers were facing. For example, the Group extended support to customers by suspending fees on POS terminals, ATMs and digital channels for 3 months and increased the limit for contactless payments. In addition, the Group provided support to individuals by deferring consumer loans, instalment loans and credit card instalments for a period of six months for all customers. The Group also provided support financing to individuals, SMEs, and economic entities impacted by the COVID-19 crisis.

The curfew restrictions and slower economic activity, especially during the second quarter of the year, had a significant adverse impact on the Group. The decrease in interest rates resulted in a reduction in the Group's interest margins while lower transaction volumes resulted in lower fees and commission income. Additionally, the impact of non-oil GDP contraction, lower oil prices and lockdown measures increased the level of uncertainty around cash flows for certain of the Group's customers, which led to a significant increase in provision charges.

The Group along with other Kuwaiti banks implemented the consumer and other instalment loans deferral scheme by postponing the instalments falling due within the six months period from 1 April 2020 to 30 September 2020 with a corresponding extension of the facility tenure at no cost to the borrowers. The instalment deferral resulted in a loss of KD 150 million across the consumer and other instalment loan portfolio arising from the modification of contractual cash-flows as the Group continues to fund the respective amounts for the periods concerned. The loss attributable to Bank's equity shareholders amounting to KD 130 million is charged to retained earnings and the remaining loss to the non-controlling interest.

As at 27 January 2021, the COVID-19 crisis, with approximately 99.8 million people infected and approximately 2.1 million deaths reported globally, is ongoing (according to data published by the World Health Organization). The ultimate scale and economic impact of the crisis remain unknown and due to the nature of governmental restrictions and responses as described above, the future impact of COVID-19 on the Group's operations cannot be ascertained.

### **Impact of Acquisition of a Controlling Stake in BLME**

On 27 January 2020, the Group, through its subsidiary Boubyan Bank, increased its ownership in Bank of London Middle East (**BLME**) from 27.91 per cent. to 71.08 per cent. As a result, BLME, which had been accounted for under the equity method in prior periods, has been fully consolidated in the Group's financial results. As at the date of acquisition, BLME contributed KD 538 million and KD 616 million to the Group's loans and total assets respectively, and KD 365 million to the Group's customer deposits. BLME contributed KD 14 million to net operating income and KD 1 million to net profit attributable to shareholders of the Bank in the year ended 31 December 2020.

### **Economic conditions**

The Group is a regional bank focused on lending to, and accepting deposits from, institutions, companies and residents in Kuwait and the wider MENA region, including Egypt. As a result, its revenues and results of operations are affected by economic and market conditions in Kuwait and, to a lesser extent, in certain other MENA region countries, including Egypt.

According to statistical information prepared by the CSB, Kuwait's nominal GDP grew by 10.8 per cent. in 2017, by 16.0 per cent. in 2018 and fell by a provisional 3.8 in 2019. In real terms, Kuwait's GDP fell by 4.7 per cent. in 2017, grew by 1.2 per cent. in 2018 and a provisional 0.4 per cent. in 2019. According to the World Bank, Kuwait had the nineteenth highest GDP (at purchasing power parity) per capita in 2019, at U.S.\$52,059.7.

Based on CSB information, the oil sector (excluding refining) accounted for 41.6 per cent. of Kuwait's nominal GDP in 2017, 47.1 per cent. in 2018 and a provisional 44.9 per cent. in 2019. According to the provisional data from the CSB, in 2019, the other major economic sectors in Kuwait were other services, which includes real estate and business services, sanitary services and recreation (at 11.7 per cent. of nominal GDP), public administration and defence (at 10.6 per cent.), financial intermediation (at 9.3 per cent.), manufacturing (at 6.9 per cent.) and transport, storage and communications (at 6.1 per cent.).

In addition to economic conditions in the region, the Group remains exposed to the risk of external changes, such as an increase in global financial market volatility, which could pose funding, market and credit risks for investment companies and banks. For a discussion of economic conditions in 2020, see "—Impact of COVID-19 Pandemic".

### **Factors affecting net interest income and net income from Islamic financing**

The Group's net finance income (which comprises its interest income and income from Islamic financing less its interest expense and finance cost and distribution to depositors) is a major contributor to its total net

operating income, comprising 75.2 per cent., 77.0 per cent. and 78.2 per cent. of net operating income in the years ended 31 December 2020, 2019 and 2018, respectively.

The major components of the Group's finance income are:

- interest income on loans and advances to customers, which comprised 54.3 per cent., 54.7 per cent. and 57.4 per cent. of total finance income for the years ended 31 December 2020, 2019 and 2018, respectively;
- income from Murabaha and other Islamic financing income, which comprised 22.9 per cent., 17.6 per cent. and 17.2 per cent. of total finance income for the years ended 31 December 2020, 2019 and 2018, respectively; and
- interest income from debt investment securities, which comprised 15.4 per cent., 15.7 per cent. and 13.7 per cent. of total finance income for the years ended 31 December 2020, 2019 and 2018, respectively.

In addition, interest income from deposits with banks, Central Bank of Kuwait bonds and Kuwait Government treasury bonds together comprised 7.4 per cent., 11.9 per cent. and 11.7 per cent. of the Group's total finance income for the years ended 31 December 2020, 2019 and 2018, respectively.

The major components of the Group's financing cost are:

- interest paid on customer deposits, which comprised 48.0 per cent., 45.0 per cent. and 46.7 per cent. of total financing expense in the years ended 31 December 2020, 2019 and 2018, respectively;
- due to banks and other financial institutions, which comprised 23.4 per cent., 31.7 per cent. and 31.0 per cent. of total financing expense in the years ended 31 December 2020, 2019 and 2018, respectively; and
- finance cost and distribution to depositors, which comprised 23.5 per cent., 17.1 per cent. and 15.8 per cent. of total financing expense in the years ended 31 December 2020, 2019 and 2018, respectively.

In addition, certificates of deposit issued and other borrowed funds together comprised 5.1 per cent., 6.2 per cent. and 6.6 per cent. of the Group's financing cost in the years ended 31 December 2020, 2019 and 2018, respectively.

The Group's net finance income is affected by a number of factors. It is primarily determined by the volume of its income-earning assets relative to its cost-bearing liabilities, as well as the differential between rates earned on income-earning assets and paid on cost-bearing liabilities. The Group's income-earning assets primarily consist of its customer loan portfolio and the debt investment securities held by it. The Group's cost-bearing liabilities primarily comprise its customer deposits and deposits from financial institutions.

The changes in the Group's net finance income for the year ended 31 December 2020 compared to the year ended 31 December 2019 were primarily driven by lower benchmark rates and tighter margins, in part offset by growth in loans and advances to customers, growth in debt investment securities and the impact of BLME consolidation. The Group's average customer loan portfolio was KD 17,396 million for the year ended 31 December 2020 compared to KD 16,136 million for the year ended 31 December 2019.

The changes in the Group's net finance income for 2019 compared to 2018 were primarily driven by lower margins, in part offset by growth in loans and advances to customers and growth in debt investment securities. The Group's average customer loan portfolio (based on quarterly balances divided by five) was KD 16,136 million for 2019 compared to KD 15,096 million for 2018, an increase of KD 1,040 million.

The Group's net interest margin (being its net finance income divided by its average income-earning assets for the year, with average income-earning assets calculated as the sum of income-earning assets on a quarterly basis divided by five) was 2.21 per cent. in 2020 compared to 2.56 per cent. in 2019 and 2.69 per cent. in 2018. Typically, the Group's net interest margins tighten in a decreasing interest rate environment as many of the Group's wholesale loans reprice immediately on a floating basis, while the Group's funding cost decreases gradually based on the maturity profile of its deposit base. The decrease in the year ended 31 December 2020 compared to the year ended 31 December 2019 principally reflected the impact of lower

benchmark rates (Central Bank of Kuwait reduced its discount rate by 25bps in October 2019 and by 125bps in March 2020 in response to the COVID-19 pandemic) and tighter margins, in part offset by the growth in loans and advances to customers and debt investment securities. The decrease in 2019 principally reflected higher funding costs, in part offset by growth in higher-yielding assets such as loans and advances to customers and growth in debt investment securities.

### **Movements in provision charge for credit losses**

The Group's provision charge for credit losses for the year ended 31 December 2020 was KD 218 million compared to KD 123 million for the year ended 31 December 2019. The Group's provision charge for credit losses for the year ended 31 December 2018 was KD 169 million.

Since 1 January 2018, in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK, the Group is required to recognise impairment allowances for credit facilities at an amount equal to the higher of ECL under IFRS 9 according to CBK guidelines, and the provisions required by CBK instructions as described in note 2.10 to the 2020 Financial Statements.

In 2020, the Group's provision charge for credit losses comprised KD 110.5 million in specific provisioning, KD 107.8 million in general provisioning against cash facilities and a release of KD 0.6 million provided against non-cash facilities. The increase in provision charges for credit losses in the year ended 31 December 2020 as compared to the corresponding period in 2019 primarily related to an increase in general provisions charge (as permitted under CBK provisioning rules) representing a contingent build-up of provisions by the Group as a precautionary measure due to the continuing uncertainty surrounding COVID-19.

In 2019, the Group's provision charge for credit losses comprised KD 113 million in specific provisioning against cash facilities and KD 10 million in general provisioning against cash facilities. Of the specific cash provisions, KD 85 million were charged against corporate exposures and KD 28 million were charged against retail exposures.

In 2018, the Group's provision charge for credit losses comprised KD 163 million in specific provisioning against cash facilities, KD 3 million in general provisioning against cash facilities and KD 3 million provided against non-cash facilities. Of the specific cash provisions, KD 139 million were charged against corporate exposures and KD 24 million were charged against retail exposures.

Notwithstanding the introduction of the IFRS 9 requirements relating to impairment as adopted by the CBK and the existing CBK regulations related to provisions, banks in Kuwait continue to be permitted to make precautionary general provisions. The amount of the Group's precautionary general provision reflects its policy of maintaining the overall provision level at a level perceived as appropriate by Management at the Bank.

## **DESCRIPTIONS OF PRINCIPAL STATEMENT OF INCOME ITEMS**

### **Interest income**

Interest income is the Group's principal source of income. The Group earns interest income on the customer loans and advances made by it, on its portfolio of debt investment securities and on its deposits with central banks and other banks. Interest income is recognised in the income statement 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 over the relevant period.

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

### **Interest expense**

The Group incurs interest expense on its customer, bank and other financial institution deposits, on the certificates of deposit which it issues and on its global medium term notes and subordinated Tier 2 bonds. Interest expense is also recognised in the income statement using the effective interest method.

### **Net income from Islamic financing**

The Group earns income from Islamic financing on the Islamic financing provided by it to its customers. The Group incurs Islamic financing costs through the distributions it makes to its Islamic depositors and costs related to its murabaha financing. Islamic financing income is recognised in the income statement on a basis which reflects a constant periodic return on the outstanding net investment relating to that financing. Islamic financing costs are recognised in the income statement on the basis of the type of customer deposit. Islamic financing costs on murabaha and wakala products are recognised on an effective yield basis, which is established on initial recognition of the liability, and on other products are recognised based on rates determined by reference to Boubyan Bank's results at the end of every month.

### **Net fee and commission income**

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

### **Net investment income**

Net investment income consists of net realised gains on sale of investments, net gains or losses from investments carried at fair value through the income statement, dividend income, share of results of associates, net gains or losses from investment properties and, in 2018, loss on derecognition of associates.

Since 1 January 2018, the Group classifies its financial investments in the following categories: amortised cost, investments carried at fair value through other comprehensive income and investments carried at fair value through profit and loss. Prior to that date, the Group classified its financial investments as held to maturity, available for sale and investments carried at fair value through statement of income.

Since 1 January 2018, debt securities are classified as either at amortised cost or at fair value through other comprehensive income based on the business model in which they 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 them at fair value through other comprehensive income. Other investments are carried at fair value through profit or loss. Prior to that date, held to maturity investments were investments with fixed or determinable payments and fixed maturity that the Group had the intention and ability to hold to maturity. Available for sale investments were those investments which were designated as available for sale or investments that did not qualify to be classified at fair value through statement of income, held to maturity or loans and advances. Investments were classified as investments carried at fair value through statement of income if they were held for trading or, upon initial recognition, were designated at fair value through statement of income. Investments were classified as held for trading when they were acquired for the purpose of selling or repurchase in the near term with the intention of generating short-term profits, or were derivatives which were not designated as part of effective hedges.

The Group's investments at fair value through other comprehensive income or fair value through profit or loss and, prior to 1 January 2018, its available for sale and fair value through statement of income securities are or, as the case may be, were measured at fair value. For further information on the manner in which the fair value of these securities is determined, see note 24 to the 2020 Financial Statements.

### **Net gains and losses from dealing in foreign currencies**

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 the Group's



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.

Net gains and losses from dealing in foreign currencies include net foreign exchange trading income, gains and losses from spot and currency contracts, options and futures, primarily for its treasury clients.

### **Other operating income**

Other operating income consists of rental and other sundry income.

### **Staff expenses**

Staff expenses consist primarily of salaries, bonuses and other benefits to full-time employees.

### **Other administrative expenses**

Other administrative expenses consist primarily of premises expenses, marketing and advertising expenses, communication expenses, IT expenses, professional expenses and other expenses.

### **Provision charge for credit losses and impairment losses**

Since 1 January 2018, at each reporting date the Group recognises its ECL on its credit facilities, on its investment in debt securities measured at amortised cost or fair value through other comprehensive income and on its balances and deposits with banks. Equity investments are not subject to ECL.

The Group's credit facilities comprise its loans and advances, Islamic financing to customers, letters of credit and financial guarantee contracts and commitments to grant credit facilities. The Group's impairment charge 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 as determined under CBK instructions or (ii) the provisions required by CBK Instructions. In accordance with CBK instructions, the Group's losses on financial assets (consumer and other instalment loans and credit card receivables) arising from payment holidays to customers in response to COVID-19 (referred to as "**modification losses**") have been charged directly to retained earnings, instead of being recognized in the consolidated statement of income as required by IFRS 9. These modification losses totalled KD 130 million in the year ended 31 December 2020.

*IFRS 9.* IFRS 9 as set forth in the CBK guidelines includes certain prescribed criteria and may not be directly comparable to the IFRS 9 methodology as applied in other jurisdictions. The manner in which the Group determines ECL and the provisions for credit losses required by the CBK is set out in note 2.10 to the 2020 Financial Statements and summarised in "*Risk Management—Principal Risks—Credit risk—Impairment, expected credit loss and/or provisions*".

*Provisions for credit losses in accordance with CBK Instructions.* Prior to 1 January 2018, at each reporting date and in accordance with both CBK regulations relating to the method of calculating specific provisions and estimates made in accordance with IAS 39 as adopted for use by Kuwait for financial institutions regulated by the CBK, the Group assessed its financial assets for objective evidence of impairment. In particular:

- all individually significant loans and advances to customers were assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortised cost (including the Group's customer loan portfolio) were measured as the difference between the carrying amount of the relevant asset and the present value of the estimated future cash flows from it discounted at the asset's original effective interest rate;
- a minimum general provision was made on all credit facilities, which are not subject to specific provisioning, net of certain restricted categories of collateral, with additional general provisions being made at management's discretion with the approval of the CBK;

- impairment losses on available for sale investment securities were recognised by transferring the cumulative loss that had been recognised in other comprehensive income to the income statement as a reclassification adjustment; and
- impairment losses on associates, goodwill and intangibles were recognised for the amount by which the asset's carrying amount exceeded its recoverable amount. The recoverable amount was the higher of an asset's fair value less costs to sell and value in use.

In each of the periods since 1 January 2018, the Group's impairment requirements have been calculated under both methodologies, and for each applicable period, the provisions for credit losses required by CBK instructions have been higher than the amount calculated pursuant to IFRS 9. For example, for 31 December 2020, the provision for credit losses for credit facilities (consists of loans and advances, Islamic financing to customers, letters of credit and financial guarantee contracts and commitments) as determined under IFRS 9 amounted to KD 605 million compared to KD 724 million as determined under CBK Instructions. As a result, the Group's provisions for credit losses were higher than if only IFRS 9 had applied. For 31 December 2019, the provision for credit losses for credit facilities as determined under IFRS 9 amounted to KD 395 million compared to KD 541 million as determined under CBK Instructions, and for 31 December 2018, the provision for credit losses for credit facilities as determined under IFRS 9 amounted to KD 408 million compared to KD 538 million as determined under CBK Instructions.

## RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

The following table sets forth the Group's results of operations for the years indicated.

	Year ended 31 December		
	2020	2019	2018
	<i>(KD thousands)</i>		
Interest income.....	756,984	986,526	897,218
Interest expense.....	(266,752)	(421,618)	(330,882)
<b>Net interest income.....</b>	<b>490,232</b>	<b>564,908</b>	<b>566,336</b>
Murabaha and other Islamic financing income.....	225,137	211,317	186,089
Finance cost and distribution to depositors.....	(81,902)	(87,001)	(61,972)
<b>Net income from Islamic financing.....</b>	<b>143,235</b>	<b>124,316</b>	<b>124,117</b>
<b>Net interest income and net income from Islamic financing.....</b>	<b>633,467</b>	<b>689,224</b>	<b>690,453</b>
Net fees and commissions.....	145,981	157,152	150,176
Net investment income.....	2,041	8,419	2,140
Net gains from dealing in foreign currencies.....	38,159	39,343	39,026
Other operating income.....	22,873	1,379	1,424
Non-interest income.....	<b>209,054</b>	<b>206,293</b>	192,766
<b>Net operating income.....</b>	<b>842,521</b>	<b>895,517</b>	<b>883,219</b>
Staff expenses.....	(174,442)	(175,731)	(159,984)
Other administrative expenses.....	(102,058)	(98,852)	(98,555)
Depreciation of premises and equipment.....	(33,432)	(26,493)	(14,703)
Amortisation of intangible assets.....	(1,647)	(3,198)	(3,096)
Operating expenses.....	<b>(311,579)</b>	<b>(304,274)</b>	(276,338)
<b>Operating profit before provision for credit losses and impairment losses.....</b>	<b>530,942</b>	<b>591,243</b>	<b>606,881</b>
Provision charge for credit losses and impairment losses.....	(246,438)	(129,715)	(179,692)
<b>Operating profit before taxation.....</b>	<b>284,504</b>	<b>461,528</b>	<b>427,189</b>
Taxation.....	(25,842)	(35,536)	(33,240)
<b>Profit for the year.....</b>	<b>258,662</b>	<b>425,992</b>	<b>393,949</b>
<b>Attributable to:</b>			
Shareholders of the Bank.....	246,341	401,291	370,709
Non-controlling interests.....	12,321	24,701	23,240

### Net interest income

The following table sets forth the details of the Group's interest income for the years indicated.

	Year ended 31 December						Variation	
	2020	% of total	2019	% of total	2018	% of total	2020/2019	2019/2018
	<i>(KD thousands, except percentages)</i>						<i>(per cent.)</i>	
Deposits with banks.	44,467	5.9	94,607	9.6	85,039	9.5	-53.0	11.3
Loans and advances to customers.....	533,226	70.4	655,226	66.4	622,288	69.4	-18.6	5.3
Debt investment securities.....	151,496	20.0	188,635	19.1	148,106	16.5	-19.7	27.4
Kuwait government treasury bonds and CBK bonds .....	27,795	3.7	48,058	4.9	41,785	4.7	-42.2	15.0
<b>Total interest income.....</b>	<b>756,984</b>	<b>100.0</b>	<b>986,526</b>	<b>100.0</b>	<b>897,218</b>	<b>100.0</b>	<b>-23.3</b>	<b>10.0</b>

The Group's total interest income for the year ended 31 December 2020 amounted to KD 757 million compared to KD 987 million for the year ended 31 December 2019 and KD 897 million for the year ended 31 December 2018.

The decrease of KD 230 million, or 23.3 per cent., in 2020 reflected:

- a KD 122 million, or 18.6 per cent., decline in interest income from loans and advances to customers impacted by lower benchmark rates, in part offset by growth in volumes (notably in International segment);
- a KD 50 million, or 53.0 per cent., decline in interest income from deposits with banks impacted by lower benchmark rates;
- a KD 37 million, or 19.7 per cent., decline in interest income from debt investment securities impacted by lower benchmark rates, in part offset by growth in volumes; and
- a KD 20 million, or 42.2 per cent., decline in interest income from Kuwait government treasury bonds and CBK bonds impacted by lower benchmark rates and decline in volumes.

The increase of KD 89 million, or 10.0 per cent., in 2019 reflected:

- a KD 33 million, or 5.3 per cent., increase in interest income from loans and advances to customers driven by growth in volumes in the International segment;
- a KD 10 million, or 11.3 per cent., increase in interest income from deposits with banks driven by rate increases; and
- a KD 41 million, or 27.4 per cent increase in interest income from debt investment securities driven by increases growth in volumes and rate increases.

The following table shows details of the Group's interest expense for the periods indicated.

	Year ended 31 December						Variation	
	2020	% of total	2019	% of total	2018	% of total	2020/2019	2019/2018
	<i>(KD thousands, except percentages)</i>						<i>(per cent.)</i>	
Due to banks and other financial institutions .....	81,736	30.6	161,415	38.3	121,661	36.8	-49.4	32.7
Customer deposits	167,281	62.7	228,711	54.2	183,405	55.4	-26.9	24.7
Certificates of deposit issued....	6,879	2.6	17,063	4.0	12,092	3.7	-59.7	41.1
Other borrowed funds.....	10,856	4.1	14,429	3.4	13,724	4.1	-24.8	5.1
<b>Total interest expense.....</b>	<b>266,752</b>	<b>100.0</b>	<b>421,618</b>	<b>100.0</b>	<b>330,882</b>	<b>100.0</b>	<b>-36.7</b>	<b>27.4</b>

The Group's total interest expense for the year ended 31 December 2020 amounted to KD 267 million compared to KD 422 million for the year ended 31 December 2019 and KD 331 million for the year ended 31 December 2018.

The decrease of KD 155 million, or 36.7 per cent., in 2020 reflected:

- a KD 80 million, or 49.4 per cent., decline in interest expense on amounts due to banks and other financial institutions driven by lower benchmark rates and decline in volumes;
- a KD 61 million, or 26.9 per cent., decline in interest expense on customer deposits driven by lower benchmark rates, partly offset by the growth in volumes; and
- a KD 10 million, or 59.7 per cent., decline in interest expense on certificates of deposit issued driven by lower benchmark rates, partly offset by the growth in volumes.

The increase of KD 91 million, or 27.4 per cent., in 2019 principally reflected:

- a KD 45 million, or 24.7 per cent., increase in interest expense on customer deposits which was driven by rate increases and growth in volumes;
- a KD 40 million, or 32.7 per cent., increase in interest expense on amounts due to banks and other financial institutions which was driven by rate increases; and
- a KD 5 million, or 41.1 per cent., interest in interest expense on certificates of deposit issued which was driven by growth in volumes and rate increases.

Reflecting the above factors, the Group's net interest income in 2020 amounted to KD 490 million, a decrease of KD 75 million, or 13.2 per cent., from the KD 565 million net interest income recorded in 2019 which, in turn, was a decrease of KD 1 million, or 0.3 per cent., from the KD 566 million net interest income recorded in 2018.

#### **Net income from Islamic financing**

The Group's murabaha and other Islamic financing income for the year ended 31 December 2020 amounted to KD 225 million compared to KD 211 million for the year ended 31 December 2019 and KD 186 million for the year ended 31 December 2018. The increase of KD 14 million, or 6.5 per cent., in 2020 principally reflected the impact of consolidation of BLME and growth in Group's Islamic financing to customers, in part offset by lower benchmark rates. The increase of KD 25 million, or 13.6 per cent., in 2019 primarily reflected growth in Group's Islamic financing to customers.

The Group's finance cost and distribution to depositors for the year ended 31 December 2020 amounted to KD 82 million compared to KD 87 million for the year ended 31 December 2019 and KD 62 million for the year ended 31 December 2018. The decrease of KD 5 million, or 5.9 per cent., in 2020 principally reflected the impact of lower benchmark rates, in part offset by growth in the Group's Islamic deposits and the impact consolidation of BLME. The increase of KD 25 million, or 40.4 per cent., in 2019 principally reflected growth in the volume of Group's Islamic deposits.

Reflecting the above factors, the Group's net income from Islamic financing for the year ended 31 December 2020 amounted to KD 143 million compared to KD 124 million for the year ended 31 December 2019 which was unchanged compared to the year ended 31 December 2018.

#### **Net finance income**

The Group's net financing income for the year ended 31 December 2020 amounted to KD 633 million compared to KD 689 million for the year ended 31 December 2019 and KD 690 million for the year ended 31 December 2018.

The changes in the Group's net financing income for 2020 compared to 2019 were primarily been driven by lower benchmark rates and tighter margins, in part offset by growth in loans and advances to customers, growth in debt investment securities and the impact from the consolidation of BLME. The Group's average customer loan portfolio (based on quarterly balances in each year divided by five) was KD 17,396 million for 2020 compared to KD 16,136 million for 2019, an increase of KD 1,261 million, or 7.8 per cent.

The changes in the Group's net financing income for 2019 compared to 2018 were primarily driven by lower margins, in part offset by growth in loans and advances to customers and growth in debt investment securities. The Group's average customer loan portfolio (based on quarterly balances in each year divided by five) was KD 16,136 million for 2019 compared to KD 15,096 million for 2018, an increase of KD 1,040 million, or 6.9 per cent.

The Group's net interest margin decreased in 2020 to 2.21 per cent. from 2.56 per cent. in 2019 which decreased from 2.69 per cent. in 2018. The decrease in 2020 principally reflected the impact of lower benchmark rates and tighter margins, in part offset by growth in loans and advances to customers and growth in debt investment securities. The decrease during 2019 principally reflected higher funding costs, in part offset by growth in higher yielding assets such as loans and advances to customers, growth in debt investment securities and a decrease in holdings of lower earnings assets.

### Net fees and commissions

The following table shows the Group's net fees and commissions for the years ended 31 December 2020, 2019 and 2018.

	Year ended 31 December						Variation	
	2020	% of total	2019	% of total	2018	% of total	2020/2019	2019/2018
	<i>(KD thousands, except percentages)</i>						<i>(per cent.)</i>	
Credit facilities.....	64,261	44.0	64,920	41.3	63,456	42.3	-1.0	2.3
Other.....	81,720	56.0	92,232	58.7	86,720	57.7	-11.4	6.4
<b>Total net fees and commissions.....</b>	<b>145,981</b>	<b>100.0</b>	<b>157,152</b>	<b>100.0</b>	<b>150,176</b>	<b>100.0</b>	<b>-7.1</b>	<b>4.6</b>

The Group's net fees and commission income for the year ended 31 December 2020 amounted to KD 146 million, a decrease of KD 11 million, or 7.1 per cent., from the KD 157 million net fees and commissions income recorded for 2019. This decrease principally the slowdown in economic activity resulting from the COVID-19 pandemic. The Group's net fees and commissions income for the year ended 31 December 2019 of KD 157 million, an increase of KD 7 million, or 4.6 per cent., from KD 150 million for the year ended 31 December 2018. This increase principally reflected an increase in credit facilities, cards, asset management and brokerage.

### Foreign exchange and other operating income

The Group's foreign exchange income for the year ended 31 December 2020 amounted to KD 38 million compared to KD 39 million for the year ended 31 December 2019. The decrease of KD 1 million principally reflected the impact of lower economic activity, in part offset by the impact of currency movements on the Perpetual Tier 1 Capital Securities.

The Group's other operating income for the year ended 31 December 2020 amounted to KD 25 million compared to KD 10 million for the year ended 31 December 2019. The increase of KD 15 million principally reflected the Government subsidy in respect of COVID-19 and a gain on sale of the Bank's old head office, in part offset by a negative swing in the fair market valuation of funds and equity investments.

The Group's foreign exchange income for the year ended 31 December 2019 amounted to KD 39 million compared to KD 39 million for the year ended 31 December 2018.

The Group's other operating income for the year ended 31 December 2019 amounted to KD 10 million compared to KD 4 million for the year ended 31 December 2018. The increase of KD 6 million principally reflected higher investment income.

### Operating expenses

The Group's total operating expenses amounted to KD 312 million for 2020 compared to KD 304 million for 2019 and KD 276 million for 2018. The increase of KD 7 million, or 2.4 per cent., in 2020 reflected the impact of the consolidation of BLME, COVID-19 related contributions to the Central Bank of Kuwait fund and Kuwait's Red Crescent Society, continued investment in IT and other digital initiatives and higher depreciation from the capitalisation of new headquarters and data centre.

The increase of KD 28 million, or 10.1 per cent., in 2019 reflected a KD 16 million, or 9.8 per cent., increase in staff expenses which principally reflected increased headcount and annual increments and a KD 12 million, or 10.5 per cent., increase in other operating expenses.

### Provision charge for credit losses and impairment losses

The table below shows the Group's provision charge for credit losses and impairment losses for the years ended 31 December 2020, 2019 and 2018.

	Year ended 31 December		
	2020	2019	2018
	<i>(KD thousands)</i>		
Specific .....	110,518	111,239	164,968
General.....	107,205	11,346	4,350
<b>Total provision charge for credit losses .....</b>	<b>217,723</b>	<b>122,585</b>	<b>169,318</b>
Other impairment losses.....	28,715	7,130	10,374
<b>Provision charge for credit losses and impairment losses .....</b>	<b>246,438</b>	<b>129,715</b>	<b>179,692</b>

The Group's total provision charge for credit losses and impairment losses amounted to KD 246.4 million for the year ended 31 December 2020 compared to KD 130 million for the year ended 31 December 2019 and KD 180 million for the year ended 31 December 2018. The increase in 2020 was primarily due to heightened levels of volatility, increasing probability of default ("PD") trends, and adverse forecasts due to the onset of the COVID-19 pandemic, alongside certain adverse credit events.

The Group's total specific provisions charge for credit facilities amounted to KD 110.5 million for the year ended 31 December 2020, compared to KD 111.2 million for the corresponding period in 2019. In 2020, the default of a troubled healthcare group operating primarily in the GCC contributed to around 25 per cent. of the specific provisions, while the remaining primarily reflected an increased level of uncertainty around cash flows for certain of the Group's customers in light of the COVID-19 crisis from the services, real estate and construction sectors.

The Group's total general provisions charge amounted to KD 107.2 million for the year ended 31 December 2020, compared to KD 11.3 million for the corresponding period in 2019. The increase in general provisions charge represents contingent build-up of provisions by the Group as a precautionary measure due to the continuing uncertainty surrounding the impact of the COVID-19 pandemic on the Group's customers.

The Group's other impairment losses amounted to KD 28.7 million for the year ended 31 December 2020, compared to KD 7.1 million for the corresponding period in 2019. In 2020, increased PDs in light of the advent of the COVID crisis as well the downgrade of Lebanon Sovereign, contributed to the significant increase in IFRS9 ECL requirements for financial assets other than credit facilities.

### Taxation

The Group's taxation charge for the year ended 31 December 2020 amounted to KD 26 million compared to KD 36 million for the year ended 31 December 2019 and KD 33 million for the year ended 31 December 2018. The decrease of KD 10 million, or 27.3 per cent., in 2020 principally reflected lower profits, which were partially offset by higher taxes in Egypt from a new tax law. The increase of KD 2 million, or 6.9 per cent., in 2019 principally reflected higher Group profits and increased national labour support tax payments.

### Segmental analysis

The tables below show certain statement of income and statement of financial position line items of each of the Group's reporting segments for the years ended 31 December 2020, 2019 and 2018.

	Year ended 31 December 2020						Total
	CPB	CB	IBAM	IB	GC	International	
	<i>(KD thousand)</i>						
Net interest income and net income from							
Islamic financing .....	219,879	80,297	746	143,235	26,642	162,668	633,467
Net operating income .....	278,702	127,070	24,134	171,656	34,860	206,099	842,521
Profit / (loss) for the period .....	151,832	64,378	12,387	33,547	(53,419)	49,937	258,662
<b>Total assets .....</b>	<b>4,753,571</b>	<b>4,978,948</b>	<b>67,145</b>	<b>6,437,149</b>	<b>3,331,686</b>	<b>10,148,892</b>	<b>29,717,391</b>
<b>Total liabilities.....</b>	<b>6,474,936</b>	<b>2,350,988</b>	<b>11,071</b>	<b>5,810,419</b>	<b>237,618</b>	<b>10,691,304</b>	<b>25,576,336</b>

Year ended 31 December 2019							
	CPB	CB	IBAM	IB	GC	International	Total
	(KD thousand)						
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 period .....	178,266	60,305	15,690	62,677	(3,126)	112,180	425,992
<b>Total assets .....</b>	<b>4,651,598</b>	<b>4,930,920</b>	<b>79,344</b>	<b>5,300,548</b>	<b>3,208,951</b>	<b>11,099,392</b>	<b>29,270,753</b>
<b>Total liabilities .....</b>	<b>5,447,815</b>	<b>2,294,546</b>	<b>22,447</b>	<b>4,647,367</b>	<b>795,608</b>	<b>11,803,810</b>	<b>25,011,593</b>

  

Year ended 31 December 2018							
	CPB	CB	IBAM	IB	GC	International	Total
	(KD thousand)						
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 period .....	166,706	48,347	14,715	56,210	(4,752)	112,723	393,949
<b>Total assets .....</b>	<b>4,627,235</b>	<b>5,017,769</b>	<b>61,639</b>	<b>4,344,778</b>	<b>3,603,704</b>	<b>9,772,815</b>	<b>27,427,940</b>
<b>Total liabilities .....</b>	<b>4,996,658</b>	<b>2,481,949</b>	<b>8,588</b>	<b>3,858,818</b>	<b>1,606,956</b>	<b>10,773,661</b>	<b>23,726,630</b>

### **Consumer and private banking**

CPB's net operating income for the year ended 31 December 2020 amounted to KD 279 million compared to KD 292 million for the year ended 31 December 2019. The decrease of KD 13 million, or 4.4 per cent., principally reflected lower fee income and lower foreign exchange income due to the slowdown in economic activity resulting from the COVID-19 pandemic and lower benchmark rates, partially offset by increased volumes of consumer loans and deposits. CPB's profit was KD 152 million for the year ended 31 December 2020 compared to KD 178 million for the year ended 31 December 2019. The decrease in profit of KD 26 million, or 14.8 per cent., principally reflected higher provisions for credit losses to cater for potential deterioration in the retail credit portfolio as a result of the COVID-19 pandemic and lower net operating income, offset in part by lower costs.

CPB's net operating income for the year ended 31 December 2019 amounted to KD 292 million compared to KD 278 million for the year ended 31 December 2018. The increase in net operating income of KD 13 million, or 4.7 per cent., principally reflected growth in net interest income from increased volumes of consumer loans and deposits and higher fee income. CPB's profit was KD 178 million for the year ended 31 December 2019 compared to KD 167 million for the year ended 31 December 2018. The increase in profit of KD 12 million, or 6.9 per cent., principally reflected higher net operating income and lower provisions for credit losses, offset in part by higher costs.

### **Corporate banking**

CB's net operating income for the year ended 31 December 2020 amounted to KD 127 million compared to KD 157 million for the year ended 31 December 2019. The decrease of KD 30 million, or 19.1 per cent., primarily reflected lower net interest income from lower benchmark rates. CB's profit was KD 64 million for the year ended 31 December 2020 compared to KD 60 million for the year ended 31 December 2019. The increase in profit of KD 4 million, or 6.8 per cent., primarily reflected lower provisions for credit losses, offset in part by lower net operating income.

CB's net operating income for the year ended 31 December 2019 amounted to KD 157 million compared to KD 182 million for the year ended 31 December 2018. The decrease of KD 25 million, or 13.7 per cent., primarily reflected lower loan volumes resulting from increased levels of loan repayments and tighter margins. CB's profit was KD 60 million for the year ended 31 December 2019 compared to KD 48 million for the year ended 31 December 2018. The increase of KD 12 million, or 24.7 per cent., primarily reflected lower specific provisions, offset in part by lower net operating income.

### **Investment banking and asset management**

IBAM's net operating income for the year ended 31 December 2020 amounted to KD 24 million compared to KD 29 million for the year ended 31 December 2019. The decrease of KD 4 million, or 15.5 per cent., primarily reflected higher fair valuation losses on funds and equity investments and lower fee income. IBAM's profit amounted to KD 12 million for the year ended 31 December 2020 compared to KD 16

million for the year ended 31 December 2019. The decrease of KD 3 million, or 21.1 per cent., primarily reflected lower net operating income, offset in part by lower costs.

IBAM's net operating income for the year ended 31 December 2019 amounted to KD 29 million compared to KD 27 million for the year ended 31 December 2018. The increase of KD 2 million, or 7.1 per cent., primarily reflected higher fee income. IBAM's profit was KD 16 million for the year ended 31 December 2019 compared to KD 15 million for the year ended 31 December 2018. The increase of KD 1 million, or 6.6 per cent., in profit primarily reflected higher fee income, offset in part by higher costs.

### ***Islamic banking***

IB's net operating income amounted to KD 172 million for the year ended 31 December 2020 compared to KD 151 million for the year ended 31 December 2019. The increase of KD 20 million, or 13.5 per cent., primarily reflected the impact of the consolidation of BLME, the Government subsidy and higher loan volumes, offset in part by lower benchmark rates and lower fee income due to the slower pace of economic activity resulting from the COVID-19 pandemic. IB's profit was KD 34 million for the year ended 31 December 2020 compared to KD 63 million for the year ended 31 December 2019. The decrease in profit of KD 29 million, or 46.5 per cent, primarily reflected higher provisions for credit losses (including precautionary provisions) to manage the impact of the COVID-19 pandemic and higher costs, in part offset by higher net operating income.

IB's net operating income amounted to KD 151 million for the year ended 31 December 2019 compared to KD 145 million for the year ended 31 December 2018. The increase of KD 6 million, or 4.5 per cent., primarily reflected higher fee income and higher investment gains. IB's profit was KD 63 million for the year ended 31 December 2019 compared to KD 56 million for the year ended 31 December 2018. The increase of KD 6 million, or 11.5 per cent, primarily reflected higher net operating income.

### ***Group centre***

GC's net operating income for the year ended 31 December 2020 amounted to KD 35 million compared to KD 46 million for the year ended 31 December 2019. The decrease of KD 12 million, or 24.9 per cent., primarily reflected lower net interest income due to lower benchmark rates and lower investment income resulting from a negative swing in the fair valuation of funds and equity investments, offset in part by a gain on sale of the Bank's old head office and Government subsidy in respect of COVID-19. GC's loss was KD 53 million for the year ended 31 December 2020 compared to KD 3 million for the year ended 31 December 2019. The increase in loss of KD 50 million, primarily reflected lower net operating income, precautionary provisions in 2020 and a higher expected credit loss charge (ECL on non credit exposure) due to worsening of macroeconomic factors resulting from the COVID-19 crisis.

GC's net operating income for the year ended 31 December 2019 amounted to KD 46 million compared to KD 42 million for the year ended 31 December 2018. The increase of KD 4 million, or 10.4 per cent., primarily reflected higher net interest income. GC's loss was KD 3 million for the year ended 31 December 2019 compared to KD 5 million for the year ended 31 December 2018. The decrease in loss of KD 2 million, or 34.2 per cent., primarily reflected higher net operating income, offset in part by higher costs.

### ***International***

International's net operating income for the year ended 31 December 2020 amounted to KD 206 million compared to KD 221 million for the year ended 31 December 2019. The decrease of KD 15 million, or 6.6 per cent., primarily reflected lower benchmark rates and tighter margins, in part offset by growth in loans and advances to customers and growth in debt investment securities and higher fee income. International's profit was KD 50 million for the year ended 31 December 2020 compared to KD 112 million for the year ended 31 December 2019. The decrease of KD 62 million, or 55.5 per cent. in net profit, primarily reflected expected credit losses in respect of operations in Lebanon, provisions for credit losses for a regional corporate customer, lower net operating income and higher costs.

International's net operating income for the year ended 31 December 2019 amounted to KD 221 million compared to KD 209 million for the year ended 31 December 2018. The increase in net operating income of KD 11 million, or 5.5 per cent. in net operating income primarily reflected growth in net interest income from increased volumes of loans and debt investment securities. International's profit was KD 112 million for the year ended 31 December 2019 compared to KD 113 million for the year ended 31 December 2018.



The decrease of KD 1 million, or 0.5 per cent. in net profit, principally reflected higher costs, offset in part by higher net operating income.

## FINANCIAL POSITION

### Assets

The following table shows data regarding the Group's assets as at the dates indicated.

	As at 31 December					
	2020		2019		2018	
	(KD thousands)	(per cent.)	(KD thousands)	(per cent.)	(KD thousands)	(per cent.)
<b>Assets</b>						
Cash and short term funds.....	3,903,371	13.1	3,787,173	12.9	2,966,707	10.8
Central Bank of Kuwait bonds.....	830,233	2.8	823,229	2.8	809,871	3.0
Kuwait Government treasury bonds.....	462,922	1.6	662,175	2.3	872,042	3.2
Deposits with banks.....	1,027,373	3.5	1,909,081	6.5	2,364,242	8.6
Loans, advances and Islamic financing to customers.....	17,504,342	58.9	16,552,598	56.5	15,503,402	56.5
Investment securities.....	4,728,778	15.9	4,214,562	14.4	3,678,032	13.4
Investment in associates.....	5,195	0.0	35,297	0.1	31,425	0.1
Land, premises and equipment.....	426,963	1.4	433,540	1.5	362,801	1.3
Goodwill and intangible assets.....	581,881	2.0	582,927	2.0	578,973	2.1
Other assets.....	246,333	0.8	270,171	0.9	260,445	0.9
<b>Total assets.....</b>	<b>29,717,391</b>	<b>100.0</b>	<b>29,270,753</b>	<b>100.0</b>	<b>27,427,940</b>	<b>100.0</b>

The Group's total assets increased by 1.5 per cent. to KD 29.7 billion as at 31 December 2020 from KD 29.3 billion as at 31 December 2019. The increase in total assets was principally attributable to an increase in loans, advances and Islamic financing to customers, investment securities and the impact of the BLME consolidation offset by decline in deposits with banks.

The Group's total assets increased by 6.7 per cent. to KD 29.3 billion as at 31 December 2019 from KD 27.4 billion as at 31 December 2018. The increase in total assets was principally attributable to an increase in loans, advances and Islamic financing to customers, which grew by KD 1.0 billion, or 6.8 per cent., principally as a result of growth from Boubyan Bank and international operations as well as an increase in cash and short term funds, which grew by KD 0.8 billion, or 27.7 per cent.

The Group's three most significant asset classes are its loans, advances and Islamic financing to customers, its investment securities and its cash and short-term funds.

### Loans, advances and Islamic financing to customers

The Group's total customer loan portfolio comprising loans, advances and Islamic financing provided to customers (net of provisions) was KD 17.5 billion as at 31 December 2020.

The table below shows the Group's customer loan portfolio, provisions and loan to deposit ratio as at 31 December 2020, 2019 and 2018.

	As at 31 December		
	2020	2019	2018
	(KD in thousands, except percentages)		
Gross loans <sup>(1)</sup> .....	18,191,566	17,061,334	16,009,110
Less: provisions.....	(687,224)	(508,736)	(505,708)
<b>Net loans<sup>(2)</sup>.....</b>	<b>17,504,342</b>	<b>16,552,598</b>	<b>15,503,402</b>
Net loans/customer and financial institution deposits.....	87.4%	83.2%	81.1%
Net loans/total deposits <sup>(3)</sup> .....	72.9%	68.8%	67.6%

<sup>(1)</sup> Gross loans comprise total loans, advances and Islamic financing provided to customers.

<sup>(2)</sup> Net loans comprise gross loans less provisions.

<sup>(3)</sup> Total deposits comprise customer deposits, due to banks and other financial institutions and certificates of deposit issued.

The Group's customer loan portfolio is principally denominated in Kuwaiti dinar, although loans are also made in U.S. dollars, Egyptian pounds, pounds sterling and euro, among other currencies. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms. In addition, the Group hedges a part of its currency exposure through the use of derivative contracts, such as forward foreign exchange contracts.

The majority of loans within the Group's customer loan portfolio in Kuwait contain terms to adjust the interest rate payable by the customer upon any change in the CBK discount rate or the relevant interbank benchmark. The Group believes that there is only limited structural exposure to interest rate movements as the majority of its assets and liabilities re-price within one year. However, the Group's experience is that, whilst its assets generally re-price immediately upon a change in the CBK discount rate, there is a time lag on deposit re-pricing which means that its net interest margin improves in an increasing interest rate environment and contracts in a decreasing interest rate environment, such as in 2020. In the case of certain retail loans denominated in Kuwaiti dinar, the Group is exposed to some interest rate risk, since interest rates on those loans are not re-priced for the first five years and then the subsequent permitted adjustments are restricted in amount.

The Group may also, from time to time, enter into interest rate swaps to manage its interest rate exposure.

#### *Distribution of customer loans by maturity*

The table below shows the distribution of the Group's net customer loan portfolio by maturity (based on contractual cash flows and maturity dates) as at 31 December 2020, 2019 and 2018.

	<u>Up to 3 months</u>	<u>3 to 12 months</u>	<u>Over 1 year</u>	<u>Total</u>
	<i>(KD thousands)</i>			
31 December 2020 .....	5,094,225	2,021,684	10,388,433	17,504,342
31 December 2019 .....	4,082,071	2,653,219	9,817,308	16,552,598
31 December 2018 .....	4,170,497	2,091,383	9,241,522	15,503,402

#### *Distribution of customer loans by geographical region*

The table below shows the distribution of the Group's gross customer loan portfolio by geographical region as at 31 December 2020, 2019 and 2018.

	<u>MENA</u>	<u>North America</u>	<u>Europe</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>
	<i>(KD thousands)</i>					
<b>31 December 2020</b> .....	15,986,938	409,519	1,230,075	367,708	197,326	18,191,566
<b>31 December 2019</b> .....	15,306,586	387,169	729,331	379,836	258,412	17,061,334
<b>31 December 2018</b> .....	14,746,389	270,815	446,555	271,185	274,166	16,009,110

#### *Distribution of customer type*

The table below shows the distribution of the Group's customer loan portfolio by customer type as at 31 December 2020, 2019 and 2018.

	<u>Gross exposure</u>	<u>Specific provisions</u>	<u>Exposure net of provisions</u>
	<i>(KD thousands)</i>		
<b>31 December 2020</b>			
Corporate .....	12,106,352	(70,880)	12,035,472
Retail.....	6,085,214	(100,173)	5,985,041
<b>Customer loan portfolio</b> .....	<b>18,191,566</b>	<b>(171,053)</b>	<b>18,020,513</b>
Less general provision.....			(516,171)
<b>Total</b> .....			<b>17,504,342</b>
<b>31 December 2019</b>			
Corporate.....	11,423,765	(43,415)	11,380,350
Retail.....	5,637,569	(68,251)	5,569,318
<b>Customer loan portfolio</b> .....	<b>17,061,334</b>	<b>(111,666)</b>	<b>16,949,668</b>
Less general provision.....	—	—	(397,070)
<b>Total</b> .....	—	—	<b>16,552,598</b>
<b>31 December 2018</b>			
Corporate .....	10,694,324	(50,875)	10,643,449
Retail.....	5,314,786	(69,865)	5,244,921
<b>Customer loan portfolio</b> .....	<b>16,009,110</b>	<b>(120,740)</b>	<b>15,888,370</b>

	<u>Gross exposure</u>	<u>Specific provisions</u>	<u>Exposure net of provisions</u>
Less general provision.....	—	—	(384,968)
<b>Total .....</b>	<b>—</b>	<b>—</b>	<b>15,503,402</b>

#### *Distribution of the Group's maximum exposure to credit risk by sector*

The Group's maximum exposure to credit risk comprises its customer loan portfolio plus its debt investments, deposits with banks and certain other assets at year end. The table below shows the breakdown by industry sector of the Group's maximum exposure to credit risk as at 31 December 2020, 2019 and 2018.

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>(KD thousands)</i>		
Trading.....	2,123,271	2,106,532	2,163,383
Manufacturing.....	3,144,536	2,797,628	2,368,919
Banks and other financial institutions .....	9,936,940	10,541,633	9,908,859
Construction.....	1,599,860	1,455,836	1,404,411
Real estate.....	3,842,488	3,463,146	3,280,586
Retail.....	5,841,638	5,506,856	5,185,575
Government .....	3,558,422	3,571,248	3,361,079
Others.....	3,796,229	3,538,473	3,343,743
<b>Total .....</b>	<b>33,843,384</b>	<b>32,981,352</b>	<b>31,016,555</b>

The Group seeks to limit its credit risk through diversification of its assets by geography and industry sector. As at 31 December 2020, the Group's exposure to banks and other financial institutions, before taking into account any collateral held or credit enhancements, accounted for 29.4 per cent. of its maximum exposure to credit risk compared to 32.0 per cent. as at 31 December 2019 and 31.9 per cent. as at 31 December 2018. Approximately 45.4 per cent. of the Group's exposure to banks and other financial institutions as at 31 December 2020 was in the form of short-dated inter-bank placements (47.9 per cent. as at 31 December 2019 and 48.7 per cent. as at 31 December 2018) and approximately 18.8 per cent. was in the form of trade finance exposures (17.4 per cent. as at 31 December 2019 and 19.2 per cent. as at 31 December 2018).

The Group's second major sector of credit exposure is the retail segment, which accounted for 17.3 per cent. of the Group's maximum exposure to credit risk at 31 December 2020, and represented loans made to a diverse base of individual borrowers and a small number of small and medium sized enterprises (SMEs). These exposures mainly comprise a range of products and services to individuals, including consumer loans, credit cards, deposits, foreign exchange credit facilities to SMEs and other branch-related services.

The government sector constituted 10.5 per cent. of the Group's maximum exposure to credit risk as at 31 December 2020 and represented exposures to Kuwait government treasury bonds, investment securities issued by governments and government entities and credit facilities to government entities.

The real estate sector constituted 11.4 per cent. of the Group's maximum exposure to credit risk at 31 December 2020. As per CBK regulations, the real estate segment includes not only credit facilities granted to companies engaged in real estate business but also to borrowers where the purpose of the specific facility concerned is to finance real estate development and acquisition. The Group's exposure to this sector is also spread across Kuwait and certain major cities internationally, including in the United States and the United Kingdom. In all cases, the Group has full recourse to all the assets and resources of the borrower concerned, which, with only limited exceptions, includes assets beyond those being financed.

The Group's loans that finance the trading of securities listed on the Kuwait Stock Exchange are regulated and monitored by the CBK which requires that this lending does not exceed the lower of 10 per cent. of the total credit facilities portfolio granted to resident customers and 25 per cent. of the Group's regulatory capital.

#### **Investment securities**

The Group's investment securities portfolio comprises treasury bills and bonds (with maturities ranging from short-term to in excess of three years) issued by the CBK on behalf of the Kuwaiti Ministry of Finance, bonds issued by the CBK (with maturities of less than one year), a portfolio of investments at amortised

cost and fair value through other comprehensive income and equity investment securities and certain other investments. The Group invests in these securities both to generate returns and to provide an additional source of liquidity when needed.

The Group adopted IFRS 9 with effect from 1 January 2018. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through statement of income. The table below shows the Group's investment securities portfolio as at 31 December 2020, as at 31 December 2019 and as at 31 December 2018, reflecting the IFRS 9 investment classification.

	<u>As at 31 December 2020</u>	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
		<i>(KD thousands)</i>	
CBK bonds (amortised cost) .....	830,233	823,229	809,871
Kuwait government treasury bonds (amortised cost) .....	462,922	662,175	872,042
<b>Non Kuwaiti government debt securities</b>			
Amortised cost .....	833,188	810,156	848,811
Fair value through other comprehensive income .....	1,813,428	1,661,773	1,271,827
<b>Non-government debt securities</b>			
Fair value through other comprehensive income .....	1,787,677	1,510,270	1,371,165
Fair value through statement of income .....	18,828	-	-
<b>Equities</b>			
Fair value through other comprehensive income .....	37,531	43,125	61,999
Fair value through statement of income .....	25,811	26,935	24,575
<b>Other investments</b>			
Fair value through statement of income .....	212,315	162,303	99,655
<b>Total</b> .....	<u><b>6,021,933</b></u>	<u><b>5,699,966</b></u>	<u><b>5,359,945</b></u>

The Group's investment policy requires all investments in debt securities to have an investment grade rating, except for sovereign securities denominated and funded in local currencies in countries where the Group has an operating presence.

Excluding Central Bank of Kuwait bonds and Kuwait Government Treasury bonds, the Group's investment portfolio comprised 56.0 per cent. non-Kuwait government debt, 38.2 per cent. non-government debt, 1.3 per cent. equities and 4.5 per cent. other investments as at 31 December 2020, of which 76.9 per cent. were held at fair value through other comprehensive income, 17.6 per cent. were held at amortised cost and 5.4 per cent. were held at fair value through statement of income.

### ***Cash and short term funds***

The table below shows the Group's cash and short term funds as at 31 December 2020, 2019 and 2018.

	<u>As at 31 December</u>					
	<u>2020</u>		<u>2019</u>		<u>2018</u>	
			<i>(KD in thousands, except percentage of total columns)</i>			
Cash on hand .....	228,294	5.8	235,524	6.2	216,987	7.3
Current account with other banks .....	738,927	18.9	961,974	25.4	1,074,270	36.2
Money at call .....	874,975	22.4	361,590	9.5	394,274	13.3
Balances with the Central Bank of Kuwait .....	684,611	17.5	298,046	7.9	157,481	5.3
Deposits and murabaha with banks maturing within seven days .....	1,389,558	35.6	1,930,843	51.0	1,124,295	37.9
Expected credit losses .....	(12,994)	(0.3)	(804)	(0.0)	(600)	(0.0)
<b>Total cash and short term funds</b> .....	<u><b>3,903,371</b></u>	<u><b>100.0</b></u>	<u><b>3,787,173</b></u>	<u><b>100.0</b></u>	<u><b>2,966,707</b></u>	<u><b>100.0</b></u>

The Group's cash and short-term funds, consisting of cash on hand, current accounts with other banks, money at call, balances with the CBK and deposits and murabaha with banks maturing within seven days, was KD 3.9 billion as at 31 December 2020 compared to KD 3.8 billion as at 31 December 2019 and KD 3.0 billion as at 31 December 2018.

In 2020, the Group recognised an ECL of KD 13.0 million in respect of cash and short-term funds. In 2019, the Group recognised an ECL of KD 0.8 million in respect of its cash and short-term funds. In 2018, the Group recognised an ECL of KD 0.6 million in respect of its cash and short-term funds.

The Group's cash and short-term funds increased by 3.1 per cent. to KD 3.9 billion as at 31 December 2020 from KD 3.8 billion as at 31 December 2019. The increase principally reflected an increase in money at call, balances with Central Bank of Kuwait offset by decrease in deposits and murabaha with banks maturing within seven days. The Group's cash and short term funds increased by 27.7 per cent. to KD 3.8 billion as at 31 December 2019 from KD 3.0 billion as at 31 December 2018. The increase principally reflected increases in deposits and murabaha with banks maturing within seven days and balances with the Central Bank of Kuwait and was partly offset by a fall in current accounts with other banks.

### Total liabilities

The following table presents data regarding the Group's liabilities as at 31 December 2020, 2019 and 2018.

	As at 31 December					
	2020		2019		2018	
	(KD thousands)	(per cent.)	(KD thousands)	(per cent.)	(KD thousands)	(per cent.)
<b>Liabilities</b>						
Due to banks and other financial institutions .	5,981,573	23.4	7,581,929	30.3	8,090,484	34.1
Customer deposits .....	17,104,232	66.9	15,930,577	63.7	14,388,836	60.6
Certificates of deposit issued .....	918,862	3.6	538,611	2.2	451,128	1.9
Other borrowed funds .....	808,665	3.2	351,960	1.4	344,892	1.5
Other liabilities .....	763,004	3.0	608,516	2.4	451,290	1.9
	<b>25,576,336</b>	<b>100.0</b>	<b>25,011,593</b>	<b>100.0</b>	<b>23,726,630</b>	<b>100.0</b>
<b>Total liabilities .....</b>						

The Group's total liabilities increased by 2.3 per cent. to KD 25.6 billion as at 31 December 2020 from KD 25.0 billion at 31 December 2019. The increase was principally due to an increase in customer deposits, certificates of deposits and other borrowed funds partially offset by a decrease in due to banks and other financial institutions.

The Group's total liabilities increased by 5.4 per cent. to KD 25.0 billion as at 31 December 2019 from KD 23.7 billion as at 31 December 2018 principally due to an increase in customer deposits, partially offset by a decrease in bank and other financial institution deposits.

The Group has two principal liabilities classes: customer deposits and due to banks and other financial institutions.

### Customer deposits

The Group's customer deposits comprise current and demand accounts, savings accounts and time deposits.

The Group's current and demand accounts are mostly non-interest bearing and amounts may be withdrawn from these accounts at any time without notice. The Group's savings accounts are interest-bearing accounts and amounts may also be withdrawn from these accounts at any time without notice.

The Group believes that its current, demand and savings accounts are diversified and constitute a stable and secure source of low-cost funding. The Group's current, demand and savings accounts (collectively, **sight deposits**) form a significant proportion of its total customer deposits.

The Group accepts time deposits for a range of periods up to five years.

The following table shows the Group's customer deposits by location as at 31 December 2020, 2019 and 2018.

	As at 31 December		
	2020	2019	2018
	(KD thousands)		
Domestic .....	12,849,741	11,597,598	10,728,814
International .....	4,254,491	4,332,979	3,660,022
<b>Total customer deposits .....</b>	<b>17,104,232</b>	<b>15,930,577</b>	<b>14,388,836</b>

Customer deposits increased by 7.4 per cent. to KD 17.1 billion as at 31 December 2020 from KD 15.9 billion as at 31 December 2019. The increase was principally attributable to an increase in sight deposits and Islamic banking deposits.

Customer deposits increased by 10.7 per cent. to KD 15.9 billion as at 31 December 2019 from KD 14.4 billion as at 31 December 2018. The increase was principally attributable to an increase in time deposits and Islamic banking deposits.

#### ***Due to banks and other financial institutions***

Amounts due to banks and other financial institutions declined by 21.1 per cent. to KD 6.0 billion as at 31 December 2020 compared to KD 7.6 billion as at 31 December 2019. The decrease was primarily attributable to a decline in time deposits and Islamic banking deposits.

Amounts due to banks and other financial institutions decreased by 6.3 per cent. to KD 7.6 billion as at 31 December 2019 from KD 8.1 billion as at 31 December 2018. The decrease was primarily attributable to a decrease in time deposits and sight deposits.

### **LIQUIDITY, FUNDING AND CAPITAL**

#### **Liquidity**

The Group's liquidity needs arise primarily from making loans, advances and Islamic finance available to customers, the payment of expenses and investments in securities. The Group's liquidity needs have been funded principally through deposits and operating cash flow, including interest and profit income received on its customer loan portfolio and its portfolio of debt investment securities. The Group also holds significant liquid assets to cover short term liquidity needs as shown in the table below.

	<b>As at 31 December</b>					
	<b>2020</b>		<b>2019</b>		<b>2018</b>	
	<i>(KD thousands, except percentage contribution columns)</i>					
Cash and short term funds .....	3,903,371	38.6	3,787,173	35.8	2,966,707	30.1
CBK Bonds .....	830,233	8.2	823,229	7.8	809,871	8.2
Kuwait Government Treasury bonds.....	462,922	4.6	662,175	6.3	872,042	8.9
Deposits with banks .....	1,027,373	10.2	1,909,081	18.0	2,364,242	24.0
Investment securities <sup>(1)</sup> .....	3,895,590	38.5	3,404,406	32.2	2,829,221	28.7
<b>Total liquid assets.....</b>	<b>10,119,489</b>	<b>100.0</b>	<b>10,586,064</b>	<b>100.0</b>	<b>9,842,083</b>	<b>100.0</b>

<sup>(1)</sup> Excludes investment securities held at amortised cost.

#### **Capital expenditure**

As at 31 December 2020, the Group had commitments in respect of capital expenditure amounting to KD 62 million. Management has allocated the necessary resources in respect of these commitments and believes that future income and funding will be sufficient to cover these commitments.

#### **Funding**

The Group's principal sources of funding are its customer deposits and, to a lesser extent, interbank deposits. The Group also has access to a pool of unencumbered and liquid securities in the form of treasury bills and bonds and CBK bonds as well as quoted available for sale debt and equity securities that it can access to meet liquidity needs (including via repo's of its investment securities portfolio), in addition to its cash balances and placements with central banks and other financial institutions.

The Group's customer deposits were KD 17.1 billion, or 66.9 per cent. of its total liabilities, as at 31 December 2020. Deposits from the Kuwaiti government and its related agencies have approximated 12 to 25 per cent. of the Group's total funding over the period from 1 January 2018 to 31 December 2020.

Other borrowed funds in the form of global medium term notes, global medium term Sukuk, subordinated Tier 2 bonds and medium term borrowings from banks and financial institutions at 31 December 2020 was KD 232 million, KD 230 million, KD 240 million and KD 107 million, respectively. Short-term certificates of deposit issued by the Group and outstanding as at 31 December 2020 were KD 919 million. Perpetual

Tier 1 securities of KD 211 million (U.S.\$700 million) issued in 2015 and KD 228 million (U.S.\$750 million) issued in 2019 form part of the Group's equity funding.

On 18 November 2020, the Group announced its successful redemption of the KD 125 million subordinated Tier 2 bonds issued on 18 November 2015 and its issuance of KD 150 million subordinated Tier 2 bonds due 2030. On 23 November 2020, the Group announced an issuance of USD 300 million subordinated Tier 2 bonds due 2030.

The table below shows the Group's funding in the form of customer deposits, due to banks and other amounts due to financial institutions, certificates of deposit issued and other borrowed funds as at 31 December 2020, 2019 and 2018.

	As at 31 December					
	2020		2019		2018	
	<i>(KD thousands, except percentage contribution columns)</i>					
Customer deposits.....	17,104,232	68.9	15,930,577	65.3	14,388,836	61.8
Due to banks and other financial institutions .....	5,981,573	24.1	7,581,929	31.1	8,090,484	34.8
Certificates of deposit issued.....	918,862	3.7	538,611	2.2	451,128	1.9
Other borrowed funds.....	808,665	3.3	351,960	1.4	344,892	1.5
<b>Total funding.....</b>	<b>24,813,332</b>	<b>100.0</b>	<b>24,403,077</b>	<b>100.0</b>	<b>23,275,340</b>	<b>100.0</b>

As at 31 December 2020, the Group's customer deposits accounted for 68.9 per cent. of its total funding.

The table below shows the maturity profile of the Group's total funding as at 31 December 2020, 2019 and 2018. This analysis is based on contractual cash flows and maturity data.

	Up to 3 months	3 to 12 months	Over 1 year	Total
	<i>(KD thousands)</i>			
<b>As at 31 December 2020</b>				
Due to banks and other financial institutions.....	4,878,897	1,091,685	10,991	5,981,573
Customer deposits .....	14,636,146	1,811,947	656,139	17,104,232
Certificates of deposit issued.....	633,231	285,631	—	918,862
Other borrowed funds.....	—	—	808,665	808,665
<b>Total.....</b>	<b>20,148,274</b>	<b>3,189,263</b>	<b>1,475,795</b>	<b>24,813,332</b>
<b>As at 31 December 2019</b>				
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
Other borrowed funds.....	—	—	351,960	351,960
<b>Total.....</b>	<b>18,404,542</b>	<b>4,900,891</b>	<b>1,097,644</b>	<b>24,403,077</b>
<b>As at 31 December 2018</b>				
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
<b>Total.....</b>	<b>17,833,993</b>	<b>4,153,371</b>	<b>1,287,976</b>	<b>23,275,340</b>

The Group has been actively working on diversifying its funding sources by targeting new funds from regional and international clients. While there has been a notable decline in deposit concentration ratios, the Group's deposit base is, at least in the near future, expected to remain relatively dependent on Kuwaiti government and quasi-government entities given the dominant role of the government in the oil sector and its significance to the Kuwait economy. Such deposits are booked for relatively long tenors and are well spread across different maturity dates so early signs of deposit withdrawals should provide the Group with sufficient time to consider other alternatives. The Group also enjoys a large base of smaller deposits with varying maturities from retail and corporate clients, which significantly reduces the concentration risk measured in terms of deposits from top clients to the total funding pool.

## CAPITAL ADEQUACY

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by Management and are also governed by guidelines of the Basel Committee on Banking Supervision (the **Basel Committee**) as adopted by the CBK.

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 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. The Group aims to ensure adherence to the CBK's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures pro-active action is taken where necessary and a strategy that ensures a sufficient capital buffer above minimum required levels is maintained 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.

The table below sets out the minimum capital requirements and associated levels of regulatory capital expressed as a percentage of risk-weighted assets.

<b>Minimum Capital Requirement*</b>	<b>Common Equity Tier 1</b>	<b>Tier 1</b>	<b>Total</b>
31 December 2020**	9.0%	10.50%	12.50%
31 December 2019	11.5%	13.0%	15.0%
31 December 2018	11.5%	13.0%	15.0%

\* Includes a Common Equity Tier 1 Capital Conservation buffer of 2.5 per cent. and a Common Equity Tier 1 Domestic Systemically-Important Bank buffer of 2 per cent.

\*\* Reflects temporary adjustments/ reductions of 2.5 per cent., applicable to and including 31 December 2020.

Effective 31 December 2016, the minimum total capital requirement for the Kuwait banking sector generally was raised to 13 per cent. from 12.5 per cent. The Group, having been designated as a Domestic Systemically-Important Bank (D-SIB), is required to maintain an additional minimum capital of 2 per cent. at all levels. As at the date of this Prospectus and for the years ended 31 December 2020, 2019 and 2018, the countercyclical capital buffer, ranging from 0 per cent. to 2.5 per cent., was not required in the minimum capital requirements and the CBK has not indicated when the countercyclical capital buffer may be required. To the extent such buffer is required, Basel Committee guidelines permit a lead period of 12 months to comply. In addition, in response to the COVID-19 crisis, the CBK temporarily relaxed the Capital Conservation Buffer of 2.5 per cent. in the form of the Common Equity Tier 1 until 31 December 2020. Additionally, pursuant to the CBK's consumer loan deferral program (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Results of Operations—Impact of the COVID-19 Pandemic*"), the CBK has allowed, as part of the COVID-19 support measures, the modification loss from the consumer loan deferral program to be charged directly to retained earnings rather than being recognised in the consolidated statement of income as required by IFRS 9. Furthermore, for regulatory capital purposes, the modification losses are to be amortised equally against retained earnings over four years starting in 2021. Modification losses in the year ended 31 December 2020 totalled KD 130 million.

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 per cent. only to the extent the claim represents mandatory liquidity requirements in the jurisdiction concerned, provided the local regulator also allows such treatment and the Group 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 per cent. if the sovereign is not rated. Claims on PSEs outside Kuwait, will be risk-weighted one grade lower than their sovereign. In the light of such regulatory amendments, the Group has made adjustments to, and refined its capital, business portfolios and plans.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 31 December 2020, 2019 and 2018 (determined in accordance with Basel III as implemented in Kuwait). The reported capital ratios as at interim period-end dates within a year are lower than those for year-end dates as retained year-to-date profits are added to the regulatory capital base only at the year-end while asset growth during interim periods is factored into the interim risk weighted asset calculations. The CBK has allowed, as part of the COVID-19 support measures, the loss to retained earnings arising from the consumer loan deferral, to be amortised equally over 4 years starting 2021 for regulatory capital purposes. See note 33 (*Impact of COVID-19*) to the 2020 Financial Statements for further details.

	<b>31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>(KD thousands, except percentages)</i>		
<b>Risk-weighted assets:</b>			
Credit risk-weighted assets.....	19,106,590	18,492,659	16,181,199
Operational risk-weighted assets.....	1,580,581	1,567,314	1,468,038
Market risk-weighted assets.....	364,955	368,046	285,913
Total risk-weighted assets <sup>(1)</sup> .....	21,052,127	20,428,019	17,935,150
Capital required <sup>(2)</sup> .....	2,631,516	3,064,203	2,690,273
<i>Capital available</i>			
Common Equity Tier 1 capital <sup>(3)</sup> .....	2,869,437	2,754,674	2,478,695
Additional Tier 1 capital <sup>(4)</sup> .....	493,786	486,245	257,780
<b>Tier 1 capital<sup>(5)</sup>.....</b>	<b>3,363,223</b>	<b>3,240,919</b>	<b>2,736,475</b>
Tier 2 capital <sup>(6)</sup> .....	517,546	386,983	353,724
<b>Total capital.....</b>	<b>3,880,769</b>	<b>3,627,902</b>	<b>3,090,199</b>
Common Equity Tier 1 capital adequacy ratio <sup>(7)(8)</sup> .....	13.6%	13.5%	13.8%
Tier 1 capital adequacy ratio <sup>(7)(9)</sup> .....	16.0%	15.9%	15.3%
Total capital adequacy ratio <sup>(7)(10)</sup> .....	18.4%	17.8%	17.2%

<sup>(1)</sup> Risk-weighted assets are calculated under the standardised approach.

<sup>(2)</sup> Capital required comprises the minimum total capital requirement of 15 per cent. for all periods except for 31 December 2020 which is at 12.5 per cent.

<sup>(3)</sup> Common Equity Tier 1 capital comprises share capital, share premium, eligible reserves, retained earnings and eligible non-controlling interests net of regulatory adjustments.

<sup>(4)</sup> Additional Tier 1 capital comprises Perpetual Tier 1 Capital Securities classified as equity and certain additional eligible portion of non-controlling interests.

<sup>(5)</sup> Tier 1 capital comprises Common Equity Tier 1 capital and Additional Tier 1 capital which includes eligible portions of non-controlling interests.

<sup>(6)</sup> Tier 2 capital comprises Subordinated Tier 2 Bonds classified as debt, the allowed portions of general provisions and certain additional eligible non-controlling interests.

<sup>(7)</sup> Calculated in accordance with the requirements of the CBK and the capital adequacy regulations issued by the CBK as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014.

<sup>(8)</sup> Common Equity Tier 1 capital adequacy ratio is defined as Common Equity Tier 1 capital divided by risk-weighted assets at a given date.

<sup>(9)</sup> Tier 1 capital adequacy ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date.

<sup>(10)</sup> Total capital adequacy ratio is defined as total capital resources divided by risk-weighted assets at a given date.

The Group is also subject to a CBK Basel III financial leverage ratio requirement of 3 per cent. The Group's financial leverage ratio was 10.3 per cent. as at 31 December 2020, 10.2 per cent. as at 31 December 2019 and 9.2 per cent. as at 31 December 2018.

## COMMITMENT AND CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of funding commitments it has made as well in relation to acceptances, letters of credit and guarantees issued by it. The table below shows these commitments and contingent liabilities as at 31 December 2020, 2019 and 2018.

	<b>31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>(KD thousands)</i>		
Guarantees.....	3,856,034	3,891,746	3,707,656
Irrevocable commitments to extend credit.....	1,210,802	701,471	615,778

	<b>31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
		<i>(KD thousands)</i>	
Letters of credit .....	432,378	459,233	456,359
Acceptances .....	204,623	237,145	223,920
	<b><u>5,703,837</u></b>	<b><u>5,289,595</u></b>	<b><u>5,003,713</u></b>

Guarantees issued represent irrevocable assurances that the Group will make payment in the event that a customer fails to meet its performance-related or financial obligations to third parties.

Irrevocable commitments to extend credit include commitments to extend credit which are undrawn and which are irrevocable over the life of the facility or are revocable only in response to a material adverse change. Undrawn credit lines to customers represent unused portions of authorisations to extend credit in the form of loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a corporate customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, generally relate to trade and may be collateralised by the underlying shipments of goods to which they relate, by cash deposits or otherwise.

Acceptances represent a type of irrevocable credit that is payable under a time draft on or after a specific date, if the terms of the credit has been complied with.

The total outstanding contractual amount of guarantees, undrawn credit lines, letters of credit, and acceptances does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The table below shows the Group's other credit-related and commercial commitments based on contractual repayment arrangements as at 31 December 2020, 2019 and 2018.

	<b>Up to 3 months</b>	<b>3 to 12 months</b>	<b>Over 1 year</b>	<b>Total</b>
		<i>(KD thousands)</i>		
<b>As at 31 December 2020</b>				
Contingent liabilities .....	1,152,531	1,474,293	1,866,211	4,493,035
Irrevocable commitments .....	91,853	154,876	964,073	1,210,802
<b>Total .....</b>	<b><u>1,244,384</u></b>	<b><u>1,629,169</u></b>	<b><u>2,830,284</u></b>	<b><u>5,703,837</u></b>
<b>As at 31 December 2019</b>				
Contingent liabilities .....	1,029,923	1,392,635	2,165,566	4,588,124
Irrevocable commitments .....	72,132	149,425	479,914	701,471
<b>Total .....</b>	<b><u>1,102,055</u></b>	<b><u>1,542,060</u></b>	<b><u>2,645,480</u></b>	<b><u>5,289,595</u></b>
<b>As at 31 December 2018</b>				
Contingent liabilities .....	933,619	1,277,533	2,176,783	4,387,935
Irrevocable commitments .....	77,355	166,203	372,220	615,778
<b>Total .....</b>	<b><u>1,010,974</u></b>	<b><u>1,443,736</u></b>	<b><u>2,549,003</u></b>	<b><u>5,003,713</u></b>

In addition to the foregoing, the Group has commitments in respect of capital expenditure amounting to KD 62 million as at 31 December 2020 compared to KD 57 million as at 31 December 2019 and KD 36 million as at 31 December 2018.

## CASH FLOWS

The following table shows certain information about the consolidated cash flows of the Group for the periods indicated.

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
		<i>(KD thousands)</i>	
Net cash from operating activities .....	317,847	1,300,724	840,328
Net cash (used in) investing activities .....	(406,949)	(553,717)	(430,921)

	Year ended 31 December		
	2020	2019	2018
		<i>(KD thousands)</i>	
Net cash from/(used in) financing activities.....	205,300	73,459	(186,340)
Net increase in cash and short term funds .....	116,198	820,466	223,067
Cash and short term funds at the beginning of the period.....	3,787,173	2,966,707	2,743,640
Cash and short term funds at the end of the period.....	3,903,371	3,787,173	2,966,707

### Net cash from operating activities

Net cash from operations for the year ended 31 December 2020 was KD 318 million compared to KD 1,301 million in 2019. The principal contributors to net cash from operating activities were operating profit and changes in operating assets and liabilities. The decrease in cash from operating activities principally reflected changes in operating assets and liabilities primarily due to higher net cash outflows in due to banks and other financial institutions.

Net cash from operating activities for 2019 was KD 1,301 million compared to KD 840 million for 2018. The increase in the Group's net cash inflow from operating activities in 2019 compared to the prior year principally reflected changes in operating assets and liabilities.

### Net cash (used in) investing activities

Net cash used in investing activities for the year ended 31 December 2020 was KD 407 million compared to KD 554 million in 2019. The principal investment activities in each period were purchases and sales or redemptions of investment securities. The decrease in net cash used in investment activities in 2020 compared to 2019 was mainly due to lower net purchase of investment securities and net additions to fixed assets.

Net cash used in investing activities for 2019 was KD 554 million compared to KD 431 million in 2018. The principal investment activities were acquisitions and sales or redemptions of investment securities. In 2019 the increase in net cash used in investment activities compared to the previous year was mainly due to lower sales/redemptions of investment securities.

### Net cash from/(used in) financing activities

Net cash used from financing activities for the year ended 31 December 2020 was KD 205 million compared to KD 73 million in 2019. In each period the principal cash outflow was dividends. The increase in net cash from financing activities in the 2020 compared to the 2019 was mainly due to proceeds from the issuance of Sukuk by a subsidiary and proceeds from an issue of subordinated Tier 2 bonds.

Net cash from financing activities for 2019 was KD 73 million compared to net cash used in financing activities of KD 186 million in 2018. In 2019, the principal outflow was dividends paid offset by the proceeds from the issue of perpetual Tier 1 securities and Capital increase in a subsidiary contributed by non – controlling interest.

## RELATED PARTY TRANSACTIONS

The Group's principal related party transactions are with the board members and executive officers of the Bank, their close family members and companies controlled by them or their close family members as well as with associates of the Group. IFRS requires the disclosure of shareholder related parties only in cases where those related parties exercise significant influence. On this basis, the Group determined that no shareholder had significant influence and therefore no shareholder related party transactions were disclosed. Certain related parties are customers of the Group in the ordinary course of business. Transactions with related parties are 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 do not involve an amount of risk that is higher than the amount of risk taken in comparable transactions with unrelated parties. Lending to board members and their related parties is secured by tangible collateral in accordance with CBK regulations.

The Group adheres to CBK guidelines on lending to related parties. Credit facilities to Board members can only be approved under conditions specified by the CBK which include the following:

- all facilities to Board members must be approved for granting, renewing or modifying only by the Bank's Board of Directors and this authority cannot be delegated to a committee or authority;
- the approval surrounding granting, renewal or modification of Board members' facilities can only be considered approved when at least three-quarters of the Board members have approved the same; and
- the Bank must acquire adequate collateral as stipulated in the guidelines.

Further credit extensions to connected and related parties are also subject to adherence to the overall regulatory concentration limits which include that the total related party exposures should not exceed 50 per cent. of a bank's capital base.

Further information on the Group's related party transactions is set out in note 29 to each of the Annual Financial Statements.

As at the date of this Prospectus, the Group is not expecting and is not in the process of concluding any potential transactions of a material nature to be made with its related parties, other than those activities conducted in the normal course of business.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT RISK**

In common with other financial institutions, the Group faces a range of risks in its business and operations including credit risk, liquidity risk, interest rate risk, market risk and operational risk.

### **Credit risk**

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation owed to the Group. Credit risk arises in the Group's normal course of business. 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 the Group's assets to any single counterparty. This risk is also 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 2020 was 15 per cent.

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 credit facilities 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 per cent. 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 periodic review of the credit performance and account rating.

For further information regarding the Group's credit risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of Capital Securities, the Loan and/or the Subordinated Guarantee—Credit risks*" and "*Risk Management—Principal Risks—Credit risk*".

### *Analysis of credit quality*

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.

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 to be 'past-due and impaired' if the interest/profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

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

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

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

The following table shows the Group's past due or impaired loans, advances and Islamic financings portfolio by category based on the Group's credit rating system as at 31 December 2020.

	<b>Corporate</b>		<b>Retail</b>		<b>Total</b>	
	<b>Past due and not impaired</b>	<b>Past due and impaired</b>	<b>Past due and not impaired</b>	<b>Past due and impaired</b>	<b>Past due and not impaired</b>	<b>Past due and impaired</b>
	<i>(KD thousands)</i>					
Up to 30 days .....	76,833	282	36,969	538	113,802	820
31-60 days .....	20,695		30,361	43	51,056	43
61-90 days .....	8,952	79	6,439	24	15,391	103
91-180 days .....		32,451		5,455		37,906
More than 180 days .....		175,510		97,999		273,509
	<u>106,480</u>	<u>208,322</u>	<u>73,769</u>	<u>104,059</u>	<u>180,249</u>	<u>312,381</u>

The Group's impaired loans, advances and Islamic financings as a percentage of total gross loans, advances and Islamic financings was 1.72 per cent. as at 31 December 2020 compared to 1.10 per cent. as at 31 December 2019 and 1.38 per cent. as at 31 December 2018.

### **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. To reduce this risk, the Group has elected to use diversified funding sources and to manage assets with the objective of maximising liquidity.

For further information regarding the Group's liquidity risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of Capital Securities, the Loan and/or the Subordinated*

*Guarantee—Liquidity risks*", *"Risk Management—Principal Risks—Liquidity Risk"* and *"—Liquidity, Funding and Capital—Liquidity"* above.

### **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 risk arises 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.

For additional information on market risk, see *"Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of Capital Securities, the Loan and/or the Subordinated Guarantee—Market Risk"* and *"Risk Management—Principal Risks—Market Risk"*.

### **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 believes that it is not excessively exposed to interest rate risk as its assets and liabilities are re-priced regularly and most exposures arising on medium term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. In the case of certain retail loans denominated in Kuwaiti dinar, the Group is exposed to some interest rate risk, since interest rates on those loans are not re-priced for the first five years and then the subsequent permitted adjustments are restricted in amount. However the impact on these loans is limited, due to the varying maturity profile of such loans. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board and adjusted where necessary to reflect changing market conditions.

The following table summarises the effect of assumed changes in interest rates on the Group's net interest income for one year, based on the interest bearing financial assets and financial liabilities held at 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 rates on the fair investments in debt securities classified as at fair value through other comprehensive income/available for sale. Sensitivity to interest rate movements is substantially symmetrical 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:

	Movement in basis points	2020		2019		2018	
		Effect on profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity
				<i>(KD thousands)</i>			
Currency							
KWD.....	+25	8,761		7,588	—	7,810	—
USD.....	+25	1,412	(2)	2,174	(3)	1,333	(17)
EUR.....	+25	493		573	—	1,165	—
GBP.....	+25	716		550	—	604	—
EGP.....	+25	80	(372)	23	(37)	67	(8)

For further information regarding the Group's interest rate risk, including its interest sensitivity position, see note 30 to each of the Annual Financial Statements and *"Risk Management—Principal Risks—Liquidity Risk"*.

### **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 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.

For further information regarding the Group's net exposures denominated in foreign currencies, see "*Risk Management—Principal Risks—Foreign exchange risk*" and note 30 to each of the Annual Financial Statements.

### **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. For additional information on equity price risk, see "*Risk Management—Principal Risks—Market Risk—Equity price risk*".

### **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 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. For additional information on operational risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of Capital Securities, the Loan and/or the Subordinated Guarantee—Operational risks*" and "*Risk Management—Principal Risks—Operational Risk*".

## **DERIVATIVE FINANCIAL INSTRUMENTS**

In the ordinary course of its business, the Group enters into a range of transactions that involve derivative financial instruments. The Group provides its customers and counterparties with structured transactions to reduce their risk profile in a particular area of risk. Hedging positions accumulated from such activities are typically offset through transactions with other market counterparties. The Group manages the risks involved in these activities through appropriate limits. These limits vary by product and maturity.

The Group also uses derivative instruments for hedging purposes as part of its asset and liability management in order to reduce its exposure to fluctuations in foreign exchange, interest rates and other risks. The Group uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. The Group also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments.

The fair values of the Group's derivative financial instruments and their fair values as at 31 December 2020, 2019 and 2018 are set out in note 28 to each of the Annual Financial Statements.

## **CRITICAL ACCOUNTING POLICIES**

The Annual Financial Statements have been prepared in accordance with IFRS as adopted for use by Kuwait. For a discussion of the accounting policies applied by the Group generally, see note 2 to the 2020 Financial Statements.

In preparing the Group's financial statements, Management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, as at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements, see note 2.34 to the 2020 Financial Statements.

## DESCRIPTION OF THE GROUP

### OVERVIEW

The Bank was the first local bank and the first shareholding company to be established in Kuwait. The Group is the only banking group in Kuwait to have access to both the conventional and Islamic banking markets.

As at 30 September 2020, and based on the Annual Financial Statements and the publicly available financial statements of the Group's main domestic competitors for the same period, the Group was the largest bank in Kuwait in terms of: (i) total assets; (ii) total loans (which, in the Group's case also includes advances and Islamic financing to customers); and (iii) total customer deposits. As at 31 December 2020, the Group's equity attributable to shareholders of the Bank was KD 3,310 million.

The Group's core businesses are consumer and private banking, corporate banking, Islamic banking (offered through its majority-owned subsidiary, Boubyan Bank) and investment banking and asset management (offered through its majority-owned subsidiary, Watani Investment Company K.S.C. (Closed) (known as **NBK Capital**)). The Group is a regional banking group, focused on offering its products and services in Kuwait and other countries within the MENA region, including Bahrain, Egypt, Iraq, Jordan, Lebanon, Saudi Arabia and the United Arab Emirates, in each of which it has a presence through a subsidiary or branches.

The Bank offers its clients a wide range of banking and financial services through the largest branch network in Kuwait, which, as at 31 December 2020, comprised 68 branches, a network of more than 325 automated teller machines and customer deposit machines (together referred to as **ATMs**) and over 13,500 point-of-sale (**POS**) terminals including near field communication (**NFC**) enabled devices, tele-banking, internet banking and mobile banking. As at 31 December 2020, the Group served more than 3,000 corporate customers in its domestic Kuwait market.

The Group currently operates through six financial reporting segments:

- **Consumer and private banking:** the consumer banking segment provides a diversified range of products and services to individuals, including consumer loans, credit cards, deposits, foreign exchange, credit facilities to SMEs and other branch-related services. The private banking department provides customised banking services to high net worth individuals. For the year ended 31 December 2020, KD 279 million, or 33.1 per cent., of the Group's net operating income was attributable to the consumer and private banking segment (year ended 31 December 2019: KD 292 million or 32.6 per cent.);
- **Corporate banking:** corporate banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposit-taking, trade finance, foreign exchange and advisory services. For the year ended 31 December 2020, KD 127 million, or 15.1 per cent., of the Group's net operating income was attributable to the corporate banking segment (year ended 31 December 2019: KD 157 million or 17.5 per cent.);
- **Investment banking and asset management:** the investment banking function provides capital market advisory services to its client base. The asset management department provides wealth management, portfolio and funds management, custody and brokerage services. This reporting segment represents the financial results of NBK Capital. For the year ended 31 December 2020, KD 24 million, or 2.9 per cent., of the Group's net operating income was attributable to the investment banking and asset management reporting segment (year ended 31 December 2019: KD 29 million or 3.2 per cent.);
- **Islamic banking:** the Group's Islamic banking reporting segment represents the financial results of Boubyan Bank, the Group's Islamic banking subsidiary. For the year ended 31 December 2020, KD 172 million, or 20.4 per cent., of the Group's net operating income was attributable to the Islamic banking reporting segment (year ended 31 December 2019: KD 151 million or 16.9 per cent.);
- **Group centre:** the group centre reporting segment includes treasury, investments and other defined Group activities. The treasury department provides treasury services to its clients and is also



responsible for the Group's liquidity. The group centre reporting segment also includes any residual in respect of transfer pricing and inter-segment allocations. For the year ended 31 December 2020, KD 35 million, or 4.1 per cent., of the Group's net operating income was attributable to the Group centre reporting segment (year ended 31 December 2019: KD 46 million or 5.2 per cent.); and

- **International:** the international reporting segment comprises the activities of all branches, subsidiaries and associates of the Group outside Kuwait. For the year ended 31 December 2020, KD 206 million, or 24.5 per cent., of the Group's net operating income was attributable to the international segment (year ended 31 December 2019: KD 221 million or 24.6 per cent.).

For further details on the Group's reporting segments, see "*Reporting Segments*" below.

The Bank is a public shareholding company which was incorporated in the State of Kuwait by an Amiri decree on 19 May 1952 (Amiri Decree dated 19 May 1952 permitting the foundation of National Bank of Kuwait) and commenced operations on 15 November 1952. The Bank is registered with the Kuwaiti Ministry of Commerce, with commercial registration number 8490, is licensed to conduct banking activities and is regulated by the CBK. The Bank's registered office is Sharq Area, Jaber Al-Mubarak and Al Shuhada Street, Block 7, Plot 6, P.O. Box 95, Safat 13001, State of Kuwait and its telephone number is +965 2242 2011.

### **Impact of COVID-19**

The Group's business was impacted by COVID-19 in most of its locations leading to a more challenging operating environment across its network. The implementation of restrictive measures to control the spread of COVID-19 including curfews and border closures led to slower economic activity during the second quarter of 2020. The resultant economic slowdown had a significant impact on the Group's operations. The decrease in transaction volumes resulted in lower fees and commissions income, whereas the low interest rates resulted in more pressure on interest margins. Additionally, the impact of non-oil GDP contraction, the lower oil prices and lock-down period, had all increased the level of uncertainty for the outlook of the operating environment.

Financial results in the first half of 2020 were negatively impacted by the Group's implementation of the consumer and other instalment loans deferral scheme in the second quarter of 2020 in Kuwait. The KD 130 million loss attributable to the Bank's equity shareholders was charged to retained earnings and the remaining loss to non-controlling interests. Based on the directions of the CBK, the impact of the loss on the Group's Regulatory Capital may be deferred beyond the year ended 31 December 2020, then to be subsequently amortised equally over four years starting in 2021.

The Group took proactive measures and activated emergency plans in the early stages of the COVID-19 pandemic in order to protect employees and ensure a safe environment for business continuity. The Group began leveraging the flexibility of its business model by providing support and advice to customers facing financial difficulties through reliance on the Group's digital capabilities. This enabled the Group to maintain the level of service quality and accessibility that customers normally expect.

Group-wide initiatives to reduce the impact of the pandemic on profitability consist of the following:

- Ensuring sustainability of revenues and controlling costs by intensifying the Group's efforts in the digitalization field through fast tracking of the digital value propositions and increasing Robotic Process Automation initiatives to automate more processes and achieve cost savings;
- Exploring opportunities to substantially grow the Group's wealth management business to diversify income geographically and to increase the share of fee-based and capital-light contribution; and
- Mitigating risks in the existing credit portfolio, where all significant exposures are being closely monitored and reviewed to assess impact of COVID-19 on the Group's corporate borrowers.

For more information please see "*Significant factors affecting results of operations - Impact of COVID-19 Pandemic*" and Risk Factors "*The outbreak of communicable diseases around the world, in particular the COVID-19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations*".

## STRENGTHS

The Group benefits from a number of business strengths. In particular:

### **Largest banking group in Kuwait with a dominant market position**

As at 31 December 2020, the Group had total assets of KD 29,717 million, total loans, advances and Islamic financing to customers of KD 17,504 million and total customer deposits of KD 17,104 million, and as at 30 September 2020 it was the largest banking group in Kuwait on all three metrics. The Group is also one of the leading banks in Kuwait with a broad portfolio of consumer and corporate products, an extensive distribution network and well-established relationships with its client base. With more than 3,000 corporate customers as of 31 December 2020, the Group has one of the largest customer bases in Kuwait and the Group believes that, as at 30 September 2020, it had 36 per cent. market share in Kuwait's consolidated banking assets. The Group also maintains one of the largest domestic distribution networks. This distribution network offers significant opportunities to attract additional clients and expand the Group's range of products and services to existing clients. As at 31 December 2020, the Bank had the largest branch network in Kuwait, comprising 68 branches, a network of more than 325 ATMs and over 13,500 POS terminals, in addition to tele-banking, internet banking and mobile banking platforms.

The Group's strong position in consumer and corporate banking enables the Group to benefit from economies of scale and provides a strong platform for sustained profitability in the Kuwaiti banking market. The Group's market position and strong brand recognition throughout Kuwait and the MENA region reflect the Group's focus on high-quality customer service and the creation of innovative products and services, its established track record in both consumer and corporate banking, its targeted marketing to consumers, SME, large corporate and strategic client groups and its involvement in Kuwait's most prominent infrastructure and other development projects.

### **Only banking group in Kuwait to provide both conventional and Islamic banking**

Following its acquisition of Boubyan Bank in 2012, the Group is the only banking group in Kuwait to offer both conventional and Islamic banking services, therefore diversifying income sources as well as offering the Group the opportunity to grow its balance sheet and strengthen its position in its core domestic market. Accordingly, the Group generates net income from Islamic financing in addition to net interest income. In the year ended 31 December 2020, the Group generated net income from Islamic financing of KD 143 million compared to KD 124 million in the year ended 31 December 2019.

In 2011 pursuant to a court decision, an exception to the general prohibition on Kuwaiti banks registering mortgages on private residences in Kuwait was created in respect of Islamic banks only, allowing them to finance purchases of residential properties using a mortgage over the property as security. Accordingly, the principal competitive advantage enjoyed by Islamic banks is their ability to offer residential mortgage financing, which conventional banks are not permitted to do. Additionally, regulatory restrictions relating to interest rates and ratios for personal lending typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are capped, given there is no concept of interest in Islamic banking, the Islamic banks in Kuwait are able to earn better margins than conventional banks on their financing portfolios.

As discussed under "*Strategy—Geographic and product and service diversification—Strengthening its Islamic banking franchise*", Boubyan Bank focuses on high net worth and affluent clients and large and mid-market corporate customers, thereby building on many of the Group's core strengths.

As at 31 December 2020, Boubyan Bank had made available KD 4,823 million of Islamic financing to customers and had accepted KD 5,108 million in customer deposits across its 43 branches.

### **A strong regional and international network**

Within the MENA region, the Group's subsidiary, National Bank of Kuwait – Egypt S.A.E., operates 53 branches in Egypt while the Group's subsidiaries in Iraq (Credit Bank of Iraq S.A.) and Lebanon (National Bank of Kuwait (Lebanon) S.A.L.) operate networks of five and two branches, respectively. The Bank itself has two branches in Bahrain, one in Jordan, three in Saudi Arabia and two in the United Arab Emirates and an associate, Turkish Bank A.S., which has 10 branches in Turkey. In addition, Boubyan Bank has an investment of 21.7 per cent. in United Capital Bank, Sudan.

Internationally, the Group has subsidiaries in London (National Bank of Kuwait (International) plc), Paris (National Bank of Kuwait France S.A.), Geneva (NBK Banque Privée (Suisse) S.A.) and branches in New York, Singapore and Shanghai. In January 2020, Boubyan Bank consolidated the Bank of London and the Middle East (**BLME**), after increasing its shareholdings in BLME to 71.1 per cent.

This geographical footprint provides opportunities for the Group to grow its product and service offering, in addition to developing its existing client base and leveraging the Group's well-established domestic operations.

### **Strong asset management and investment banking capability**

The Group conducts its investment banking and asset management business through its subsidiary, NBK Capital. In addition, brokerage services are conducted through the Group's brokerage subsidiary, Watani Financial Brokerage Co. K.S.C., and asset management activities are undertaken in Saudi Arabia through Watani Wealth Management Company, a subsidiary incorporated in 2018. The Group believes that each business unit within NBK Capital has unique strengths that are specific to that segment. The asset management team benefits from the Group's strong distribution network and its own strong track record. The brokerage team provides professional execution to its clients. The team's strong fundraising capabilities differentiate it from other similar teams in Kuwait. In addition, the investment banking team benefits from its execution and sector expertise and the ability to offer its services to the Group's large client base.

### **Stable shareholder base and strong, experienced Board and executive management team**

The Bank was established in 1952 by a group of leading Kuwaiti merchants and it has retained the same core shareholder base since that time. The Group believes it has a strong and stable board of directors and a long-serving executive team with a strong track record in Kuwait.

The Group's strategy (see "*—Strategy*") is supported by the executive management team's broad expertise in the region, proven record for implementing industry leading initiatives, and by its focus on best practices and customer service. The Group benefits from continuity of personnel within its executive management team, with limited changes to the executive management team over the previous 10 years. The Group's board of directors and executive management team have extensive experience in the financial services sector in Kuwait, the MENA region and internationally. Further details of the Group's board of directors and executive management are set out under "*Management*".

### **Strong capital base and liquidity**

Since the introduction of the BASEL III regime, the regulatory minimum requirement applicable for the Group for total capital adequacy ratio, Tier 1 capital adequacy ratio and Common Equity Tier 1 capital adequacy ratio was 15.0 per cent., 13.0 per cent., and 11.5 per cent., respectively, inclusive of a "Domestic Systemic Important Bank" surcharge of 2.0 per cent. In light of consequences from the COVID-19 pandemic, the CBK has lowered these minimum requirements to 12.5 per cent., 10.5 per cent. and 9.0 per cent., respectively, from, and including 30 June 2020, to 31 December 2020. The Group's financial leverage ratio was 10.3 per cent. as at 31 December 2020 compared to the required minimum level of 3 per cent.

With effect from the quarterly reporting period ending 30 September 2019, the CBK amended certain sections of its Basel III capital regulations relating to claims on sovereign and public-sector entities outside Kuwait which has impacted the Group's capital ratio. In light of such regulatory amendments, the Group is making adjustments to, and refining its capital, business portfolios and plans. During 2020, the CBK announced a six-month payment postponement for all consumer loans, which resulted in a loss of KD 130 million for the Bank's equity shareholders. Based on further directions from the CBK, this amount which was charged to retained earnings in June 2020 is to be deferred and deducted from regulatory capital equally over four years starting 2021.

As at 31 December 2020, the Group had a total capital adequacy ratio of 18.4 per cent., a Tier 1 capital adequacy ratio of 16.0 per cent. and a Common Equity Tier 1 capital adequacy ratio of 13.6 per cent. calculated in accordance with Basel III methodology as adopted by the CBK. As at 31 December 2020, the Group had cash and short term funds of KD 3,903 million.

As part of the Basel III reforms, the Group maintains an adequate amount of HQLAs to cover its net cash outflow, which enables it to survive a significant stress scenario lasting for a period of up to 30 days. The

Group monitors and reports its LCR and NSFR at three organisational levels: (i) at the local level including the Bank but excluding its non-Kuwaiti operations; (ii) at the Bank level, including the Bank's non-Kuwaiti operations; and (iii) at the Group level, including all fully consolidated subsidiaries of the Group. Throughout the period of monitoring, the Group was consistently over and above the regulatory minimum requirement of LCR and NSFR. Due to the COVID-19 pandemic, the CBK lowered the minimum requirements of LCR and NSFR from 100 per cent. to 80 per cent. for the period of 2 April 2020 to 31 December 2020.

The Group has maintained a strong liquidity position with an LCR of between 139 per cent. and 183 per cent., since 1 January 2017. The Group believes its adherence to the LCR criteria will ensure it is well-equipped to absorb any unanticipated systemic shocks to the Kuwaiti or MENA economies or banking sectors. The Group has also maintained an NSFR ratio in the range of 108 per cent. to 119 per cent. indicating strong funding stability. See *"Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Capital Securities, the Loan and/or the Subordinated Guarantee—Liquidity risks—The Group's cash flow from its operations may not be sufficient at all times to meet its contractual and contingent payment obligations"*. As at 31 December 2020, the Group held a portfolio of HQLAs valued at KD 6,626 million and had a three months average LCR ratio of 145.2 per cent., while the NSFR ratio was 115.1 per cent.

### **Sound and consistent financial performance**

The Group has a long history of profitability and remained profitable throughout the global financial crisis. The Group's operating surplus (being its operating profit before provisions for credit losses and impairment losses) was KD 531 million and its net profit attributable to shareholders of the Bank was KD 246 million for the year ended 31 December 2020 even with the impact of the COVID-19 crisis. Additionally, its total assets grew by 14.1 per cent. from 2017 to 2020. Further, the Group benefits from low-cost funding due to its strong liquidity position and believes its well positioned with sufficient loan loss reserves and capital base as demonstrated with its results in an exceptionally challenging year. In addition, the Group benefits from low-cost funding due to its strong liquidity position and believes its asset quality is strong, as evidenced by its relatively low levels of non-performing loans.

As at 31 December 2020, the Group's impaired loans ratio (defined as impaired loans as a percentage of total gross loans) was 1.72 per cent. compared to 1.1 per cent. as at 31 December 2019. As at 31 December 2020, the Group had KD 312 million of impaired loans and carried loan loss reserves of 687 million to cover potential loan losses. As at 31 December 2019, the Group had KD 187 million of impaired loans and carried loan loss reserves of KD 509 million to cover potential loan losses.

High credit ratings and among the top brand values regionally. The Group has some of the highest credit ratings in the MENA region and internationally, with ratings of "A1" from Moody's and "A" from Standard and Poor's, each with a stable outlook and "AA-" from Fitch with a negative outlook. The Group has consistently been ranked in the 50 safest banks in the world list by Global Finance and, in 2020, was named as the most valuable banking brand in Kuwait by Brand Finance, with a brand value of U.S.\$1.53 billion.

### **STRATEGY**

The Group's overall strategic goal focuses on defending and growing its leadership position in Kuwait, whilst also diversifying its business geographically (particularly in the GCC) and by products offered.

#### **Building a digital future**

The Group has made significant progress in improving its digital capabilities. Through defining and launching a five-year roadmap designed to achieve a leadership position in innovation in the region, the Group has demonstrated its commitment to a digital future and a desire to keep ahead of the curve as market practice shifts.

Digitalisation efforts are taking place across markets. In Kuwait, the Bank has launched a digital transformation that includes enhancing customer touchpoints, improving internal processes and building digital capabilities. The Bank has already migrated a large number of transactions and services to digital platforms.

The launch of a state-of-the-art Data Centre in Kuwait was a critical milestone in 2019. The Group is adopting an agile development framework to promote efficiency and improve time-to-market for innovative new ideas.

Across units and markets, the Group seeks to develop and embed a digital culture throughout the organisation. In this respect, the Bank has placed a strong emphasis on attracting and retaining highly qualified talent, nurturing the human capital that is critical to deliver the Group's long-term ambitions.

While the cornerstones of the Group's strategy remain unchanged, the Bank developed a two-pronged approach overlaying its digital roadmap to execute the Group's strategy. The Group aims to transform its business and deliver the best customer experience with the "Digital Transformation of the Core". Actions will be executed across three streams: customer-facing initiatives, internal initiatives to transform processes and digital culture and execution capacity. Moreover, the "Business Diversification Leveraging Digital Disruption" encompasses all of the Group's efforts outside the core. The business diversification priorities includes building digital disruptive businesses, scaling up Islamic Banking via Boubyan Bank, building a regional powerhouse in wealth management and transforming the retail business in Egypt.

### **Defend and grow leadership position in Kuwait**

The Group's overall strategy in its core domestic market is to maintain excellence and its market leadership position in the provision of banking services, to leverage its strong financial position to expand its existing market shares in loans, customer deposits and project and trade financing and to maintain discipline in managing both risk and costs. Within its core domestic product groups of corporate, consumer and private banking, the Group intends to implement this strategy as follows:

#### ***Corporate banking***

Within the corporate banking sector in Kuwait, the Group's aims include:

- remaining the primary banker for a majority of the leading local companies whilst also continuing to be an active participant in the mid-market sector;
- remaining the bank of choice for foreign companies actively operating in Kuwait and continuing to serve around 75 per cent. of those companies; and
- maintaining its current market share in trade finance which the Bank believes is in excess of 30 per cent.

The Group intends to achieve these aims by offering differentiated services to its corporate clients, leveraging the different services provided throughout the Group, expanding its coverage model and broadening the range of products and services offered. The Group's strategy centres around being at the forefront of large-scale Kuwaiti government projects, as it believes its large capital base, high credit ratings and international presence provide it with an advantage over other Kuwaiti banks when competing for these projects or when seeking to raise funds for the purposes of financing these projects. The Group's growth strategy also includes strengthening its leadership position among large Kuwaiti corporates and increasing its penetration among middle-market companies through targeted marketing and building new relationships. The Group focuses on strengthening customer relationships at all levels of the corporate banking business and is in the process of enhancing its corporate online service and establishing a cash management proposition that the Group believes will be competitive with the cash management services currently offered by international banks. Within corporate banking, the Group places emphasis on investing in retaining and recruiting new talent and developing its operational platform.

Notwithstanding this growth strategy, the Group also intends to maintain asset quality with a particular emphasis on credit control, risk management and ensuring an effective corporate governance framework.

#### ***Consumer banking***

Within the consumer banking sector in Kuwait, the Group's aims include:

- maintaining its leadership position as evidenced by the highest loan and credit card penetration among conventional banks in Kuwait and the highest proportion of Kuwaiti customers among

all Kuwaiti banks, based on the Group's internal data and monthly CBK reports for the Kuwaiti banking system;

- maintaining its focus on the delivery of a superior customer service experience, evidenced by the overall customer satisfaction index remaining above 90 per cent., according to the Bank's annual Kuwaiti customer satisfaction survey conducted in 2020; and
- maintaining the lowest cost of funds among Kuwaiti conventional banks.

The Group intends to expand its consumer banking customer base by focusing on select consumer segments such as the affluent and mass affluent segments, in addition to younger clients and the expatriate segment, and by attracting new clients such as SMEs.

In an effort to increase the appeal of the Group to young Kuwaitis and other digitally sophisticated clients, in 2019 the Group started a three-year digital transformation programme, initially focusing on consumer banking with investments made in diversifying its banking services delivered through mobile devices, generating awareness and encouraging mobile channel penetration among clients.

The Group has enhanced its call centre and service campaign management capabilities with a focus on improving cross-selling and product penetration by using the latest available tools and technologies. As new technologies are being deployed, the Group intends to increase its focus on digital marketing.

The Group also intends to capitalise on its brand equity by cascading the Bank's corporate brand down to the consumer banking level and developing a consistent level and form of communication across the Bank's consumer banking product and service campaigns. The Group also intends to explore new formats to open additional branches in malls and new residential areas, without increasing its overall branch headcount in Kuwait.

#### ***Private banking***

Within the private banking sector in Kuwait, the Group's aims include:

- continuing to provide a unique and compelling proposition to its high net worth clients in collaboration with NBK Capital and the Group's international network;
- leveraging the wealth management expertise of its private bank subsidiary, NBK Banque Privée (Suisse) S.A., in Geneva through which its customers gain access to leading international funds and otherwise broadening its product portfolio to accommodate the growing needs of its clients;
- providing a high quality service through its team of more than 30 experienced private bankers; and
- leveraging its strong brand to acquire new clients and retain current clients.

#### **Geographic and product and service diversification**

The Group's geographic and product and service diversification strategy involves expanding its regional presence, strengthening its Islamic banking franchise and building leading asset management and investment banking capabilities in the region.

#### ***Expanding regional presence***

The Group's geographic diversification strategy is to leverage its fundamental strengths and capabilities, including its international reach and strong relationships within the MENA region, to build a regional platform and support growth in key markets, such as certain GCC countries and Egypt. In particular, the Group is focusing on markets which it has identified as having long-term potential through a combination of high-growth economies, positive demographic trends and the ability for the Group to exploit one or more competitive advantages, such as existing or new synergies and the ability to cross-sell other Group products and services.

When expanding its regional presence, the Group intends to:

- leverage its strong reputation and brand name by ensuring standardisation and consistency across all of its markets;
- adopt a flexible business model so that it can easily adapt to changing trends and conditions in its different markets;
- deliver high standards of consistent, reliable and responsive service in all of its markets; and
- maintain rigorous risk management discipline and governance, as well as a unified compliance process, in all markets.

As part of its regional expansion and diversification agenda, the Group believes that a digital platform has the potential to unlock the possibility of building a meaningful retail customer franchise in markets where the Group maintains only a limited branch presence. To this end, the Group has recently established a digital platform that aims to enable its expansion strategies in select MENA markets while supporting its digital transformation in Kuwait. Also, the Group is reevaluating its footprint in light of macroeconomic uncertainties in some markets and reviewing its form of legal presence in each location to manage its cost base.

### ***Strengthening its Islamic banking franchise***

Having first acquired a minority shareholding in Boubyan Bank in 2009, in 2012 the Group increased its shareholding to 58.4 per cent. and Boubyan Bank has been fully consolidated as a subsidiary for accounting purposes since 31 July 2012. The Group's current stake in Boubyan Bank is 59.9 per cent. Boubyan Bank had an estimated market share of total banking sector assets and customer deposits in Kuwait of 7.4 per cent. and 9.5 per cent., respectively, as at 30 September 2020 (according to the consolidated financial statements of Boubyan Bank as at 30 September 2020).<sup>1</sup> Further, on 27 January 2020, the Group, through its subsidiary Boubyan Bank, increased its ownership in BLME from 27.91 per cent. to 71.08 per cent. As a result BLME, which had been accounted for under the equity method in prior periods, has been fully consolidated in the Group's financial results.

The Group's strategy in relation to Boubyan Bank is to differentiate it from other Islamic banks in Kuwait through a clear focus on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Group's core strengths.

### ***Building a regional leader in asset management and investment banking***

The Group's strategy in relation to its investment banking and asset management business is to establish the business as a leading regional investment bank, asset management and brokerage operation servicing both existing Group clients and acquiring new clients. NBK Capital intends to focus on increasing its assets under management by broadening its suite of products to offer fixed-income and equity products across the MENA region, in addition to structured leasing and real estate products on an international basis, to meet market demand and investing in technology and human resources to complement its existing product base. In addition, the Group plans to expand NBK Capital's client base with a focus on cross-selling to the Group's private banking and high net-worth consumer banking clients and a targeted investment in establishing a dedicated business development team for NBK Capital.

A recent successful example of the cooperation between NBK Capital and the Private Banking Group is the launch of Al Watani Wealth Management in Saudi Arabia, which represents an integrated wealth management model which the Group intends to grow across multiple geographies, adapting to local regulatory requirements, with a view to expanding its regional origination capabilities complemented with international asset allocation.

## **HISTORY**

The Bank was the first private indigenous bank in Kuwait and the Gulf region. The Bank focused on the Kuwaiti market following its establishment and has survived several crises, including the 1982

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<sup>1</sup> These market shares are based on the consolidated financial statements of all banks in Kuwait, which include international assets and deposits.

Souk Al Manakh (Kuwait's informal stock market) crash and the Iraqi invasion in 1990. The Bank also played a vital role in rebuilding the Kuwaiti economy following the liberation of Kuwait in 1991.

The Group started its expansion outside Kuwait in the 1980s by opening full service branches in key international (New York, London, Paris, Geneva and Singapore) and regional (Bahrain and Lebanon) centres to capture investment and trade flows with Kuwait and to service Kuwaiti customers and provide convenient and secure locations for their deposits. In 2004, the Group made the strategic decision to expand its presence in the MENA region in markets which it viewed as offering high growth potential. The Group accordingly made a series of acquisitions in Iraq and Egypt, acquired significant minority stakes in banks in Qatar and in Turkey and established itself organically in Jordan, Saudi Arabia (Jeddah) and the United Arab Emirates. In 2017, the Group also completed the conversion of its representative office in Shanghai to a fully-fledged branch and its branch in Paris to a subsidiary in 2018.

Following political instability in several countries in the MENA region, the Group's strategy focused on growing its operations in GCC countries which were more politically stable and had strong economic fundamentals. As part of this strategy, the Group opened its Abu Dhabi branch in 2013.

In 2009, the Group acquired a relatively small stake in Boubyan Bank. Following several additions to its shareholding, the Group's ownership exceeded 50.0 per cent., and Boubyan Bank became a fully consolidated subsidiary of the Group in 2012. Boubyan Bank, a bank offering exclusively Islamic products and services, offers the Group a significant opportunity to grow its balance sheet, diversify its income sources and strengthen its market position in the Kuwaiti market as the Group is the only financial institution in Kuwait to offer both conventional and Islamic banking.

On 27 January 2020, Boubyan Bank K.S.C.P, acquired an additional equity interest in BLME, resulting in an increase in its effective ownership from 27.9 per cent. to 71.1 per cent. Having obtained control, the Group reclassified its investment in BLME from associate to subsidiary and has consolidated the financial results of BLME. As at the date of acquisition, BLME contributed KD 538 million and KD 616 million to the Group's Islamic financings and total assets, respectively, and KD 365 million to the Group's customer deposits.

## **CAPITAL STRUCTURE AND SHAREHOLDERS**

The Bank has been listed on the Boursa Kuwait since 29 September 1984. As at 31 December 2020, the Group had only one shareholder which had direct and indirect holdings in excess of 5 per cent. of its issued share capital (being The Public Institution for Social Security, which had a 5.60 per cent. holding in the Group as at 31 December 2020).

The Bank's total market capitalisation as at 31 December 2020 was KD 5.8 billion. As at 31 December 2020, the Bank's authorised share capital comprised 7,500,000,000 shares of KD 0.1 each, giving it an authorised share capital of KD 750 million.

The issued and fully paid up share capital of the Bank as at 31 December 2020 comprised 6,850,185,181 shares of KD 0.1 each, giving it an issued and fully paid up share capital of KD 685.0 million.

The Group believes it benefits from a strong shareholder base, with the Bank's original founding families still controlling the majority of its share capital.

## **SUBSIDIARIES**

As at 31 December 2020, the Group's subsidiaries are:



<b>Name</b>	<b>Country of Incorporation</b>	<b>Primary Business</b>	<b>Holding (%)</b>
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	59.9
National Bank of Kuwait-Egypt S.A.E.	Egypt	Banking	98.5
Watani Investment Company K.S.C.(Closed.)	Kuwait	Investment Company	99.9
National Bank of Kuwait (International) plc	United Kingdom	Banking	100.0
National Bank of Kuwait France SA	France	Banking	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	100.0
National Bank of Kuwait (Lebanon) S.A.L. <sup>(1)</sup>	Lebanon	Banking	85.5
Credit Bank of Iraq S.A.	Iraq	Banking	91.0
National Investors Group Holdings Limited	Cayman Islands	Investment Company	100.0
Watani Wealth Management Company	Saudi Arabia	Investment Management	100.0
Watani Financial Brokerage Company K.S.C.C.	Kuwait	Brokerage	93.3
BLME Holdings plc <sup>(2)</sup>	United Kingdom	Islamic Banking	71.1

<sup>(1)</sup> As at 31 December 2020, 38.1 per cent. 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.

<sup>(2)</sup> Stake owned by Boubyan Bank K.S.C.P.

## **REPORTING SEGMENTS**

### **Consumer and private banking reporting segment**

#### ***Consumer banking***

The Group offers a wide range of consumer banking products and related services in Kuwait through its integrated distribution network, comprising branches, mobile banking, online banking, ATMs, POS terminals and other remote banking platforms. In addition, the Group has a direct sales force which markets its consumer products and services to its customers. The Group's consumer banking products include a range of consumer loans, deposits, cards, business banking for SMEs and wealth management services.

The Group intends to focus on customer service in its consumer banking business as a key differentiator. The Group annually measures and monitors its overall customer satisfaction as well as customer satisfaction with specific products and services offered. The Group has implemented proactive customer retention and loyalty programmes and has increased its operational efficiency through enhancing its technology platform and repositioning its alternative delivery channels as attractive, user-friendly and reliable alternatives to branch banking (see "*Distribution channels*" below).

In addition, the Group intends to increase its customer base by focusing on select segments, including the younger generation and mass affluent, as well as SMEs with a sales turnover of up to KD 2 million. At the same time, the Group aims to leverage its credit and risk infrastructure to manage the credit portfolio.

#### ***Private banking***

The Group has offered wealth management services to its private banking clients since 1982. These services are customised to fit each client's risk tolerance and financial needs which are assessed by relationship managers on a quarterly basis. The Group's private banking services include fixed-income and money-market products, wealth and asset management products, including equities and funds, and offshore services designed to preserve customers' capital without restricting capital growth. Beyond Kuwait, an extensive range of international banking products and services are offered through the Group's international branches and subsidiaries, including NBK Banque Privée (Suisse) S.A. and Al Watani Wealth Management in Saudi Arabia.

The Group aims to establish strong relationships with its personal banking clients based on professional expertise, integrity, confidentiality and trustworthiness. Within the private banking business, the Group intends to continue to grow at a consistent pace by focusing on key objectives including:

- new client acquisition, with continued emphasis being placed on attracting younger clients through the introduction of digital platforms;
- increasing its "share of wallet" of existing clients and maintaining strong and durable relationships with clients supported by quality service coupled with innovation in products and solutions to meet the changing needs of the Group's clients; and
- building a global private banking offering by leveraging its presence in, amongst other jurisdictions, the UAE, Saudi Arabia, the United Kingdom, Lebanon and Egypt.

### ***Distribution channels***

The Group's principal distribution channels in Kuwait comprise:

- *Branch network:* As at 31 December 2020, the Bank had the largest branch network in Kuwait, with 68 branches across the country, and the largest ATM network, with more than 325 ATMs including more than 100 customer deposit machines, seven special needs ATMs, two mobile ATMs and more than 13,500 POS terminals. The Group operates a 24/7 self-service facility at its major branches and other select locations where customers can conduct a range of banking services, such as cash deposits and withdrawals, balance enquiries and statement printing, ordering of cheque books and internet and telebanking access. The Group also has two 24/7 branches located at the Kuwait International Airport Terminal 1 and Terminal 4 and offers instant issuance of new debit cards to customers at all of its branches.
- *Telebanking:* The Group introduced automated banking by telephone to its customers and opened its call centre in 1994. This call centre, which has been operated on a 24/7 basis since 2003, can be used by customers in Kuwait to conduct a variety of transactions, including reporting lost or stolen cards, performing account transfers and bill payments and making enquiries and complaints. It also operates as a telemarketing tool through which the Group sells products to customers directly or refers them to their channel of choice. In 2020, the Group's call centre handled approximately 2.4 million calls.
- *Online banking:* The Group commenced offering online banking to its consumer banking customers in 1998 and, as at 31 December 2020, had approximately 448,000 registered online banking customers with more than 1.1 million financial transactions executed in 2020. The services provided to accountholders through the online banking platform include account balances, history and transaction detail enquiries, funds transfers, bill payments, online trading, foreign exchange and interest rate enquiries, online credit card applications, cheque book ordering and statement requests.
- *Mobile banking:* Since 2011, the Group's customers have been able to use banking services delivered through mobile devices that provide regular account updates and SMS alerts to registered smart mobile phone users and through which they can conduct a large range of banking services, such as balance enquiries, bill payments, funds transfers, and statement and cheque book requests. Mobile application enhancements included the introduction of a digital signature facility for loan applications, credit card applications and credit limit increase requests. Mobile application users now benefit from an improved login profile, the ability to book term deposits and open partial fixed deposits, the ability to activate dormant accounts, the option to set-up and amend standing orders and to make transfers to the Group's SmartWealth brokerage platform. The Group's "Mobile Only" strategy, which is designed to provide its consumer banking customers with the maximum possible flexibility for conducting banking transactions through mobile applications, is a core aspect of the Group's mobile based distribution channel. The Group had approximately 364,000 registered mobile banking subscribers as at 31 December 2020 with more than 10 million financial transactions executed in 2020.
- *Direct sales force:* The Group has the largest direct sales force in Kuwait including sales staff at car dealerships and sales staff located at key government ministries and strategic corporate clients.

It has recently expanded its direct sales force to focus on attracting persons entering employment by increasing its presence in key hiring locations in Kuwait.

- *Bespoke private banking services at select branches:* The Group offers comprehensive financial solutions and customised private banking services at the Bank's head office branch and seven other branches in Kuwait. The Group continues to leverage its international network to offer private banking services to clients in Beirut, Cairo, Dubai, Geneva, London, Manama, New York and Paris. In addition, in 2018 the Group established a locally-licensed wealth management subsidiary, Al Watani Wealth Management, in Saudi Arabia. The Group seeks to maintain a high level of service quality through extensive and diverse training programmes and careful recruitment of its private banking employees. The Group aims to establish long-term relationships with its private banking clients.
- *Contactless payment technology:* The Group was the first bank in Kuwait to introduce contactless payment options for its customers, with the 'Tap and Pay' card. The 'Tap and Pay' system uses NFC technology and allows customers to make payments of up to KD 25 at over 11,500 NFC point-of-sale terminals throughout Kuwait, by placing their 'Tap and Pay' card on a point-of-sale machine without the need to enter a PIN number. The Group is the largest acquirer of NFC compatible contactless point-of-sale terminals in Kuwait, based on the Group's internal data and on CBK data for total point-of-sale market sizing.

Furthermore, the Bank was the first local bank to launch Fitbit Pay which enables customers to make contactless payments via select Fitbit devices. The Bank's customers can now conveniently use the free Fitbit app (Android and iOS) to add up to six cards to their Fitbit Wallet. Similarly, the Bank was also the first bank to launch Garmin Pay in Kuwait which enables its customers to make payments through their wearable Garmin Pay-compatible watch.

### ***Products and services***

The Group offers its consumer banking customers a wide range of banking services, including:

- *Deposits:* The Group has a complete range of deposit products, including a broad selection of accounts for customers' everyday banking needs, such as current, trust, express and call accounts. The Group also offers a selection of interest-bearing deposits, such as savings accounts, super accounts and notice accounts. For customers who would like to have higher interest on their savings, the Group offers term deposits, flexible term deposits for receiving regular interest, and partial withdrawal term deposits where customers may withdraw up to 10 per cent. of the deposit annually. In addition, the Group offers a draw account, named Al-Jawhara, which is non-interest bearing and features weekly, monthly and quarterly draws to allow customers to win cash prizes between KD 5,000 and KD 250,000 with a total of KD 2.2 million annually. The Group is also developing long-term fixed savings deposits in order to enhance the maturity profile of its deposit base. For an analysis of the Group's customer deposits, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Position*".
- *Loans and credit cards:* The Group's loan products include consumer and housing (also known as **family**) loans with repayment terms extending up to five years and 15 years, respectively. The Group also provides one of the widest ranges of Visa and MasterCard credit and debit cards in Kuwait and is currently the only bank in Kuwait offering Diners Club International cards. The Group's cards are aimed at different customer segments based on income and offer a range of benefits that vary based on the card type. Applications for loans and credit cards can be made through the Group's branch network, direct sales, telebanking or online channels. Consistent with its credit risk management strategy, the Group prioritises attracting loan and credit card customers with good credit standing. Loan and credit card applicants are screened and credit limits are assessed according to the Group's credit policy based on demographic and financial factors and the past credit behaviour of the customer in question, while ensuring strict adherence to relevant CBK regulations. In addition, a loans and cards origination system with automated credit decisioning has been implemented through redesign of end-to-end processes to enhance turnaround time.

The Group uses local and international merchant relationships, promotions, a credit card reward programme and other incentives in order to increase card usage and expenditure levels and to increase customer loyalty and retention. The Bank was the first bank in Kuwait to launch

an automatic reward redemption programme based on card usage through POS terminals without the need of vouchers. Its rewards programme is the largest merchant-based rewards programme in Kuwait and enables cardholders to earn and redeem rewards at over 850 outlets in Kuwait which cater to a variety of lifestyle needs as at 31 December 2020. The NBK Miles World Mastercard Credit Loyalty Program allows the customer to earn miles points and redeem them on flights across over 800 airlines, book accommodation at more than 150,000 hotels globally and to access more than 500 airport lounges in over 300 airports. The launch of NBK-Kuwait Airways (Oasis Club) Visa cards in partnership with Kuwait Airways grants customers an array of advantages including miles collection and redemption, access to airport lounges worldwide, travel insurance and earnings through the NBK Rewards program points.

- *Business banking:* With a view to diversifying its consumer banking revenue, in 2013 the Group launched a business banking proposition focusing on servicing SMEs in Kuwait with an annual sales turnover of up to KD 2 million through its expanded network of dedicated branches. The Group has three business banking hubs with eight branches established at strategic locations in Kuwait. The Group focuses on acquiring SMEs with a high "cross sell" product ratio, especially in the medical, food and beverage and manufacturing sectors. Each SME has an assigned relationship manager who provides a range of tailor-made products and services that assist in the SME's day to day operations, financing and expansion plans. A range of payment, account and foreign exchange services, working capital, term finance and trade finance services tailored to meet the customer's needs are available to the Group's SME customers subject to credit approval.

The Bank has also been working with The Kuwait National Fund (KNF) for small and medium enterprise development since 2017. The team within the Bank dedicated to KNF is responsible for reviewing and analysing the feasibility studies provided by KNF. It is also responsible for providing KNF with recommendations on acceptance or rejection of cases.

- *Other services:* The Group's principal deposit and lending products are complemented by a range of more general consumer banking services, including bill payments, remittances, foreign exchange, safe deposit boxes and share custody, electronic funds transfer and online trading. In addition, the Group's consumer banking customers have access to a suite of investment products which are managed by the treasury function within its Group centre reporting segment. See "— Group centre reporting segment—Investments" below.

### **Corporate banking reporting segment**

The Group offers its corporate clients a range of commercial banking products and services, including loans, overdrafts, trade finance (letters of credit and guarantees), online services, and a range of current and deposit accounts. Additionally, the corporate banking group works with other business units within the Group, such as Group centre and NBK Capital, to offer other services including foreign exchange, hedging products and corporate finance and advisory services.

The Group offers a corporate internet banking tool, known as Watani Online Corporate Banking. As at 31 December 2020, the Group had approximately 3,600 active corporate online banking accounts.

The Group's corporate banking reporting segment includes:

#### ***The domestic corporate banking group***

This banking group caters to major Kuwaiti companies and is organised around units with specific industry expertise, principally:

- general trade and commerce, including the cars, electronics, consumer durables, food and clothing sectors;
- real estate development and contractors, including building materials;
- insurance;
- manufacturing, including in the food and drink, ship building, steel and metal fabrication, cement and clothing sectors; and

- services, including telecommunications, education, transport and logistics, healthcare and retail services.

The Group also has a unit dedicated to Kuwaiti companies with a multinational presence as well as a unit focused on the small and middle market segment. The Group has recently increased its focus on the mid-market sector with a dedicated sales team which attracted more than 100 new mid-market corporate customers within 24 months.

#### ***The foreign corporate banking group***

The foreign corporate banking group has two major business units: Foreign Contracting and Oil & Petrochemicals. Most of the business of these two units is driven by public-sector spending in the form of major infrastructure and oil and gas projects. Given its historic relationship with the Kuwait Petroleum Corporation (KPC) group, the Group believes it is well placed to advise on, and provide financing to, high-value projects tendered by the KPC group, as well as major overseas investments made through KPC's operating entities, Kuwait Petroleum International Ltd and Kuwait Foreign Petroleum Exploration Company.

#### ***The trade finance division***

This division uses its extensive knowledge of international trade to help corporate clients enhance their global competitiveness and reduce risk. The Trade Finance Division offers the Group's customers a wide range of services, including:

- letters of credit, including both inward and outward back-to-back, transferable, deferred payment, standby and revolving letters of credit;
- letters of guarantee, including bid bonds, performance, advance payment, retention, suppliers credit and contract guarantees;
- collections settled; and
- financing under letters of credit.

In addition to a dedicated trade finance team, the Bank offers a trade finance portal to its customers. The portal enables customers to open both letters of credit and letters of guarantee online.

The Group's corporate banking division was named "*Best Trade Finance Service Provider in Kuwait for 2019*" by Global Finance.

#### **Investment banking and asset management reporting segment**

The Group's investment banking and asset management reporting segment comprises the activities of NBK Capital. NBK Capital has over 150 professionals and operates regionally from: Kuwait, Saudi Arabia, the UAE, Bahrain, Turkey and Egypt. NBK Capital focuses on three primary lines of business:

- ***Asset Management:*** with a Group-wide KD 4,745 million in assets under management as at 31 December 2020, the platform focuses on strategies and products which are supported by value-added propositions and solid conviction; ranging from money market, through various fixed-income and equity approaches, to private equity and real estate assets.

The asset management team currently manages the largest and most successful money market funds in Kuwait. The funds tap into both Kuwaiti dinar and U.S. dollar liquidity and are offered in conventional and Shari'a-compliant formats.

- ***Investment Banking:*** delivers a fully integrated investment banking platform comprising:
  1. *Mergers & Acquisitions Advisory:* which delivers optimal deal structures to tailor creative solutions to its clients;
  2. *Equity Capital Markets:* which is dedicated to creating value for its clients by planning and executing innovative strategies to achieve clients' goals;

3. *Debt Capital Markets*: which focuses on the origination, structuring, execution and distribution of a wide variety of debt offerings including conventional, Islamic, senior bank and structured securities, which are further complemented by rating and capital structuring advisory; and
  4. *Financing Advisory*: which is a dedicated unit that strives to provide clients with transparent services and assists them throughout the entire debt raising process including negotiations.
- **Brokerage**: NBK Capital's brokerage division offers advanced brokerage services with superior execution capabilities through seamless and direct access to Kuwait, MENA and major international capital markets.

In addition, NBK Capital SmartWealth is a digital investment service that offers investors a leading solution for long-term investment savings. Investors are able to manage and monitor their investments through NBK Capital SmartWealth's web portal and/or mobile application.

In 2019, NBK Capital was awarded 'Best Investment Bank in Kuwait' by Euromoney Magazine.

### **Islamic banking reporting segment**

The Group's Islamic banking reporting segment comprises the activities of Boubyan Bank, in which the Group had a 59.9 per cent. holding, The Commercial Bank of Kuwait had a 9.7 per cent. holding and the remaining shares were publicly held as at the date of this Prospectus.

The Group believes that its acquisition of a majority shareholding in Boubyan Bank offers new avenues for growth, diversification and enhancing its customer base by providing a wider variety of banking services. Since the acquisition, Boubyan Bank has experienced increased growth and profitability and has expanded its market share in a number of areas, including personal finance, customer deposits and credit card spend.

Boubyan Bank's core businesses are consumer banking, corporate banking and private banking and wealth management. Boubyan Bank is primarily focused on offering its products and services in Kuwait and has a presence outside Kuwait through its ownership of shareholdings in BLME. Boubyan Bank offers its clients a wide range of banking and financial services through one of the fastest growing branch networks in Kuwait, comprising 43 branches as at 31 December 2020, a network of more than 250 ATMs and telebanking, internet banking and mobile banking.

Boubyan Bank's short-term strategy is to build on domestic foundations with a view to developing an international presence in the medium to longer term. In the domestic market, Boubyan Bank is currently targeting increased market share in both the consumer and the corporate segments. Its strategy focuses on organic growth, emphasising upgrading its product portfolio, focusing on its target customer segments and enhancing its digital proposition.

In relation to its consumer banking operations, Boubyan Bank aims to expand its market share through focusing on high net worth affluent and mass affluent customers and has been working on positioning itself as the bank of choice for the affluent client base. In particular, Boubyan Bank is emphasising improved customer experience, innovation in product offerings, efficient transactions and attracting top talent. Boubyan Bank is also building a comprehensive consumer banking platform in terms of distribution channels to achieve its consumer banking ambitions. Since the Group acquired its majority shareholding in 2012, Boubyan Bank has grown its branch network from 15 to 43 branches, and more than doubled the number of ATMs. Along with expanding its footprint and distribution network, Boubyan Bank's customer satisfaction ratings continue to be higher than the average for both Islamic and all Kuwaiti banks, all of which have contributed to its recent growth in profitability and its increased market shares.

In relation to its corporate operations, Boubyan Bank's main focus is to become the bank of choice for large and mid-size companies while continuing to maintain market share in the super large corporate segment. Boubyan Bank aims to improve its offering in the corporate segment through innovation in products and services. In particular, it has introduced new products such as overdrafts and Istisna, and additional products such as Musharaka, factoring and equipment Ijarah are being developed. Further, Boubyan Bank continues to work on strengthening and improving its processes.

As part of its aspiration to be "the first choice and preferred corporate bank", Boubyan Bank has launched innovative e-products and services to meet all banking needs in line with Islamic Shari'a principles. These products and services include the recent update of its corporate online banking platform and a digital credit approval process.

As at 31 December 2020, Boubyan Bank's total assets (on an unconsolidated basis) were KD 6,437 million and its equity attributable to shareholders of the bank was KD 518 million.

Boubyan Bank's customer financing portfolio was KD 4,823 million as at 31 December 2020 and its aggregate customer deposits and deposits from banks and financial institutions were KD 5,108 million as at the same date. In the year ended 31 December 2020, Boubyan Bank's net profit attributable to shareholders of the bank was KD 34 million.

In 2020, Boubyan Bank received a number of international and regional awards in addition to being recognized by many global institutions that are renowned for their fairness and strength. Awards and recognitions include being named "Best Islamic Bank in Kuwait" by the "Banker Middle East" awards, in addition to being named "Best Islamic Digital Bank in Kuwait, the Middle East and Globally", in each case by Global Finance.

### **Group centre reporting segment**

The Group centre reporting segment includes treasury, investments and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to the Group's clients, and is also responsible for the Group's liquidity and market risk management.

#### ***Treasury***

- The Group's treasury manages the Group's assets and liabilities and liquidity requirements under the supervision of the Group Assets and Liabilities Executive Committee (**ALEC**), which meets at least monthly to monitor and review all aspects of the Group's liquidity profile, asset and liability structure and internal and statutory ratio requirements. Cash-flow requirements as well as foreign exchange activities in each of the Group's locations are managed by the respective treasury of that location, under the supervision of Group treasury. Asset and liability management, including liquidity management, is managed by Group treasury, in coordination with Group market risk management division.

In addition, the Group's treasury function:

- manages the money market books and money market funding positions for the Group's own account to fund its domestic and international foreign-currency assets;
- undertakes a wide range of foreign exchange business, across both spot and forward markets, largely on behalf of the Group's customer base, and conducts a limited amount of proprietary foreign exchange trading within the constraints of what the Group considers to be prudent risk guidelines; and
- maintains a portfolio of Kuwaiti government treasury bills and bonds to meet relevant CBK requirements and to manage surplus domestic currency liquidity.

In 2019, the Group's treasury function completed the development of a new, end-to-end treasury booking system, which will go-live in Kuwait in 2021, and will provide, once rolled out to overseas treasuries, real-time metrics from across the Group. The system comprises a Group-level Treasury function, and will assist the Bank in mitigating and reducing risk, improving efficiencies and increasing revenues.

The electronic trading platform introduced by the Group's treasury function in 2018 saw strong utilisation from corporate clients, generating live FX deals for customers through an easy-to-use browser module. Such innovations further exemplify that the Group offers the most competitive treasury solutions available in Kuwait. These innovations are both unique to the local market and an effective client retention tool, boosting non-interest income while rates remain under pressure due to COVID-19.

In 2019, the Group's treasury function was awarded the '*Best Foreign Exchange Provider in the Middle East and Kuwait*' and '*Best Treasury and Cash Management in Kuwait*' by Global Finance.

## ***Investments***

The Group's investments unit is responsible for managing its fixed-income proprietary portfolio with the objective of realising income while minimising the risk of default. The unit combines a bottom-up fundamental credit-research-driven investment process with a top-down macro-economic analysis. The portfolio is diversified, investing in fixed-income securities issued by emerging and developed markets' corporates and sovereigns. The securities are denominated in major currencies and carry investment-grade ratings.

## **International reporting segment**

As at 31 December 2020, the Group has a presence in 15 countries across four continents that provide a diversified platform for sustainable growth in the future. The Group's international network includes branches and subsidiaries in major cities such as London, New York, Paris, Geneva, Singapore and Shanghai. In addition, the Group has a strong presence in the MENA region providing coverage to Bahrain, Egypt, Iraq, Jordan, Lebanon, Saudi Arabia and the UAE. The Group's international footprint is a key differentiator for the Group and an essential part of its franchise and brand. The Group's international operations are principally wholesale in nature although in certain locations, such as Egypt, it also provides consumer banking services.

The Group has an affiliate stake in Turkish Bank A.S. (34.3 per cent.).

Within select locations in the MENA region, the Group is focusing on growing its corporate business in existing and new markets through attracting international and regional customers and leveraging its Kuwaiti relationships as well as growing its private banking business by building on its success in Kuwait.

In the GCC, the Group believes it is well-positioned to leverage its presence for future growth. The Group currently offers corporate clients and high net worth individuals a range of treasury and wholesale banking credit solutions, both conventional and Shari'a-compliant, in addition to trade finance services and basic consumer banking services. The Group increased its presence in Saudi Arabia in 2019 by opening two additional branches in Riyadh and Khobar with a view to expanding its corporate banking activities and building a retail business in Saudi Arabia.

Egypt remains a strategic market with the Group operating more than 50 branches. NBK Egypt continues to deliver strong results accompanied with positive economic growth and ambitious economic reforms. The Group has been implementing a transformation programme to expand the operations of its Egyptian subsidiary by boosting the acquisition of customers, streamlining processes and upgrading capabilities across all functions. A strong emphasis is being placed on building the quality and reach of the consumer banking business in Egypt, to diversify in terms of both income and operations.

Beyond the MENA region, the Group concentrates on serving the needs of regional corporate and private banking customers that are active internationally, while developing business with international companies that have business or trade linkage within the Group's MENA region footprint. The Group's operations in key financial centres, such as London, New York, Paris, Geneva, Singapore and Shanghai, typically experience strong inflows of capital and deposits from high net worth individuals, financial institutions, oil companies, correspondent banks and government agencies.

The International Banking Group (**IBG**) maintains a strong emphasis on promoting cross-selling culture across the Bank's locations and units, recognising the synergies that can be achieved – equally on revenues and costs. Opportunities pursued have included the centralisation of certain back-office processes and functions which has been facilitated by the significant advances that have been made at the Group level to improve the quality and capacity of the Group's underlying technology infrastructure – such as the Kuwait Data Centre, the introduction of Robotic Process Automation, and Blockchain remittance platforms.

The Group plans to maintain investment in technology capabilities including efforts to improve IBG's regulatory and governance functions, to navigate obstacles and mitigate risk.



## COMPETITION IN KUWAIT

The Group is the largest bank in Kuwait in terms of total assets, customer deposits and customer loans and advances according to the publicly available financial statements of the Group's main domestic competitors as at and for the nine months ended 30 September 2020.

The Kuwaiti banking sector comprises five indigenous conventional commercial banks (the Bank, Commercial Bank of Kuwait, Gulf Bank, Al-Ahli Bank of Kuwait and Burgan Bank) and branches of 12 other non-Kuwaiti conventional banks. In addition, a specialised bank (Industrial Bank of Kuwait) and five banks operating according to the provisions of Islamic Shari'a (including the largest, Kuwait Finance House, and the Group's subsidiary, Boubyan) are also licensed to operate in Kuwait.

The tables below show rankings for the six largest Kuwaiti banks by consolidated total assets, by consolidated customer deposits and by consolidated customer loans and advances as at 30 September 2020 and 31 December in each of 2019 and 2018.

	<u>As at 30</u> <u>September 2020</u>	<u>As at 31</u> <u>December 2019</u>	<u>As at 31</u> <u>December 2018</u>
	<i>(KD million)</i>		
Ranking by consolidated total assets <sup>(1)</sup>			
The Group .....	30,383	29,271	27,428
Kuwait Finance House .....	20,961	19,391	17,770
Burgan Bank .....	6,943	7,081	7,312
Gulf Bank .....	5,934	6,245	6,016
Al Ahli Bank of Kuwait K.S.C.P. ....	5,026	4,883	4,548
Commercial Bank of Kuwait .....	4,512	4,873	4,468

Source: 30 September 2020 financial statements and historical annual reports for each bank.

<sup>(1)</sup> Total assets are based on consolidated figures and include international assets.

As at 30 September 2020, the Group's consolidated total assets represented 58 per cent. of the total consolidated assets of the Kuwaiti conventional commercial banking sector.

	<u>As at 30</u> <u>September 2020</u>	<u>As at 31</u> <u>December 2019</u>	<u>As at 31</u> <u>December 2018</u>
	<i>(KD million)</i>		
Ranking by consolidated customer deposits <sup>(1)</sup>			
The Group .....	17,499	15,931	14,389
Kuwait Finance House .....	14,914	13,553	11,780
Burgan Bank .....	4,514	3,991	3,768
Gulf Bank .....	3,971	3,950	3,735
Al Ahli Bank of Kuwait K.S.C.P. ....	3,327	3,320	3,115
Commercial Bank of Kuwait .....	2,443	2,453	2,292

Source: 30 September 2020 financial statements and historical annual reports for each bank.

<sup>(1)</sup> Customer deposits are based on consolidated figures and include international customer deposits.

As at 30 September 2020, the Group's consolidated customer deposits represented 55 per cent. of the total consolidated customer deposits of the Kuwaiti conventional commercial banking sector.

	<u>As at 30</u> <u>September 2020</u>	<u>As at 31</u> <u>December 2019</u>	<u>As at 31</u> <u>December 2018</u>
	<i>(KD million)</i>		
Ranking by consolidated loans and advances <sup>(1)</sup>			
The Group .....	17,634	16,553	15,503
Kuwait Finance House .....	10,130	9,337	9,385
Burgan Bank .....	4,373	4,284	4,263
Gulf Bank .....	4,400	4,438	4,094
Al Ahli Bank of Kuwait K.S.C.P. ....	3,304	3,216	3,026
Commercial Bank of Kuwait .....	2,312	2,267	2,253

Source: 30 September 2020 financial statements and historical annual reports for each bank.

<sup>(1)</sup> Customer loans and advances are based on consolidated figures and include international customer loans and advances. Figures for the Group include Islamic financing.

As at 30 September 2020, the Group's consolidated customer loans, advances and Islamic financing to customers represented approximately 55 per cent. of the total consolidated customer loans and advances of the Kuwaiti conventional commercial banking sector.

The Group's current competitive strategy is to focus on maintaining its market leadership positions in its domestic market and to attract new customers through the products and service which it offers. See "*—Strategy—Defend and grow leadership position in Kuwait*".

The Islamic banking sector in Kuwait is attracting a growing customer base, particularly among local cooperative and other similar bodies. A general prohibition on Kuwaiti banks offering financing secured on mortgages of private residences in Kuwait was introduced in 2008. However, in 2011 a court decision resulted in an exception in respect of Islamic banks only, allowing them to finance purchases of residential properties using a mortgage over the property as security. Accordingly, the principal competitive advantage enjoyed by Islamic banks is their ability to offer residential mortgage financing, which conventional banks are not permitted to do. Regulatory restrictions relating to interest rates and ratios for personal lending typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are capped, given there is no concept of interest in Islamic banking, the Islamic banks in Kuwait are able to earn better margins than conventional banks on their financing portfolios. Although Boubayan Bank has a smaller balance sheet than certain other Islamic banks operating in Kuwait, its strategy is to differentiate itself by focusing on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Group's core strengths. See "*—Strategy—Geographic and product and service diversification—Strengthening its Islamic banking franchise*".

## **INFORMATION TECHNOLOGY**

To ensure that its IT continues to meet changing business requirements, the Group's IT strategy is structured to optimise people, process and technology (each as discussed further below), with the main focus on governance, organisation, quality, applications portfolios and technology infrastructure.

### **People**

The Group aims to recruit and retain talented and competent IT staff to manage its technology assets and deliver change. In addition, a focus on training and succession planning aims to establish clear career paths for IT staff. However, the Group may consider alternative forms of resourcing in the future, including managed services and selective outsourcing, to allow the IT function to contain costs and better service growing needs in end-user support, network management, mainframe management, tooling, project operations support, service desk and the network operations centre.

### **Process**

The Group believes business process and automation are becoming more aligned, which will reduce manual intervention and enhance workflow. As part of its service improvement programme, change request processes, system development lifecycle, IT service management, IT vendor management, project management, risk and audit management are all within the IT realm of continuous improvement. The system and service tools adopted will help to monitor versions, highlight end-of-life technologies and help stabilise systems to ensure production deficiencies and incidents are kept to a minimum. The Group has recently implemented a new datacentre to safeguard stability, increase availability, provide scalability and enhance customer experience.

### **Technology**

The Group focuses on stability, increased availability and scalability to ensure that its customers are able to access online channels and systems when needed, including online banking, mobile banking, ATMs and branch systems. As a result, the Group has focused on foundation technologies such as the new Tier III active-active datacentre, utilising state of the art network, storage and server technologies, which became operational in December 2018. The Group's disaster recovery site has been transformed to operate in parallel with the new datacentre in a cluster. The Group has also adopted enhanced metrics where both

infrastructure and business applications can be fine-tuned with performance-monitoring tools. Since 2013, all Group businesses have measurable, annually-reviewed, service level agreements which will be used to benchmark key performance indicators with a view to further continuous improvements.

The introduction of Robotic Process Automation is an important component of the Group's digitisation strategy, particularly in the role it will play in optimising costs. With over 100 processes identified for automation, the programme will significantly limit the need to increase headcount while eliminating human error to improve quality and increase customer satisfaction.

### **Data security**

The Group has an offsite IT operations centre a primary site located at Al Rai and a secondary site located at Jleeb Al Sheyokh that run as a cluster to support the operations of the Bank. This set up ensures that all systems are fully operational in line with the Group's business continuity plan, providing essential services to its customers. The Group has adopted tapeless technology and carries out daily and other periodic data back-ups which are stored in the primary data centre and replicated online (in real time) to the secondary site.

Additionally, the Group provides near real time back-ups of all critical systems and data to an international location (which is in the United Kingdom) in compliance with CBK instructions. Cyber security maintains its place among the Group's highest priorities and is a key area of investment. In 2019, the Bank expedited its plans to improve the security infrastructure with a two-pillar approach focused on systems and people, considering multiple levels of control. On the systems side, security analysis has included email filtering and controls, as well as web access and browsing exercises.

Data Loss Prevention and End Point Protection were also areas of focus, and the Bank engaged in an aggressive evaluation programme with specialised consultants to review and validate the system of controls. With regard to people, end-user awareness is critical and has been supported by an intensive 'Cyber Security Awareness' test which every member of the Bank was required to learn and pass.

### **LITIGATION**

As at the date of this Prospectus, the Group is not involved in any pending or, to the best of the Group's knowledge, threatened litigation or arbitration proceedings which may constitute a threat to the Bank or to any of its subsidiaries or which would have a material adverse effect on its financial position. Therefore, no material provision has been made as at 31 December 2020 regarding any outstanding legal proceedings.

### **INSURANCE**

The Group maintains various insurance policies and coverage. These include standard property insurance coverage for its assets (premises and contents), bankers' blanket bond coverage, general liability insurance, crime insurance coverage, cyber-crime and cyber-security coverage, staff private medical insurance coverage and professional indemnity insurance coverage. The Group also maintains a limited terrorism insurance cover (based on commercial viability) for its assets in Kuwait, Egypt, Bahrain and other locations. The Group's assets are generally insured on a reinstatement cost basis. The Group's aim is to maintain market standard insurance coverage.

### **EMPLOYEES**

The Group's human resources policy is designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Group protects and abides by the rights provided to employees which include, but are not limited to: a transparent working environment; employee talent-management schemes; a transparent remuneration and compensation structure and access to a "whistleblowing" policy (which enables all employees to raise concerns in good faith and confidence directly to the Chairman).

The Group has developed a "High-Fliers" programme to provide employees identified as possessing leadership potential with exposure to various departments within the Group. In line with its commitment to develop and invest in its key "human capital" resources, the Group collaborates with world-class universities to provide these employees with training in a wide range of leadership disciplines.

As at 31 December 2020, the Group employed 7,179 full-time staff, compared to 6,970 full-time staff as at 31 December 2019 and 6,318 full-time staff as at 31 December 2018.

The Bank is committed to identifying, attracting and developing Kuwaiti nationals in its workforce. The Kuwaiti Government's recommended policy is that, with effect from June 2019, 70 per cent. of a bank's total personnel in Kuwait should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2020 was 72.7 per cent. (which was compliant with the recommended policy at that date) and it is currently in compliance with all other applicable employment regulations.

## RISK MANAGEMENT

### INTRODUCTION

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 objectives of enhancing 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 and Compliance Committee (the **BRCC**) and the Group Executive Committee (the **EC**). These committees ensure that risk-taking authority and policies are effectively communicated from the Board to the relevant business units. The Group's risk management, compliance management and internal audit functions 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 BRCC and ultimately approved by the Board;
- risk management focused on compliance with applicable laws, regulations and internal policies is intrinsically embedded in the Group's 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 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.

### GROUP RISK MANAGEMENT

The Group risk management, which is headed by the Group Chief Risk Officer (**GCRO**), reports directly to the BRCC and is responsible for:

- identifying and assessing the key risks faced by the Group;
- measuring the Group's exposure to those risks;
- monitoring this exposure in light of the Group's risk appetite, as approved by the Board;
- determining the Group's corresponding capital needs on an ongoing basis;
- monitoring and assessing major decisions related to risk-taking; and
- following up and evaluating decisions related to certain risks.

The Group risk management comprises the following departments:

- domestic credit risk management;
- international credit risk management;

- operational risk management;
- market risk management;
- insurance and risk financing;
- credit administration; and
- IT risk management and Business continuity

The risk management function assists senior 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 EC;
- 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.

#### **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.

#### **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 reviewed and presented by the BRCC 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 aims to identify early warnings of risk limit and risk appetite breaches, and is responsible for notifying them to the BRCC and the Board.

## SCOPE AND NATURE OF RISK REPORTING TOOLS

The Group's risk management framework enables it to identify, assess, limit and monitor risks using a 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 and past-due alerts;
- 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.

CBK requires all Kuwaiti banks to perform semi-annual stress tests under three scenarios: mild, medium and severe. Historically, these tests were performed utilising two sets of assumptions: one based on CBK-prescribed parameters, which were essentially shocks on Pillar 1 risks and the other based on the Group's own assumptions, generally required to be more comprehensive (by including Pillar 2 risks) than those prescribed by the CBK. Those CBK-prescribed parameters cover stress scenarios for interest income, fee income, foreign exchange trading income, falls in collateral value and stock market declines resulting in additional impairment losses.

With effect from January, 2021, CBK introduced its own model of stress-testing to assess the impact across the banking sector in Kuwait. Banks are required to continue with stress tests semi-annually utilising their own assumptions. Furthermore, from time to time CBK may require them to conduct additional stress tests to quantify potential inherent risks.

The Group augments its overall framework for governance and capital planning and management by undertaking an ICAAP, which includes "scenario testing" at periodic, regular intervals. Amongst the key objectives of the ICAAP is to quantify potential inherent risks which the Group faces that are not covered under Pillar 1. As a part of ICAAP, the Group also assesses its Capital Contingency Options. 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, for example credit (sector and name concentration), liquidity, legal, reputational and strategic risks;
- monitoring and reporting; and
- control and review of the process.

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

## PRINCIPAL RISKS

The principal risks faced by the Group are:

- **Credit risk**, which is the risk that one party to a financial instrument will fail to discharge an obligation on maturity, or in a timely manner, causing the other party to incur a financial loss. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration risk may also arise as a result of large exposures to individuals or a group of related counterparties. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. For further information regarding the Group's credit risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its*

*Obligations in Respect of the Capital Securities, the Loan and/or the Subordinated Guarantee—Credit risks".*

- **Market risk**, which is the risk that changes in market prices, such as interest rates, equity prices, commodity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. Market risk is broadly classified into three categories: (i) interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates; (ii) foreign exchange risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates; and (iii) equity price risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. For further information regarding the Group's market risk, see *"Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Capital Securities, the Loan and/or the Subordinated Guarantee—Market Risk"*.
- **Liquidity risk**, which is the risk that the Group will be unable to meet the payment obligations associated with its financial liabilities when they fall due and/or replace funds when they are withdrawn. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking reputational damage. For further information regarding the Group's liquidity risk, see *"Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Capital Securities, the Loan and/or the Subordinated Guarantee—Liquidity risks"*.
- **Operational risk**, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes fraud, unauthorised activities, error, omission and inefficiency. Operational risks can expose the Group to potentially large losses and, while the Group cannot eliminate all operational risk, it has developed a comprehensive process of identifying, assessing, monitoring and reporting operational risk internally. For further information regarding the Group's operational risk, see *"Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Capital Securities, the Loan and/or the Subordinated Guarantee—Operational risks"*.

## **Credit risk**

### ***Credit risk management strategy***

Senior management implements the credit risk strategy approved by the Board following the recommendations of the BRCC and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The EC, chaired by the 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 this 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 BCC. Furthermore, facilities granted to these related parties 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 in accordance with authorities granted by the shareholders' general assembly.

Country limits are determined based on an analysis of economic, social and political factors, taking into consideration reliable data, reports by recognised and creditable market sources and the application of local business and market knowledge. Significant country-limit exposures are subject to periodic review and approval by the Board or the BCC.



### ***Corporate credit risk management***

Corporate credit facilities are granted based on detailed credit risk assessments that consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer group.

Internal credit-rating models are regularly reviewed by the Group risk management function in co-ordination with line management and the EC and are continually enhanced in line with industry credit risk management best practices.

All new credit proposals along with reviews of, and material changes to, existing credit facilities are evaluated and approved by an appropriate credit committee. The Group has the following hierarchy of credit committees at the head office level:

- *BCC*, which consists of non-executive Board members and approves all facilities exceeding the mandate of the other committees;
- *Senior credit committee*, which consists of the GCEO, the Deputy Group CEO, the CEO-Kuwait, the Deputy 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*, which consists of the Head of Corporate Banking, the Deputy Head of Corporate Banking, the Head of Domestic Credit Risk Management 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*, which consists of the GCEO, the Deputy Group CEO and the 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*, which consists of the Head of Group Risk Management, the Chief Credit Officer, 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.

### ***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 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 EC and significant policies are ratified by the Board.

### ***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 ORR yields a scale of 10 ratings for performing obligors plus three for non-performing obligors and reflects the probability of default for an obligor (irrespective of facility type or collateral) over the next 12 months for a senior unsecured facility. 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 Group 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.

#### *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 existing bilateral transaction history and potential relationship with the Group. The resulting credit facilities are structured across various products and maturities and are subject to review at least twice annually.

#### *Consumer lending*

Credit risk scorecard models are used to facilitate credit decisions and to monitor credit facilities advanced to higher-risk customer segments of consumer banking. Consumer lending criteria 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.

Consumer credit risk is monitored with three lines of defence. In the first line of defence, the consumer business lending group is responsible for adherence to credit policies, controls and processes. In the second line of defence, the consumer credit risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline and policies. The third

line of defence, the internal audit function, 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.

The table below shows a classification of the Group's customer loan portfolio by credit quality as at 31 December in each of 2020, 2019 and 2018 and has been extracted from note 30.1.4 to the 2020 Financial Statements and note 30.1.4 to the 2019 Financial Statements.

	<u>Neither past due nor impaired</u>		<u>Past due but not impaired<sup>(3)</sup></u>	<u>Past due and impaired</u>	<u>Total gross customer loan portfolio</u>
	<u>High<sup>(1)</sup></u>	<u>Standard<sup>(2)</sup></u>			
			<i>(KD thousands)</i>		
31 December 2020 .....	15,837,486	1,861,450	180,249	312,381	18,191,566
31 December 2019 .....	15,529,923	1,219,147	125,361	186,903	17,061,334
31 December 2018 .....	13,989,649	1,678,633	119,134	221,694	16,009,110

<sup>(1)</sup> 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 repayment capacity which are considered to be good to excellent.

<sup>(2)</sup> Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired.

<sup>(3)</sup> Credit exposures classified as "Past due but not impaired" are facilities that are past due up to a maximum period of 90 days. Upon 91 days past due, the facilities are classified as impaired.

As at 31 December 2020, 31 December 2019 and 31 December 2018, 91.5 per cent., 91.4 per cent. and 93.2 per cent., respectively, of the past due but not impaired category was 60 days or less past due, with the remaining loans being between 61 and 90 days past due.

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 2020 was KD 201 million (31 December 2019: KD 92 million and 31 December 2018: KD 84 million).

### ***Loan 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 dashboard for consumer and small-business lending, classification and delinquency monitoring, such as ageing and migration.

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

### ***Credit risk mitigation strategy***

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

In accordance with CBK regulations, the Group limits its credit concentration per group of related entities to 15.0 per cent. of the Group'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 nor 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 used 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 the sale of loans are additional practices used to manage the Group's exposures.

The main types of collateral accepted by the Group are:

- 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 a high net worth are accepted as guarantor counterparties, subject to credit risk assessment. However, in accordance with the CBK Basel III framework, only cash collateral, quoted shares, eligible debt instruments and units in collective investment schemes are recognised as risk mitigants for capital adequacy purposes.

The custody and daily mark-to-market of financial collateral are performed independently of the business units. Except for private residences, real estate collateral is valued on an annual basis.

For each of the years ended 31 December 2020, 31 December 2019 and 31 December 2018, respectively, an average of 47 per cent. of the Group's loans, advances and Islamic financing to customers portfolio (excluding consumer loans and net of provisions) were secured by collateral, primarily including cash, shares and real estate collateral.

The Group is authorised to liquidate the portfolio of collateral at its discretion in the event of any default in the payment of the covered loan. The most liquid collateral (such as cash and listed shares) can then be liquidated within a matter of days and the proceeds applied to discharge the amounts outstanding on the relevant loan.

The collateral enforcement process in Kuwait in respect of real estate involves a number of steps. Given the fact that the relevant debtor and/or guarantor may raise objections at each stage, if enforcement is contested the typical time taken to finalise enforcement proceedings in relation to real estate is between 36 and 48 months and, in difficult cases, up to 60 months.

Consumer loans are generally not secured. However, before granting consumer loans, the Group requires that the customer's employer makes the customer's salary payments direct to the customer's account held with the Group.

### ***Impairment, expected credit loss and/or provisions***

#### *Policy since 1 January 2018*

Since 1 January 2018, the Group computes ECLs on the following financial instruments which are not measured at fair value through profit or loss:

- 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 fair value through other comprehensive income; and
- balances and deposits with banks.

Equity investments are not subject to ECL.

#### *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 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 or (ii) the provisions required by CBK instructions.

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 (as described below); and
- a credit conversion factor on utilised and un-utilised portions for cash and non-cash facilities.

#### *Impairment of financial assets other than credit facilities*

The Group recognises ECL on investment in debt securities measured at amortised cost or at fair value through other comprehensive income and on balances and deposits with banks.

#### *ECLs*

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 a 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 the financial assets 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.

Lifetime ECL is the ECL that results from all possible default events over the expected life of a financial instrument. The 12-month ECL is the portion of lifetime ECL that result from default events that are possible within the 12 months after the reporting date. Both lifetime 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 a significant increase in credit risk since initial recognition and are migrated to Stage 2 even if other criteria do not indicate a significant increase in credit risk.

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; and
- 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 has not increased significantly since initial recognition or is not credit-impaired, the financial asset is classified as Stage 1.

### *Measurement of ECLs*

ECL is a probability-weighted estimate of credit losses and is measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfalls represent 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 PD, LGD and exposure at default (**EAD**). The Group estimates these elements using appropriate credit risk models taking into consideration all relevant information, including the internal and external credit ratings of the asset and the nature and value of any collateral and forward looking macro-economic scenarios, which primarily reflect reasonable and supportable forecasts of future macro-economic conditions.

### *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, a reduction in the amount of principal or interest or profit 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. In cases where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL, except in the rare occasions where the new financing is considered to be originated credit-impaired. This applies only in cases where the fair value of the new financing is recognised at a significant discount to its revised par amount, because there remains a high risk of default which has not been reduced by the modification. 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.

### *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 fair value through other comprehensive income, 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*

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 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 per cent. specific provision required);
- Doubtful, irregular for a period from and including 181 days and up to and including 365 days (50 per cent. specific provision required); and
- Bad, irregular for a period exceeding 365 days (100 per cent. 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.

In relation to credit facilities which have been rescheduled by agreement between the Group and the customer, any previously-made provision is required to be maintained to meet the rescheduled credit facilities. When 25 per cent. of the rescheduled debt balance has been repaid, the provision committee may reduce the provision to an amount not less than 20 per cent. of the debt balance.

In addition to specific provisions, minimum general provisions of 1 per cent. for cash facilities and 0.5 per cent. for non-cash facilities (net of certain restricted categories of collateral) are required to be made for all facilities in respect of which no specific provision has been made.

## **MARKET RISK**

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

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

- the implementation of a Market Risk Management Framework;
- well-defined processes and strong and effective controls;
- recognition of market risk as inherent in the Group's business model and macro-economic environment;
- clear segregation of "front", "back" and "middle" office duties;
- the Group's approach to accepting, limiting and increasing market risks;
- regular and effective monitoring and reporting of exposures and risk measures;
- regular monitoring of market prices and valuation of financial instruments;
- a defined set of internal limits and regular reporting on the adherence to those limits;
- regular independent reviews of internal controls and limits; and
- implementation of adequate infrastructure.

#### **Market risk management**

The Group's market risk management consists of governance, identification and measurement and management and limit setting (risk appetite), as well as reporting/management information.

The Board is ultimately responsible for determining and setting the amount of market risk that the Group is exposed to as a result of executing its business strategy through the Group's risk appetite. The EC is responsible for ensuring all market risks are monitored and maintained within approved limits. 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 exposure. Unresolved material breaches to risk limits are reviewed by a subcommittee of the EC and either approved or recommended for remedial action. The Group Asset Liability Management unit is responsible for supervising the management of market risk exposure.

The General Manager of the Treasury Group and General Managers in overseas locations are responsible for managing the Group's trading activities.

#### **Market risk arising from trading activities**

The Group's market risk management 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 per cent. confidence level and a holding period of ten days.

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.



## 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. This 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 basis points and +/-10 basis points to the yield curve) to capture the sensitivity of the exposure to interest rate changes.

This analysis of scenarios showed the following impacts in the banking book as at the dates stated:

	<u>+5 bps</u>	<u>-5 bps</u>	<u>+10 bps</u>	<u>-10 bps</u>
	<i>(KD thousands)</i>			
31 December 2020 .....	2,363	(2,363)	4,727	(4,727)
31 December 2019 .....	2,168	(2,168)	4,336	(4,336)
31 December 2018 .....	2,040	(2,040)	4,080	(4,080)

The Group does not use the results of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in scenario analysis. Such assumptions include assumptions 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.

## 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 does not believe that it is excessively exposed to interest rate risk as most of its assets and liabilities are re-priced regularly and much of its exposures arising on medium-term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. In addition, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board and adjusted where necessary to reflect the changing market conditions. In the case of certain consumer loans denominated in Kuwaiti dinar, the Group is exposed to some interest rate risk, since interest rates on those loans are not re-priced for the first five years and then the subsequent permitted adjustments are restricted in amount.

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 rates on the fair value of investments in debt securities classified as fair value through other comprehensive income/available for sale. Sensitivity to interest rate movements is symmetrical as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held as at 31 December 2020, 31 December 2019 and 31 December 2018, respectively, 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:

Currency	Movement in basis points	2020		2019		2018	
		Effect on Profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity
		<i>(KD thousands)</i>					
KWD.....	+25	8,761	-	7,588	—	7,810	—
USD .....	+25	1,412	(2)	2,174	(3)	1,333	(17)
EUR .....	+25	493	-	573	—	1,165	—
GBP.....	+25	716	-	550	—	604	—
EGP.....	+25	80	(372)	23	(37)	67	(8)

## 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, established by the Board (which are within regulatory limits set by the CBK) and implemented by executive management, on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange rate exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an on-going basis.

The table below shows the effect on profit of an assumed 5 per cent. 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.

<u>Currency</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
		<i>(KD thousands)</i>	
	+5%	+5%	+5%
USD .....	2,252	3,071	3,254
GBP .....	149	156	49
EUR .....	(240)	(8)	(7)
Other .....	(142)	(219)	(197)

## 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 per cent. of a bank's regulatory capital for investment in funds and equities, excluding subsidiaries.

The table below shows the effect of equity price risk on the Group's profit (as a result of changes in the fair value of equity investments held as fair value through profit and loss) and on the Group's equity (as a result of changes in the fair value of equity investments classified as fair value through other comprehensive income/ available for sale) as at the dates provided based on an assumed 5 per cent. change in market indices, with all other variables held constant.

<u>Market indices</u>	<u>2020</u>		<u>2019</u>		<u>2018</u>	
	<u>Effect on profit</u>	<u>Effect on equity</u>	<u>Effect on profit</u>	<u>Effect on equity</u>	<u>Effect on profit</u>	<u>Effect on equity</u>
			<i>(KD thousands)</i>			
Kuwait stock exchange.....	70	15	128	10	117	16
Qatar stock market .....	182	-	172	—	132	—
UAE stock indices.....	159	3	230	1	166	3
Saudi Stock Exchange.....	592	-	600	—	638	—

## 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 is 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 Group'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 HQLAs at all times. Further, the Group's liquidity objectives are:

- to ensure the 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 Group's ability to generate or obtain cash or its equivalent in a timely and cost-efficient manner so that the Group 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.

In accordance with the Basel III framework, as implemented by the CBK, the Group manages its liquidity through compliance with the LCR. As part of its requirements to report its liquidity position to the CBK in compliance with the LCR, the Group manages its internal liquidity through periodic internal 30-day and 60-day LCR stress tests which are more conservative than the Basel II requirements. Additionally, the Group's treasury division invests in various short-term or medium-term, highly marketable assets in line with Basel III guidelines for HQLAs (such as government and central bank securities in jurisdictions in which the Group has operations).

The HQLA as of 31 December 2020, was valued at KD 6,626 million (post-factor) and the LCR ratio was 145.2 per cent. (31 December 2019: HQLAs valued at KD 5,833 million and LCR ratio of 159.7 per cent., and 31 December 2018: HQLAs valued at KD 5,595 million and LCR ratio of 163.0 per cent.). See *"Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Capital Securities, the Loan and/or the Subordinated Guarantee—Liquidity risks"* for more information.

The ALEC monitors compliance to these ratios internally at least on a monthly basis.

In accordance with the Basel III framework, as implemented by the CBK, the Group also manages its liquidity through compliance with the NSFR. Starting from 1 January 2018, the Group has monitored and

reported its NSFR in line with CBK instructions. As at 31 December 2020, the NSFR ratio was 115.1 per cent. (31 December 2019: 111.1 per cent., 31 December 2018: 112.6 per cent.)

The Group maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further reduced by the Group's adherence to the CBK's liquidity requirements which comprise:

- maturity ladder mismatch limits for specific time periods: 10 per cent. for seven days or less; 20 per cent. for one month or less; 30 per cent. for three months or less; and 40 per cent. for six months or less;
- a requirement to hold 18 per cent. of KD customer deposits booked in the Group in Kuwaiti government treasury bills and bonds, current account/deposit balances with the CBK and/or any other financial instruments issued by the CBK; and
- a requirement to keep sufficient funding against loan generation, as required by the CBK under its loan to deposit ratio requirements.

As at the date of this Prospectus, the Group was fully compliant with the CBK's liquidity requirements set out above.

The Group has a well-defined Repurchase Agreement (**Repo**) policy in place as a means of raising liquidity. Repos and reverse repos are governed by master agreements with netting terms based on the Global Master Repurchase Agreement (**GMRA**), including holding collateral in the form of cash. The Group also has a contingency funding plan to manage a stressed liquidity situation created by bank-specific issues or by market-wide (systemic) liquidity disturbances. The purpose of the plan is to provide a framework within which an effective response to a liquidity crisis can be managed.

In order to assist Kuwaiti banks in managing their liquidity positions during stressed conditions, the CBK provides a "repo window" for portfolios of CBK bonds and Kuwait Government treasury bonds held by Kuwaiti financial institutions. In exceptional circumstances, additional discretionary liquidity support is available from the CBK, including the ability to access funding at the CBK discount rate.

Note 30 to each of the Annual Financial Statements sets out the maturity profiles of the Group's assets and liabilities based on contractual cash flows and maturity dates and on contractual repayment arrangements.

## **DERIVATIVES**

A financial derivative is an instrument whose value is derived from the performance of underlying assets which may include reference rates and indices. Derivatives are designed to provide more flexibility and granularity in financial markets, and are also used as risk hedging instruments.

The Group enters into various types of transactions that involve financial derivative instruments in the ordinary course of its business.

The Board has approved a range of derivative products for use, including:

- foreign exchange forwards and futures;
- foreign exchange swaps;
- interest rate swaps (including amortising and ascending swaps);
- cross-currency interest rate swaps (including amortising and ascending swaps);
- total return swaps; and

- foreign exchange options contracts, including plain calls and puts, collars, knock-ins, knock-outs, Asian and digital options.

Other more complex derivative products may only be used in line with the requirements of specific approvals by relevant authorising bodies.

The Group also transacts in derivative instruments both as principal, solely to manage its own financial risk, and on behalf of its clients. In the latter case, the Group covers the exposure which it assumes on a back-to-back basis with market counterparties to avoid taking any market risk. The Group deals in interest rate swaps to manage its interest rate risk on interest-bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualify 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 purposes but do not meet the qualifying criteria for hedge accounting.

Derivative financial instruments are carried at fair value in the Group's 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 as 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 counterparties of replacing all their transactions with the Group.

The fair values and notional amounts of the Group's positions in these instruments are set out in note 28 to the each of the Annual Financial Statements.

### **Counterparty credit risk**

The Group Risk Management function independently monitors counterparty credit risk exposures arising from the Group's 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. For the year ended 31 December 2020, the Group's PFE on its derivatives transactions amounted to KD 32 million. For the year ended 31 December 2019, the Group's PFE on its derivatives transactions amounted to KD 22 million.

### **Assignment of credit limits for counterparty credit exposures**

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

### ***Policies for securing collateral and credit reserves***

In order to reduce 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 the appropriate counterparties. Daily valuations for qualified derivatives are compared to those reported by the 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. For financial derivatives transacted with a Central Clearing Counterparty (**CCP**), collateral is posted on a daily basis.

### ***Additional collateral requirements due to credit rating downgrade***

The Group has no provisions in its agreements with counterparties where a downgrade in its credit rating will have an impact on the collateral amount to be posted. The Group also does not enter into derivatives whose valuations depend on the credit quality of the counterparty.

### ***Netting***

In response to the various regulations, including the European Market Infrastructure Regulations (**EMIR**), and uncertainties regarding the binding nature and enforceability of "netting" arrangements and agreements under the laws of Kuwait, the market practice amongst leading banks in the GCC active in the derivatives market has been to create special purpose companies in netting-friendly jurisdictions for the exclusive purpose of dealing in the OTC derivatives market with European banks. The International Securities and Derivatives Association has classified the Cayman Islands as a netting-friendly jurisdiction. The Group has, with the approval of the CBK, established NBK GDM (Caymans) Limited to deal in financial derivatives products, which allows the Group to continue dealing with highly-rated counterparties on derivative transactions with netting arrangements in place and removes the risk that the Group may be required to post "margin" collateral on an asymmetric basis.

### **Operational Risk**

Operational risks are managed at the Group level through a Board-approved operational risk management framework which defines the roles and responsibilities of the BRCC, 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;
- periodic 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 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 on a periodic 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 emphases are on business units performing the self-assessment of actual risks facing them and on the effectiveness of the controls they are implementing, which are 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 is established as a firm process across all business and support units. Close coordination 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 BRCC to ensure comprehensive oversight and review is conducted by relevant members of the Board and executive management.

## GROUP COMPLIANCE AND GOVERNANCE

The Group Compliance and Governance is a part of NBK Group's culture of complying and operating in accordance to regulatory and legislative frameworks, where Group Compliance and Governance attempts to enhance sound practices and ensure that Bank does not violate any requirements set by legislators and regulatory Bodies either in Kuwait or other countries where Group operates.

The Compliance and Governance function is a key component of the Bank's second line of defense for managing compliance risks, the Group supervises and participates in placing internal procedures in conformity with regulations. Its main role is to support the Bank and its Management in managing the compliance risks, embedding and improving the compliance arrangements in all levels and structures of the Bank, in order to ensure that the bank operates with integrity and adheres to applicable laws, regulations and internal policies.

The key features of the Group's comprehensive policy of managing compliance risks and embedding sound governance principles are:

- The Board provides overall guidance to implement compliance culture and sound corporate governance principles across the bank;
- The Group's compliance and governance policies and procedures are reviewed by the Board Risk and Compliance Committee and ultimately approved by the Board;
- Comprehensive reports concerning level of compliance and associated risks are presented to Board and Board Risk and Compliance committee;
- The Group coordinated and work with Bank's Management under the supervision of Board of directors; and
- The Group internal audit provides independent validation of the adequacy and effectiveness of the Group Compliance and Governance framework on a Group-wide basis.

The Group Compliance and Governance division is headed by the Group Chief Compliance and Governance Officer (**GCC&GO**), who reports directly to the BRCC. The Group Compliance and Governance has the following objectives and responsibilities:

1. Review the compliance risk processes that are in place to anticipate and effectively manage the impact of regulatory change on the Group's operations.
2. Review and endorse the contents of the Group's annual risk and compliance reports submitted to the CBK.
3. Oversee the implementation of the policy, and ensure compliance issues are resolved effectively and expeditiously by senior management with the assistance of the compliance function.
4. Ensure the Group (including each subsidiary and branch in every jurisdiction of operation) abide by all relevant laws and regulations applicable to it.
5. Ensure the Group's compliance with the regulations related to the Anti-Financial Crime, Foreign Account Tax Compliance Act (FATCA), Common Reporting Standard (CRS) and other similar applicable regulations.
6. Ensure the existence of clear reporting lines, authority and accountability for managing, monitoring and reporting risks as performed internally and as required by CBK and applicable laws and regulations.

The Group Compliance and Governance comprises the following departments:

- Regulatory Compliance;
- Corporate Governance and Capital Markets Authority Compliance



- Tax Compliance;
- Anti-Financial Crime;
- Credit Compliance;
- Regulatory Capital and Impairments; and
- Model Validation.

The Group's compliance programme has three main pillars (advise, monitor and report) built on a foundation of a sound understanding of the appropriate regulatory requirements. Advising encompasses the internal notification of regulatory change, new products and services and internal processes as well as other internal communications including training and a compliance calendar. Monitoring includes procedures for compliance reviews, breach escalation, complaints handling and compliance indicators.

#### **Anti-money laundering (AML) and counter-terrorism financing (CTF)**

The Group has an AML/CTF policy and procedures which take into account Financial Action Task Force recommendations, international sanctions lists (such as those of the United Nations, the European Union and the U.S. Office for Foreign Assets Control) and applicable local and international laws and regulations. As the Group has a presence in various jurisdictions, it seeks to apply the most stringent of the different requirements applicable to it.

The Group's AML/CFT policy covers the following key areas:

- customer due diligence, which includes know your customer, enhanced due diligence, event-driven reviews and periodic reviews;
- ongoing screening of customers against all sanction/prohibited lists to ensure compliance with international/local sanctions lists;
- transaction monitoring;
- product assessments;
- staff training; and
- payments (SWIFT) screening against sanctions lists.

In addition, the Group uses a risk-based approach to classify customers as high, medium and low risk and enhanced due-diligence is conducted for customers who are rated as high risk. Factors used for classification include but are not limited to the nature of the ultimate beneficial owner, products and jurisdiction concerned.

#### **Anti-bribery and corruption**

The Group is committed to conducting business in an ethical and honest manner and to implementing and enforcing systems which ensure bribery is prevented. The Group has no tolerance for bribery and corrupt activities and is committed to acting professionally, fairly and with integrity in all business dealings and relationships, wherever it operates. The Group's anti-bribery & corruption policy, which is in its implementation phase, sets out the responsibilities of the Group and those who have a working or business relationship with it in relation to observing and upholding its zero-tolerance position on bribery and corruption.

The areas defined by the Group as having increased bribery risk are:

- accepting and offering gifts, hospitality and entertainment;
- political contributions;
- charitable donations;

- facilitation payments; and
- dealing with third parties.

In order to establish efficient controls against violations of the anti-bribery & corruption policy requirements, there are a number of internal standards and procedures in place, including but not limited to:

- code of ethics;
- code of conduct;
- know your partner procedures, including a risk assessment of the type of third parties the Group is engaged with;
- assessment of the Group's business lines;
- gift and hospitality instructions;
- whistleblowing policy; and
- incident and risk escalation procedures together with management information process.

#### **Global data protection regulation (GDPR)**

The Group has presence in a number of territories and this includes two subsidiaries in the EU, in France and The Netherlands. Group entities in EU locations are "Data Controllers" (as defined in the GDPR) in respect of various types of personal data obtained from data subjects locally, whilst certain Group entities located outside the EU receive data from those Group entities in the capacity of Data Processors (as defined in the GDPR). Further, the Group in Kuwait also centrally monitors Kuwait data subjects in respect of fraud monitoring and AML/CTF in relation to transactions they perform globally (including at EU locations) and therefore GDPR may be directly applicable to the Group under the provisions of the extra-territorial applicability of the GDPR.

In this connection, the Group has developed a specific data privacy policy that is applied in Kuwait as well as at various EU locations and in the United Kingdom. The Group has also taken steps to assess its footprint in respect of transactions and dealings which may be considered to be within the scope of GDPR and reviewed the associated privacy risks and legal implications of such transactions. The Group has taken appropriate legal advice to assist it in implementing the GDPR requirements at a Group level, including agreements between Group entities in relation to service levels and data transfers in accordance with the GDPR requirements as well as clear definition of roles within concerned entities to manage privacy requirements and enhancement of internal processes.

The Group has taken steps to leverage Group-level capabilities to manage its IT systems centrally and host systems of multiple Group entities at the Group in Kuwait. This strategy of centralised hosting and management of IT systems is impacted by the GDPR given that Group entities in EU jurisdictions and the United Kingdom transfer personal data to the Group in Kuwait. The Group's EU entities have taken appropriate legal advice and implemented measures to comply with the GDPR requirements as Data Controllers and have entered into legally-binding agreements with the Group acting as a Data Processor.

## MANAGEMENT

### CORPORATE GOVERNANCE FRAMEWORK

The Bank has developed a corporate governance framework which is based on international best practice and the CBK's "Rules and Standards of Corporate Governance in Kuwaiti Banks" which were issued in June 2012. On 10 September 2019, the CBK issued a revision to the corporate governance regulations effective from 30 June 2020. The core principles and standards of the Bank's corporate governance framework are embedded into the day-to-day business and practices of the Bank, with particular oversight at the Bank's board of directors (the **Board**) level and at Board committee level through the Board Corporate Governance Committee (the **BCGC**).

The framework is designed to secure effective oversight of the Group's strategy and business operations with a robust risk management approach, transparency, accountability and Board independence.

The Board, together with the BCGC, reviews and updates the corporate governance framework on an annual basis which is documented in the Board-approved corporate governance manual. The Group's executive management ensures the framework is implemented through policies and procedures, and employees are required to follow the corporate governance requirements in accordance with the governance manual.

Based on the newly issued revised corporate governance regulations, the Bank is in the process of implementing new provisions related to the composition of Board and Board sub-committees and membership of independent Board members. On 1 April 2020, the Bank opened the nomination process for two independent board members. However, due to COVID-19 and the resultant impact on government agencies, the CBK extended the election deadline from 30 June 2020 until 31 December 2020.

The Group is committed to providing timely, consistent and accurate information to its stakeholders and has adopted a disclosure and transparency policy to ensure this is achieved. This policy covers a wide range of areas, including the key quantitative and qualitative information related to financial performance and financial stability, risk management factors, remuneration, corporate governance, related-party transactions, conflicts of interest and substantial changes in business.

### BOARD

The Group operates under the direction of the Board, which is the principal decision-making forum with overall responsibility for the Group's strategy and for monitoring performance of the Group's businesses and executive management. As at the date of this Prospectus, the current Board comprises nine non-executive members. By the next General Assembly meeting on 6 March 2021 the two additional independent board members will be elected. Additionally, at the General Assembly meeting held on 7 March 2020, the articles of association were amended to include that with effect from 30 June 2022, the Board shall consist of thirteen members of whom four shall be independent members, provided that the number of independent members shall not exceed half of the members of the Board. Each member of the Board is elected at a shareholders' general assembly meeting for a period of three years. All elected directors seeking to serve an additional term are required to seek re-election by the shareholders every three years.

In line with CBK requirements, the Board convenes at least once each quarter. The Board convened a total of 8 times in 2020.

The primary mandate of the Board is to align the Group's strategic objectives, risk appetite and overall corporate governance framework with the best interests of the Group and thereby maximise value for shareholders. This mandate is coupled with responsibility for monitoring and maintaining the Group's financial and economic stability and safeguarding the rights and benefits of all of the Group's stakeholders.

The roles of the Chairman of the Board and the Group Chief Executive Officer (**GCEO**) are separate and independent of one another and there is a clear segregation of their respective duties and responsibilities. The Chairman's responsibilities are set out in full in the Board Charter but, in summary, his main responsibility is to lead the Board and ensure the effective engagement and contribution of all directors, so that the Board may fully discharge its legal and regulatory responsibilities.

The Board appoints the GCEO and specifies his powers and authority. The day-to-day management of the Group's business has been delegated by the Board to the GCEO, who is assisted by the other members of the executive management. The GCEO, assisted by the other members of the executive management, is responsible for controlling and monitoring the Group's business on a day-to-day basis, recommending strategy to the Board, leading executive management and implementing the Board's strategic and operational decisions.

Any candidate for appointment as a director must first be recommended by the Board Nomination and Remuneration Committee (BNRC) and approved by the Board, the CBK and the Bank's shareholders at the annual general meeting. Decisions of the Board are, with limited exceptions, made by majority votes of those present (in person) at the meeting.

### **Board members**

The table below shows the names of the members of the Board as at the date of this Prospectus.

<b>Name</b>	<b>Position</b>
Mr. Nasser Musaed Abdulla Al-Sayer .....	Chairman
Mr. Ghassan Ahmed Saoud Al-Khaled .....	Vice-Chairman
Mr. Hamad Abdul Aziz Al-Sager.....	Board Member
Mr. Yacoub Yousef Abdulaziz Al-Fulaij .....	Board Member
Mr. Hamad Mohammed Abdulrahman Al-Bahar .....	Board Member
Mr. Muthana Mohammed Ahmed Al-Hamad .....	Board Member
Mr. Haitham Sulaiman Al-Khaled .....	Board Member
Mr. Emad Mohamed Abdulrahman Al-Bahar .....	Board Member
Mr. Talal Jassem Mohammad Al Kharafi.....	Board Member

Set out below is brief biographical information about each member of the Board as at the date of this Prospectus.

#### ***Mr. Nasser Musaed Abdulla Al-Sayer – Chairman***

Mr. Al-Sayer has been a Board member since 1980. He was appointed as Chairman of the Board in August 2014 (having served as Vice-Chairman of the Board since 1993). He is also Chairman of the BCGC.

Mr. Al-Sayer has been a board member of the Kuwait Banking Association since 1999, where he was also the Chairman from 1999 to 2006. He was also a member of the Supreme Council for Planning & Development (which is chaired by H.E. The Prime Minister of Kuwait). Mr. Al-Sayer was Deputy General Manager of the Kuwait Fund for Arab Economic Development from 1973 to 1978 and a Board member from 1994 to 2000. Mr. Al-Sayer has considerable experience in banking, investment, strategic planning and governance in both the private and public sectors.

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

#### ***Mr. Ghassan Ahmed Saoud Al-Khaled – Vice-Chairman***

Mr. Al-Khaled has been a Board member since 1987 and has served as Vice-Chairman since August 2014. He is also chairman of the Board Risk and Compliance Committee and chairman of the Board Audit Committee.

Mr. Al-Khaled is the Vice-Chairman and Managing Director at ACICO Industries Co. He has experience in corporate banking, trade finance, credit and the retail sector.

Mr. Al-Khaled holds a Bachelor of Science degree in Civil Engineering from West Virginia University, United States.

#### ***Mr. Hamad Abdul Aziz Al-Sager – Board Member***

Mr. Al-Sager has been a Board member since 1983. He also served as a Board member from 1975 to 1976. He is chairman of the Board Credit Committee and a member of the BCGC.

Mr. Al-Sager was a board member at Al Kout Industrial Projects Co., Kuwait. He has extensive experience in the banking industry, especially in corporate credit.

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

***Mr. Yacoub Yousef Al-Fulaij – Board Member***

Mr. Al-Fulaij has been a Board member since 1998. Mr. Al-Fulaij is a member of the Board Credit Committee and the BCGC.

Having previously been a General Manager at the Bank from 1983 to 1998, Mr. Al-Fulaij has broad experience in banking activities, including risk management and internal controls.

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

***Mr. Hamad Mohammed Abdulrahman Al-Bahar – Board Member***

Mr. Al-Bahar has been a Board member since 2005. He is the Chairman of the Board Nomination and Remuneration Committee and is a member of the Board Credit Committee.

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

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

***Mr. Muthana Mohammed Ahmed Al-Hamad – Board Member***

Mr. Al-Hamad has been a Board member since 2007. He is a member of the BCGC, BRCC, BAC and the BNRC.

Mr. Al-Hamad is also a board member of Al-Watyah United Real Estate Company. He was previously the Chairman of Future Communication Company International (between 2005 and 2014), a board member of Arab European Company for Financial Management from 1987 to 1993, a board member of the Commercial Bank of Kuwait from 1993 to 1997 and a board member of 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 Economics and Political Science from Kuwait University, Kuwait.

***Mr. Haitham Sulaiman Hamoud Al-Khaled – Board Member***

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

Mr. Al-Khaled has served as a board member of Al Shall Consulting & Investment Co. since 2006 and Al Arjan Global Real Estate Company since 2010. He is also the Chairman of Al Arjan International Real Estate Company since 2014. Mr. Al-Khaled previously held a number of senior positions at the telecom operator Zain, including Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer. 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, Kuwait.

***Mr. Emad Mohammed Abdulrahman Al-Bahar – Board Member***

Mr. Al-Bahar has been a Board member of the Bank since August 2014, following the death of the late Chairman, Mr. Mohamed Abdulrahman Al Bahar. He is a member of the Board Credit Committee and the BNRC.

Mr. Al-Bahar is a member of the executive board of the Al Bahar Group, which is one of the oldest trading conglomerates in Kuwait and the Middle East. He is also a member of the board of Al-Ahleia Insurance Company Kuwait and of other overseas companies.

Mr. Al-Bahar holds a Management Degree from the American University of Washington, United States.

***Mr. Talal Jassem Al-Kharafi – Board Member***

Mr. Al-Kharafi has been a Board member since March 2019. He is a member of the Board Risk and Compliance Committee and the BNRC.

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 board 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.

The business address of each member of the Board is National Bank of Kuwait S.A.K.P., P.O. Box 95, Safat, 13001 Kuwait, Jaber Al-Mubarak and Al-Shuhada Street, NBK Tower, Sharq, State of Kuwait.

Certain members of the Board, their families and companies of which they, or members of their families, are principal owners, or of which they are employees, are customers of the Group in the ordinary course of business. The transactions with these parties are made at arm's length and on substantially the same terms, including interest rates, as those prevailing at the same time for comparable transactions with unrelated parties. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Related Party Transactions*".

Except as disclosed in the next paragraph, no member of the Board named in the table above has any actual or potential conflict of interest between his duties to the Group and his private interests and/or other duties.

Each of the directors of the Bank named in the table above has outside interests in entities other than the Group, including employment and/or directorships with third parties (as set out in their respective biographies). Given the wide scope of the Group's operations, such entities have banking and/or other commercial relationships with the Group. Some Board members also have personal banking relationships with the Group. As the directors are involved in the Group's decision-making process and have knowledge of the Group's products and services, including the commercial terms thereof, a potential conflict of interest may arise. However, the Group has established robust internal procedures to deal with any such potential conflict, including the relevant director being excluded from voting at Board meetings on issues which relate to the relevant director's and/or other connected entity's dealings with the Group.

The Group is committed to managing all related party transactions and potential conflicts of interest which may arise and to meet the Group's obligations to maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to identify, monitor and manage related party transactions and conflicts of interest.

The Group has adopted "Related Party Transaction Policy" and "Conflict of Interest Policy" in line with IFRS 24 and related CBK instructions. The Group's internal policies with respect to related party transactions are designed to ensure that appropriate procedures and measures are in place to identify and effectively manage all related party transactions and any relevant or material conflicts of interest, that the Board appropriately deals with actual, potential and perceived conflicts of interest, and that all decisions are made in the best interests of the Group.

The Group maintains a register for all related party transactions and a separate register for conflict of interest cases.

The table below sets out the number of shares held by each director as at 31 December 2020:

<b>Director</b>	<b>31 December 2020</b>
Mr. Nasser Musaed Abdulla Al-Sayer.....	1,697,134

<b>Director</b>	<b>31 December 2020</b>
Mr. Ghassan Ahmed Saoud Al-Khalid .....	1,680,003
Mr. Hamad Abdul Aziz Al-Sager .....	46,886,313
Mr. Yacoub Yousef Al-Fulaij .....	3,770,565
Mr. Hamad Mohammed Abdulrahman Al-Bahar .....	48,889,348
Mr. Muthana Mohammed Ahmed Al-Hamad .....	11,710,970
Mr. Haitham Sulaiman Al-Khaled .....	172,775
Mr. Emad Mohammed Abdulrahman Al-Bahar .....	52,500,500
Mr. Talal Jassem Al Kharafi .....	110,250

## Board committees

The Board has established the five Board committees which are described below. The roles and authorities of each Board committee are defined and delegated by the Board and are described in each committee's charter. Each Board committee reviews its charter annually and submits any recommendations for amendments or updates to the Board for approval. The Board committees also submit reports to the Board's Chairman and Board of Directors each quarter regarding their respective duties.

- Board Audit Committee.** The Board audit committee (**BAC**) is responsible for overseeing the Group's internal control framework and for ensuring the independence of its external auditors. The BAC has responsibility for assessing the effectiveness of the Group's internal control framework on a periodic basis through the evaluations carried out by the Group's internal audit function. The BAC reports the results of its assessment on the adequacy of existing controls and processes to the Board. The committee is also responsible for the recruitment, dismissal, performance evaluation and remuneration recommendation of the Head of Internal Audit. The BAC is also responsible for monitoring the performance of the Group's external auditors and co-ordinating with them on subjects related to audit and financial statements. The BAC also reviews and oversees the preparation of the Group's annual and interim financial results.

As at the date of this Prospectus, the members of the BAC are: Mr. Ghassan Ahmed Saoud Al-Khaled (BAC Chairman), Mr. Muthana Mohamed Ahmed Al-Hamad and Mr. Haitham Sulaiman Hamoud Al-Khaled.

A quorum of two is required to convene a meeting of the BAC. Only members of the BAC, the Secretary of the BAC and the Group chief internal auditor are entitled to attend the committee's meetings, although members of management and other specialists or professional advisers may be invited to attend meetings at the request of the committee.

The BAC is required to hold a minimum of 4 meetings per year (one each quarter) and provides regular reports to the Board. In 2020, the BAC sat 11 times.

- Board Credit Committee.** The Board credit committee (**BCC**) is responsible for reviewing the quality and performance of the Group's credit portfolio, overseeing the effectiveness and administration of credit-related policies and reviewing and approving credit limits above certain thresholds. Membership of the BCC does not overlap with membership in either the BAC or the Board Risk and Compliance Committee.

As at the date of this Prospectus, the members of the BCC are: Mr. Hamad Abdul Aziz Al-Sager (BCC Chairman), Mr. Yacoub Yousef Abdulaziz Al-Fulaij, Mr. Hamad Mohamed Al-Bahar and Mr. Emad Mohammed Al-Bahar.

The quorum for any meeting of the BCC is a minimum of two members, provided they include the Committee Chairman or his delegate. Only members of the Committee (including the Committee Secretary) are entitled to attend Committee meetings. However, members of management or representatives, and other specialists may be invited to attend meetings at the request of the Committee.

The BCC is required to meet on a weekly basis and provides regular reports to the Board. In 2020, the BCC sat 21 times.

- Board Risk and Compliance Committee.** The Board risk and compliance committee (**BRCC**) is responsible for ensuring that the Group's enterprise-wide risk management has (1) identified the relevant risks that could affect the ability of the Group to achieve its strategies and preserve its

assets, (2) established an enterprise risk management infrastructure—the people, processes and technology—to identify, measure, monitor and report on the risks the Group faces, and (3) established a strong and sustainable compliance culture and compliance management system that seeks to ensure the Group's compliance with applicable laws, rules and regulations governing its businesses.

The Committee shall also monitor the performance of the Group Chief Risk Officer (**Group CRO**) and Group Chief Compliance and Governance Officer, and assist management in its efforts to ensure a culture of people at all levels in the Group recognizing and managing risk and help to set the tone for a strong risk management and compliance culture within the Group.

As at the date of this Prospectus, the members of the BRCC are: Mr. Ghassan Ahmed Saoud Al-Khaled (BRCC Chairman), Mr. Muthana Mohamed Ahmed Al-Hamad, Mr. Haitham Sulaiman Hamoud Al-Khaled and Mr. Talal Jassem Mohammed Al Kharafi.

A quorum of three is required to convene a meeting of the BRCC, the Secretary of the BRCC, the Group CRO and the Group Chief Compliance and Governance Officer are entitled to attend the committee's meetings, although members of management and other specialists or professional advisers may be invited to attend meetings at the request of the committee.

The BRCC is required to hold a minimum of 4 meetings per year and provides regular reports to the Board. In 2020, the BRCC sat 9 times.

- **Board Corporate Governance Committee.** The BCGC supervises the Group's Corporate Governance Office and supports the Board in reviewing the Group's corporate governance principles and practices at regular intervals. The Corporate Governance Office is a centralised and independent function at Group level that is responsible for ensuring effective implementation of the Group's corporate governance framework.

The BCGC is responsible for monitoring the robustness of the governance policies and procedures that the Group has developed. The BCGC is also responsible for the effective implementation of the Bank's disclosure framework, which includes policies, procedures, templates, a disclosure register and a disclosure monitoring dashboard. The committee supervises the monitoring and reporting of conflicts of interest and related party transactions.

As at the date of this Prospectus, the members of the BCGC are: Mr. Nasser Musaed Abdullah Al-Sayer (BCGC Chairman and Chairman of the Board), Mr. Hamad Abdul Aziz Al Hamad Al-Sager, Mr. Yacoub Yousef Abdulaziz Al-Fulaij, Mr. Muthana Mohamed Ahmed Al-Hamad and Mr. Haitham Sulaiman Hamoud Al-Khaled.

A quorum of three members of the committee is required to convene a meeting. Only members of the committee and the Secretary of the committee are entitled to attend the committee meetings, although members of management and other specialists or professional advisers may be invited to attend meetings at the request of the committee.

The BCGC is required to hold a minimum of two meetings per year and to provide regular reports to the Board. In 2020, the BCGC sat 2 times.

- **Board Nomination and Remuneration Committee.** The BNRC is responsible for overseeing the Group's succession planning processes, the review of the Group's remuneration framework and suggesting recommendations with respect to executive management remuneration. In addition, the BNRC is responsible for nominating potential Board members, on-boarding and training of new Board members and training and raising the awareness of the Board. The committee also initiates and oversees the evaluation process of the Board and the Board committees. The committee is also supported by the Group's Corporate Governance Office.

The Group's Board level succession planning is managed by the BNRC, which has responsibility for determining the composition of the Board in line with CBK guidelines. For the purposes of Board-level succession planning, the Group's general assembly has approved the nomination of 'first reserve' and 'second reserve' future Board members, who were initially identified by the BNRC. When a Board vacancy appears, the BNRC will recommend a nominee from



the group of 'first reserve' or, if required, 'second reserve' future Board members to fill the vacant post.

As at the date of this Prospectus, the members of the BNRC are: Mr. Hamad Mohammed Al-Bahar (Chairman), Mr. Muthana Mohamed Al-Hamad, Mr. Emad Mohammed Al-Bahar and Mr. Talal Jassem Al Kharafi.

The quorum for BNRC meetings is three members. Only members of the committee and the Secretary of the BNRC are entitled to attend the committee meetings, although members of management and other specialists may be invited to attend meetings upon request of the committee.

The BNRC is required to hold a minimum of 2 meetings per year and to provide regular reports to the Board. In 2020, the BNRC sat 4 times.

## **EXECUTIVE MANAGEMENT**

The Bank has a long-serving executive management team which is responsible for day-to-day supervision and control of the Group's business, particularly with respect to ensuring functionality of compliance and risk control, independence of functions, and separation of duties. Business policies, accounting policies and operations procedures and controls are documented and communicated through policies and standard operating procedures manuals which cover all areas and activities of the Group. All significant policies are reviewed and approved by the Board.

### **Members of executive management**

Detailed below is brief biographical information about each member of the Group's executive management team as at the date of this Prospectus.

#### ***Mr. Isam J. Al-Sager – Group Chief Executive Officer***

Mr. Al-Sager joined the Bank in 1978 and was appointed as GCEO in March 2014. He had previously served as Deputy Group Chief Executive Officer since 2010.

Mr. Al-Sager is chairman of the board of NBK (International) PLC and serves on the board of directors of Watani Wealth Management (Kingdom of Saudi Arabia); NBK Properties (Jersey) Limited; NBK Trustees (Jersey) Limited and NIG Asian Investment Co.

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

#### ***Ms. Shaikha K. Al-Bahar – Deputy Group Chief Executive Officer***

Ms. Al-Bahar joined the Bank in 1977, has been Deputy Group Chief Executive Officer since March 2014 and was previously Chief Executive Officer of the Bank's operations in Kuwait from 2010 onwards.

Ms. Al-Bahar is the Chair of National Bank of Kuwait – Egypt, National Bank of Kuwait – France, National Bank of Kuwait (Lebanon) and NBK Capital and serves on the boards of directors of NBK (International) PLC and 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. She has extensive experience in privatisation, project finance, advisory services, bond issues, build/operate/transfer financing, initial public offerings, global deposit receipt programmes and private placements.

Ms. Al-Bahar holds a Bachelor of Science degree in International Marketing from Kuwait University and has attended specialised management and executive programmes at Harvard Business School, Stanford University and Duke University.

#### ***Mr. Salah Y. Al-Fulaij – Chief Executive Officer – Kuwait***

Mr. Al-Fulaij joined the Bank in 1985 and was appointed as Chief Executive Officer – Kuwait in January 2015. He was previously the Chief Executive Officer of NBK Capital from 2008 to 2014.

Mr. Al-Fulaij is a member of the Board of Watani Financial Brokerage Company K.S.C.C. and serves on the boards of NBK Capital and National Bank of Kuwait – France.

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

Mr. Al-Fulaij is a graduate of the University of Miami where he received his Bachelor's 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.

***Mr. Sulaiman Barrak Al-Marzouq – Deputy Chief Executive Officer - Kuwait***

Mr. Al-Marzouq joined the Bank in 2002 and is now the Deputy Chief Executive Officer – Kuwait.

Mr. Al-Marzouq moved to the CBK from 2012 to 2015, where he headed the Department of Foreign Operations, before moving back to the Bank as Group Treasurer. Mr. Al-Marzouq has extensive experience in investment and Wealth Management, in addition to his experience in Treasury and Banking Operations. He is a board member of NBK Capital, Hayat Investment Co. and has served as a board member for several banks and other companies in Kuwait.

Mr. Al-Marzouq holds a Bachelor's degree in Economics from Portland State University, United States.

***Mr. Parkson Cheong – Group Chief Risk Officer***

Mr. Cheong joined the Bank in 1993 and has been the Group Chief Risk Officer since 2008. He is the chairman or a member of several management-level supervisory committees at the Bank.

Mr. Cheong is experienced in commercial banking, syndicated lending, investment banking and corporate finance.

Mr. Cheong holds a Bachelor of Science degree in Economics from the University of Wales, United Kingdom, and a Master's degree in Business Administration in Finance from the Wharton School, University of Pennsylvania, United States.

***Mr. Walid El Seyoufi – Group Chief Compliance and Governance Officer***

Mr. Walid Gamal El Din El Seyoufi joined the Bank in 1998 and has been the Group Chief Compliance and Governance Officer since 2019. Former appointments at the Bank include Deputy General Manager and Group Compliance Officer. He is a Board member of National Bank of Kuwait-Egypt and a member in several management-level committees.

Mr. El Seyoufi has more than 25 years of strong and sound experience in the fields of compliance, corporate governance, disclosure and transparency, protecting shareholders' rights, anti-financial crimes (anti-money laundering and combating financing of terrorism, anti-fraud and anti-bribes and corruption), risk management, accounting and auditing.

Mr. El Seyoufi holds a Bachelor's degree in Accounting from Helwan University, Egypt, a Master's degree of science in Risk Management from Glasgow Caledonian University, United Kingdom, a Master's in Business Administration from the American University in Beirut, and an International High Diploma in Enterprise Risk Management and Fellowship from the Institute of Risk Management, United Kingdom. He has also participated in number of executive programmes at Harvard Business School, Stanford Graduate School of Business and Duke University, United States.

***Mr. Sujit Ronghe – Acting Group Chief Financial Officer***

Mr. Ronghe joined the Bank in 2002 and has been the Group Financial Controller since 2012. He has been appointed as the Acting Group Chief Financial Officer from 1 November 2020.

Prior to joining the Bank, Mr. Ronghe worked as a Senior Auditor at a big four accounting firm in Kuwait. He has extensive experience in banking and finance.

Mr. Ronghe is a member of the Institute of Chartered Accountants of India and a graduate of the Institute of Cost Accountants of India. He also holds a Bachelor of Commerce degree from the University of Pune, India.

***Mr. Thomas George – Acting Group Chief Internal Auditor***

Mr. George joined NBK in October 2020 as Acting Group Chief Internal Auditor. Mr. George is a Chartered Accountant and has over 37 years of extensive experience in the financial services industry. That includes nearly 23 years as a Partner in Kuwait, initially with PricewaterhouseCoopers Bader & Co. and most recently with Deloitte and Touche Al Wazzan & Co., in the position of Managing Partner. He is a member of the Institute of Chartered Accountants of India since May 1981 and holds a Bachelor of Commerce degree from the University of Kerala.

***Mr. Emad Al-Ablani – General Manager – Group Human Resources***

Mr. Al-Ablani joined the Bank in March 2003 and was appointed as General Manager - Group Human Resources in 2014. He is also member of various management committees.

His former appointments at the bank include Deputy General Manager, Head of Human Resources – Kuwait and Assistant General Manager – Recruitment & HR Operations. He has more than 24 years' 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. Pradeep Handa – General Manager – Foreign Corporate, Oil & Trade Finance Group***

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

Mr. Handa's former appointments at the Bank include: Assistant General Manager, Executive Manager and Senior Manager in the Corporate Banking Group of Kuwait. He has more than 30 years' experience in handling foreign corporate banking and oil and trade finance matters.

Mr. Handa holds a Master's degree from the University of Delhi, India.

***Mr. Mohammed Al Othman – General Manager – Consumer Banking Group***

Mr. Mohammed Al Othman joined the Bank 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. He has extensive expertise in retail banking, personal banking payment services and banking products.

Mr. Al Othman holds a Bachelor's degree in Philosophy from Kuwait University and has attended several training programmes at Harvard Business School.

***Mr. Ahmed Bourisly – General Manger – Corporate Banking Group***

Mr. Bourisly joined the Bank in 1998 and has been Head of Domestic Corporate Banking Group since June 2019.

Mr. Bourisly served on the board of NBK Capital from April 2012 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 many areas of Credit and Corporate Banking Management.

Mr. Bourisly holds a Bachelor's degree in Business Administration with a concentration in Marketing from University of the Pacific, California, United States. He attended numerous training courses and seminars at Harvard University and INSEAD.

***Mr. Dimitrios Kokosioulis – Deputy CEO – IT & Operations Group***

Mr. Kokosioulis joined the Bank in 2013 as the General Manager, Operations Group. He is also a member of various management committees.

Mr. Kokosioulis' former appointments include: Chief Operating Officer, Deputy Chief Operating Officer, Head of International Consumer Finance Operations, Vice President and as the Head of Retail and Cards Operations at various local and international banks in south-eastern and central-eastern Europe. He has experience in operations management, financial planning and analysis, project management, greenfield operations set up, merger and acquisitions activities and restructuring.

Mr. Kokosioulis holds a Master of Business Administration degree in Finance from DePaul University, Chicago, United States, as well as a Bachelor of Arts degree in Economics from the University of Rochester, Rochester, United States.

***Mr. Malek J. Khalife – Deputy CEO – Head of Global Private Banking***

Mr. Khalife joined the Bank in 2005 and has been the General Manager, Private Banking Group –Kuwait at the Bank since 2008 and is the Head of Global Private Banking for the Group since June 2018. He is a Board Member of National Bank of Kuwait – Lebanon, National Bank of Kuwait – France and Watani Wealth Management – Saudi Arabia. He is also a member of various management committees.

Mr. Khalife's last role prior to joining the Bank was as Director of Private Banking, Representative Office at an American bank in Lebanon. He has over 34 years' experience in private banking and financial markets in the Middle East and the GCC area.

Mr. Khalife holds a Master's degree in Economic Sciences from Saint Joseph University, Lebanon.

***Mr. Mohammed Al Kharafi – General Manager - Head of Operations***

Mr. Mohammed Al Kharafi joined the Bank from 2001 until 2008 where he progressed to the position of Branch Manager. He re-joined the Bank again in 2010 where he assumed many leadership roles and he is currently the General Manager of Operations. He is a board member of the Credit Information Network Company (Ci-Net).

He has extensive experience 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. Nikolas Sfikas – General Manager – Chief Information Officer***

Mr. Sfikas joined the Bank in 2015. He is currently the Head of IT, Information Technology Group.

Prior to joining the Bank, Mr. Sfikas was the senior manager of ATMs and cards at a major bank in Greece. Mr. Sfikas has wide experience of more than 20 years in the field of Information Technology in the banking sector.

Mr. Sfikas holds a Master degree in Business Administration from University of Macedonia - Greece and a Master degree in Engineering (Electronic and Computer Engineering) from Aristotle University of Thessaloniki.

***Mr. Jad Zakhour – General Manager – Head of Treasury Group***

Mr. Zakhour joined the Bank in 2006 and has been Head of Treasury Group since January 2020. He was previously the Deputy Group Treasurer since August 2014. He is also a member of various management committees.

Mr. Zakhour has extensive experience in treasury, investment and wealth management.

Mr. Zakhour holds a Bachelor's degree in Civil Engineering from Homs University and a Master's Degree in Business Administration in Finance from American University of Beirut. He is a Certified Financial Risk Manager (FRM). Mr Zakhour has participated in a number of Executive Programs at Harvard Business School and INSEAD.

The business address of each member of the executive management is National Bank of Kuwait S.A.K.P., P.O. Box 95 Safat, 13001 Kuwait, Jaber Al-Mubarak and Al-Shuhada Street, NBK Tower, Sharq, State of Kuwait.

No member of the Bank's executive management has any actual or potential conflict of interest between his or her duties to the Bank and his or her private interests and/or other duties.

The Group has established a formal executive management succession plan which is approved by the BNRC on an annual basis. Under the current executive management succession plan, the nominated successor to the GCEO is the Deputy Group Chief Executive Officer; the successor to the Deputy Group Chief Executive Officer is the Chief Executive Officer – Kuwait; and the successor to the Chief Executive Officer – Kuwait is the Deputy Chief Executive Officer - Kuwait.

#### ***Executive management committees***

The Group's executive management committees include the credit committees described under "*Risk Management—Credit risk—Corporate credit risk management*", the EC and the ALEC.

#### ***Group Executive Committee***

The EC is the highest management level authority which is responsible for managing and overseeing matters related to all aspects of the Group's business including corporate organisation, finance and operations. All management level committees report to, and are subject to the oversight of, the EC which has authority to determine, for example, the frequency with which other management committees are required to meet.

When taking decisions on behalf of the Group, the EC is required to give consideration to the prevailing risk environment, in addition to adhering to the Group's established corporate governance framework and the Group's overall strategic goals as mandated by the Board.

The EC's key responsibilities and duties include the following:

- preparing and reviewing strategic objectives, financial plans and key policies and procedures of the Group, to be submitted for approval by the Board;
- monitoring and overseeing the financial and operational performance of the Group;
- approving key procedures for individual business units and recommending policies for Board consideration and approval;
- setting annual business plans, financial forecasts, budgets of each subsidiary, capital expenditures, performance targets, and other initiatives to attain the Group's targets, and submitting for Board approval; approving projects with capital expenditure in excess of executive managerial limits;
- reviewing the respective authority for the various operations as specified in the list of approval authority and submitting for Board approval;
- reviewing "high" residual risks identified through risk assessments or internal audit reports that have been accepted by the relevant business unit and/or Group Head and to determine whether to accept those risks or mitigate them in accordance with the Group's risk appetite;
- establishing and dissolving any wholly-owned subsidiary, branch of the subsidiary or associated company or representative office of the Group, and obtaining Board approvals if required; and
- monitoring employee performance at all levels with regard to risk management, including the effectiveness of the internal control system and operations in compliance with related laws, rules and regulations.

As at the date of this Prospectus, the EC has 12 members, with the GCEO serving as chairman of the committee.

A quorum of at least one half of the committee's members is required to convene a meeting, at least one of whom must be the EC chairman or vice-chairman.

The EC is required to meet at least quarterly and as often as it deems appropriate to carry out its responsibilities. In 2020, the EC sat 19 times.

#### ***Group Asset Liability Executive Committee***

The ALEC is an executive management committee that determines matters relating to liquidity risk, interest rate risk, balance sheet management and trading activities. The role of the ALEC is to ensure policies and internal guidelines approved by the EC other Group management committees are adhered to.

The ALEC seeks to manage the Group's assets and liabilities in order to enhance profitability and protect the Group from any adverse consequences that may result from extreme changes in market conditions and other financial risks.

In carrying out these key functions, the ALEC:

- reviews and recommends changes to the structure of the Group's balance sheet and management of the Group's assets and liabilities generally;
- oversees the Group's liquidity policies including the setting and monitoring of liquidity margins, liquidity ratios and the management of liquidity risk;
- oversees and manages the Group's exposures to different asset classes, including monitoring the Group's deposit concentration levels;
- reviews management strategies with respect to balance sheet structure including asset allocation strategies; changing liability structure and mix; balance sheet growth, structure and maturity; and hedging, which are consistent with the Group's strategic goals and in compliance with regulatory requirements;
- monitors and reviews the Group's capital position and funding requirements;
- determines current and projected liquidity requirements and monitors the sources and uses of liquidity, including contingency plans for unexpected or volatile market conditions;
- reviewing and revising, when necessary, short and medium term projections and other external regulatory and economic factors, which affect the liquidity of the Group;
- identifies, analyses and recommends changes in policies, guidelines and procedures relating to assets and liabilities consistent with the Group's mission and financial goals;
- approves the approach and strategies utilised in the management of treasury products;
- reviews the Group's hedging strategy periodically to ascertain it is in accordance with the overall objectives of the Group and that it considers the market conditions and currency market trends; and
- monitors and reviews the Group's compliance with applicable regulatory ratios and Board policy relating to the management of market risk and interest rate risk.

As at the date of this Prospectus, the ALEC has 14 members, with the GCEO serving as chairman of the committee.

A quorum of five members (including the Chairperson or assigned deputies) is required to convene a meeting.

The ALEC is required to meet at least once a month (as required by the EC) or as otherwise required. In 2020, the ALEC sat 15 times.

## INTERNAL CONTROLS

The Group's internal controls over financial reporting comprise processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable accounting principles. The Group's internal controls include policies and procedures that: (i) are designed to ensure the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Group's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles, and that receipts and expenditures of the Group are being made only in accordance with authorisations of management and directors of the Group; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Group's assets.

The Board has assigned the BAC with responsibility for the oversight of the Group's internal control framework along with the selection and rotation of external auditors in compliance with regulatory requirements.

An annual review of the Group's internal control functions is conducted by an external audit firm other than the auditors of the Group in accordance with CBK requirements. This review examines the Group's accounting and other records, and evaluates the internal control systems in place in the following, non-exhaustive areas: corporate governance, consumer banking, corporate and private banking, treasury, financial control, information technology, risk management, human resources and administration, internal audit, legal affairs, customer complaints, financial securities, confidentiality of customer information, anti-fraud and embezzlement systems and anti-money laundering.

The external review reports for each of the years ended 31 December 2020, 2019 and 2018 have not highlighted any significant issues with the Group's internal control functions.

Notwithstanding the above, internal controls are subject to inherent limitations. Please see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Capital Securities, the Loan and/or the Subordinated Guarantee—Operational risks—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks, which could result in material losses*".

## COMPENSATION

In the year ended 31 December 2020, the total compensation paid to the executive management amounted to KD8.3 million, compared to KD 13.5 million in the year ended 31 December 2019 and KD 12.3 million in the year ended 31 December 2018.

Board members do not receive any compensation in the form of fees, salaries or bonuses for their services rendered to the Group.

## OVERVIEW OF KUWAIT

Unless indicated otherwise, information in this section has been derived from Kuwaiti government publications.

### OVERVIEW

Kuwait is located in the north-east of the Arabian Peninsula in Western Asia. It is bordered by Saudi Arabia to the south at Khafji and Iraq to the north at Basra. To the east, Kuwait has approximately 499 kilometres of coastline on the Arabian Gulf.

Kuwait covers an area of approximately 17,818 square kilometres, which is divided into six Governorates (Al-Ahmadi, Al-'Asimah (the capital), Al-Farwaniyah, Al-Jahra', Hawalli and Mubarak Al-Kabir). Each Governorate is headed by a governor, a representative of the Emir, who is supported by a council. Governors are usually members of the ruling family or close allies. Membership of the Governorate councils is by appointment. Each Governorate is divided into districts or areas and each district is headed by a mayor or chief (Mukhtar) who reports to the Ministry of Interior. The capital and administrative centre of Kuwait is Kuwait City, where the Government and most of the other state institutions are located. The official language in Kuwait is Arabic, but the use of English is widespread, especially in business transactions.

Kuwait's economy benefits from some of the largest oil reserves in the world as well as very low relative oil production costs. According to OPEC's 2020 Annual Statistical Bulletin (the **OPEC 2020 Bulletin**), Kuwait has the fifth largest oil reserves in the world estimated at around 101.5 billion barrels (accounting for 6.5 per cent. of the world's total oil reserves). According to the OPEC 2020 Bulletin, Kuwait was the world's eighth largest oil producer and eighth largest exporter for the year ended 31 December 2019, accounting for 3.6 per cent. of the world's total oil production and 4.4 per cent. of the world's total oil exports for the year ended 31 December 2019. According to the same source, Kuwait's production levels were 2.7 million bpd on average for the year ended 31 December 2019. As a founding member of OPEC, Kuwait's oil production is subject to any agreements that are reached to limit oil production and in April 2020 Kuwait participated in the 'OPEC plus' agreement, and the subsequent extension in July 2020, to cut global oil production in response to the reduced demand for oil following the outbreak of COVID-19.

### POPULATION

The latest official Kuwait census for which data has been published was conducted in April 2011. Accordingly, all population figures for subsequent years are estimates based on historic data.

The most recent estimate of the population in Kuwait published by the Public Authority for Civil Information estimated the population to be approximately 4.8 million as at 31 December 2019, of which approximately 1.4 million were Kuwaiti nationals (30.0 per cent.) and approximately 3.3 million were non-Kuwaiti nationals (70.0 per cent.).

### ECONOMIC OVERVIEW

Since oil was discovered in Kuwait in 1937, Kuwait's economy has grown significantly, principally due to the revenues generated from the export of crude oil and related products. Kuwait's major industries include petroleum, petrochemicals, cement, shipbuilding and repair, water desalination, food processing and construction.

According to provisional figures prepared by the CSB, Kuwait's real GDP increased by 0.6 per cent. in 2015 and 2.9 per cent. in 2016, declined by 4.7 per cent. in 2017 before increasing by 1.2 per cent. in 2018 and 0.4 per cent. in 2019 to KD 39.4 billion. According to preliminary IMF data (as of October 2020), Kuwait's real GDP is projected to have declined by 8.1 per cent. in 2020 and is projected to increase by 0.6 per cent. in 2021.

According to data from Kuwait's Ministry of Finance, oil revenues comprised 89.3 per cent. of total Government revenues for the fiscal year ended 31 March 2020. According to the CSB, oil and oil products represented 91.0 per cent. of total exports for the year ended 31 December 2019. Kuwait's economy has generally benefitted from healthy fiscal and current account surpluses, although lower oil prices since mid-2014 meant that Kuwait realised a net budget deficit (after transfers to the Future



Generations Fund (FGF)) for the fiscal years ended 31 March 2015, 2016, 2017, 2018, 2019 and 2020. The monthly average OPEC Reference Basket price per barrel in June 2014 was U.S.\$107.90. The annual average OPEC Reference Basket prices in each of 2014, 2015, 2016, 2017, 2018 and 2019 were U.S.\$96.29, U.S.\$49.49, U.S.\$40.76, U.S.\$52.43, U.S.\$69.78 and U.S.\$64.04, respectively. In 2020, the OPEC Reference Basket price per barrel fell significantly, reaching lows of U.S.\$12.22 in April 2020, before beginning to recover in May 2020. As at 31 December 2020, the OPEC Reference Basket price per barrel was U.S.\$50.24.

OPEC Reference Basket price movements are shown solely to illustrate the historic volatility in international crude oil prices and no implication is intended that the Group's revenue from crude oil production is directly linked to the price of the OPEC Reference Basket. The price per barrel of Kuwait Export Crude Oil (which is produced by Kuwait and constitutes part of the OPEC Reference Basket) has also moved in line with these trends.

While the oil industry has historically dominated and continues to be the largest part of, Kuwait's economy (with oil (excluding refining) accounting for approximately 53.0 per cent. of real GDP for the year ended 31 December 2019 according to provisional figures from the CSB), for the past several years, Kuwait has been concentrating on the diversification of its economy by encouraging private sector participation and promoting foreign investment in non-oil sectors as articulated in the **New Kuwait 2035** plan. These efforts have gained special importance in light of the onset in mid-2014 of the current low oil price environment. Based on provisional figures from the CSB, the non-oil sector of the economy (including oil refining) contributed approximately 47.0 per cent. of Kuwait's real GDP in the year ended 31 December 2019 and grew by 3.0 per cent. in real terms in the same time period from KD 18 billion to KD 18.5 billion.

Kuwait's public finances benefit from one of the world's largest sovereign wealth funds. Based on third party public sources, as at 31 December 2020, the KIA was ranked as the world's fifth largest sovereign wealth fund with approximately U.S.\$533.6 billion in assets according to the Sovereign Wealth Fund Institute. The KIA is prohibited by law from publicly discussing the exact size of its holdings. The KIA is responsible for the management of Kuwait's General Reserve Fund (GRF) and its FGF, as well as other funds entrusted to it by the Minister of Finance for and on behalf of Kuwait. On an annual basis and by law, a minimum of 10 per cent. of all Government revenues were transferred to the FGF, though in 2020 this rule was modified such that transfers are suspended when the budget is in deficit. The GRF is available to fund budget deficits in Kuwait and Kuwait has never drawn down on the funds in the FGF since the FGF's inception in 1976, other than for liberation and reconstruction costs related to the Iraqi invasion.

## INFLATION

The following table sets forth the consumer price index (CPI) and annual inflation rate in Kuwait for the years ended 31 December 2019, 2018 and 2017, respectively.

	Average for the year ended 31 December		
	2019	2018	2017
Consumer Price Index (base year 2013=100).....	114.2	113.0	112.3
Inflation (percentage change, year on year).....	1.1	0.6	1.5

Source: Central Statistical Bureau

## GOVERNMENT, POLITICAL AND LEGAL SYSTEM

Kuwait is a constitutional monarchy with a parliamentary system of government. Under its Constitution, which entered into force in 1963, the head of the State is the Emir, who is chosen from among the members of the ruling Al-Sabah family and confirmed by the National Assembly. The current Emir is His Highness Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, who acceded to the throne in September 2020. The Emir has, among other powers, the power to appoint the Prime Minister, dissolve the National Assembly, suspend certain parts of the Constitution and refer bills to the National Assembly for consideration. The Emir has the right to propose legislation as well as the right to promulgate and sanction laws. His Highness Sheikh Meshal Al Ahmad Al Sabah is the current Crown Prince. Historically, the Emir has been selected by family consensus although the Emir Succession Law provides for National Assembly input under certain circumstances.

Kuwait was the first member of the GCC to establish a directly elected National Assembly in 1963. The National Assembly comprises 50 directly elected members who serve four-year terms. The National Assembly has the power to question and dismiss ministers through a vote of no-confidence, including the Prime Minister, and to propose, enact or block enactment of legislation introduced by the Government.

The Council of Ministers forms the executive level of government and advises and assists the Prime Minister, who is appointed by the Emir. The current Prime Minister is His Highness Sheikh Sabah Al- Khalid Al-Sabah who was reappointed in 2021.

Kuwait's legal system is primarily modelled on the French civil law system, Egyptian civil code and elements of Islamic Shari'a law. Although Kuwait is a democratic nation where sovereignty rests with the people, its system is based on the principles of justice, liberty and equality and governed by a Constitution of delegated powers to the legislative, the executive and the judicial authorities. In descending order of importance, the Constitution is followed by laws and their implementing instruments such as regulations and ministerial resolutions.

## **DEVELOPMENT STRATEGY OF KUWAIT**

In 2010, the Government announced its new overall strategy for Kuwait's future development through the year 2035 known as **Kuwait Vision 2035**, which is based on three main themes:

- Recovering the pioneering regional role of Kuwait and transforming it into a financial and trade centre, attractive to investors, where the private sector plays the lead role in economic activity creating competition and promoting efficiency; with supportive national governmental institutions providing the adequate infrastructure, appropriate legislative framework and an inspiring business environment;
- Providing a climate for balanced human development, safeguarding social values and national identity and preserving the community's values; and
- Strengthening the democratic system, respect for the Constitution, and the promotion of justice, political participation and freedom.

### **The new Kuwait plan**

On 30 January 2017, the Government updated its long-term development strategy under the slogan **New Kuwait 2035**. The new Kuwait plan is based on the following seven thematic pillars and objectives:

- *Public Administration:* Reform administrative and bureaucratic practices to reinforce transparency, accountability and efficiency in the Government.
- *Economy:* Develop a prosperous and diversified economy to reduce Kuwait's dependency on oil revenues.
- *Infrastructure:* Develop and modernise the national infrastructure to improve the quality of life for Kuwait's citizens.
- *Living Environment:* Ensure the availability of accommodation through environmentally sound resources and tactics.
- *Healthcare:* Improve service quality and develop national capabilities in the public healthcare system.
- *Human Capital:* Reform the education system to better prepare Kuwait's youth to become competitive, productive and competent members of the workforce.
- *Global Position:* Enhance Kuwait's regional and global presence in spheres such as diplomacy, trade, culture and philanthropy.

## **FOREIGN RELATIONS AND INTERNATIONAL ORGANISATIONS**

Kuwait, together with Bahrain, Oman, Qatar, Saudi Arabia and the UAE, form the GCC. Kuwait is also a member of OPEC and the United Nations. It is also a member of numerous international and multilateral organisations, including the IMF, the International Bank for Reconstruction and Development, the WTO, the League of Arab States, the Organisation of the Islamic Conference, the Multilateral Investment Guarantee Agency and the United Nations Educational, Scientific and Cultural Organisation (UNESCO).

## **BANKING INDUSTRY AND REGULATION IN KUWAIT**

### **CENTRAL BANK OF KUWAIT**

Kuwait's monetary, banking and financial system is regulated and supervised by the CBK, which was formed by Law No. 32 of 1968 (as amended) (the **CBK Law**). The CBK commenced operations on 1 April 1969. According to Article 15 of the CBK Law, its objectives are to:

- issue currency on behalf of Kuwait;
- secure the stability of the Kuwaiti dinar and its free convertibility into other currencies;
- direct credit policy in order to contribute to Kuwait's social and economic progress and the growth of national income;
- supervise the banking system in Kuwait;
- serve as the Government's bank; and
- render financial advice to the Government.

The CBK is largely independent of Kuwait's executive and legislative branches and is managed by a Board of Directors, consisting of the Governor of the CBK, who also acts as the Chairman, the Deputy Governor of the CBK, a representative from each of the Ministry of Finance and the Ministry of Commerce and Industry and four additional members, each of whom must be a Kuwaiti national and must be nominated by the Minister of Finance (after obtaining the approval of the Council of Ministers). The four additional Board members are drawn from expert practitioners in the fields of economics, finance or banking and are appointed by an Emiri Decree for a three-year renewable term. The Governor and the Deputy Governor of the CBK are each appointed by an Emiri Decree for a five-year renewable term, pursuant to a recommendation from the Minister of Finance (which is conditional on them having experience in the banking sector).

The CBK's total assets as at 30 September 2020 were KD 13.9 billion, an increase of 24 per cent. as compared to KD 11.3 billion as at 30 September 2019.

### **BANK REGULATION AND SUPERVISION**

All banks operating within Kuwait are subject to the supervision of the CBK, which is the primary regulator of banks and financial institutions in Kuwait whilst the Kuwait Capital Markets Authority (the **CMA**) exercises supervisory authority over all Kuwaiti entities (including banks and financial institutions) which are listed on Boursa Kuwait (previously known as the Kuwait Stock Exchange) or engage in securities activities as discussed further below.

#### **Off-site and On-site supervision department**

The CBK's off-site supervision department receives periodic financial reports from institutions under its supervision, issues supervisory regulations, resolutions and instructions to such institutions, examines ongoing banking and financial trends and monitors their impact on the soundness and stability of these institutions. The department also conducts studies to assess applications to establish new banking and financial institutions or for new branches, articles of association, banking services and by-laws; and organises and maintains registers of the institutions subject to CBK supervision. The off-site supervision department also prepares CBK recommendations on issues concerning banking and supervisory conditions, and develops a dialogue with worldwide supervisory bodies and concerned international institutions, to stay informed and updated on the latest global trends and developments in the area of supervision of banking and financial activities.

The CBK also has an on-site supervision department that is responsible for monitoring the activities of institutions under its supervision to ensure their compliance with the provisions of relevant laws and supervisory regulations and instructions, including through periodic inspections. In addition, the on-site supervision department is responsible for the combat of money laundering and financing of terrorism (through an Anti-Money Laundering section within the on-site supervision department), following up

on complaints and appeals submitted to CBK by those dealing with CBK-regulated entities, and proposing related supervisory regulations and instructions.

### **Financial Stability Office**

The CBK has also established a Financial Stability Office (the **FSO**), which aims to contribute to a sound financial system in Kuwait capable of withstanding financial and economic shocks by identifying key vulnerabilities in the financial system and suggesting appropriate corrective measures. The FSO annually publishes its flagship Financial Stability Report (the **FSR**), covering key developments in the banking sector (making an assessment of financial intermediation, analysing key risks in the banking sector and examining the trends in banks' profitability, solvency and resilience against major shocks), domestic markets (money, foreign exchange, equity and real estate markets) and the payment and settlement systems. The aim of publishing the annual FSR is to identify risks to the stability of the financial system and to promote transparency and encourage informed public discourse on various developments in the financial system.

The FSO also prepares other analytical reports, for internal use on major developments and key risks in the banking sector and financial markets, making use of appropriate tools and techniques, such as stress testing, in early identification of vulnerabilities in the financial system.

## **BANKING REGULATION**

### **Liquidity regulations**

Prior to April 2020, the CBK required banks to maintain 18 per cent. of their Kuwaiti dinar customer deposits in the form of balances with the CBK and Kuwait Government treasury bonds.

Bank liquidity in Kuwait is monitored using the "Maturity Ladder Approach" under which future cash inflows are compared with future cash outflows. The resulting liquidity mismatches are then examined in time bands against approved limits for each band. The relevant instruction relating to liquidity establishes the elements to be included when calculating assets and liabilities for the purpose of determining liquidity.

The CBK also introduced, in 2014, the liquidity coverage ratio regulations (**LCR**) and, later in 2015, the net stable funding ratio (**NSFR**) guidelines, which are aimed at improving banks' capacity to withstand liquidity stress and making their funding structure stable.

The CBK introduced the LCR in a phased manner, setting a benchmark requirement of 70 per cent. in 2016 which increased by 10 per cent. each year and remained at 100 per cent. between January 2019 and April 2020. Banks are required to submit, along with existing liquidity reports, their LCR reports on a daily and monthly basis for monitoring purposes as well as LCRs by major currency.

The minimum required NSFR is calculated as a percentage of available stable funding to required stable funding. The requirement to maintain an NSFR of 100 per cent. became effective in January 2018, although banks were to start reporting their NSFR to the CBK in January 2016.

In April 2020, as part of the measures implemented to support the Kuwaiti economy following the outbreak of COVID-19, the CBK decreased banks' liquidity ratio requirements from 18 per cent. to 15 per cent., their LCR requirements from 100 per cent. to 80 per cent and their NSFR requirements from 100 per cent. to 80 per cent. Additionally, the CBK increased the limit for the maximum negative cumulative gap for liquidity and also increased the limit for the maximum permissible financing from 90 per cent. to 100 per cent. These measures imposed by the CBK remained valid until 31 December 2020.

### **Capital adequacy regulations**

Over the past few years, the CBK has refined its existing regulations to reflect global best practices. The CBK has already implemented the full set of Basel III regulations, covering capital adequacy, leverage, and liquidity. The CBK has enhanced its capital adequacy regime by setting out higher and better quality capital for Kuwaiti banks to further strengthen their loss absorbing capacity. The CBK has also put up additional capital requirements for systemically important banks, such as the Bank, and introduced the Leverage Ratio (which is defined as the "capital" measure – made up of Tier 1 capital – divided by the "exposure" measure – being the sum of on-balance sheet assets, derivative exposures and off-balance

sheet exposures) as a supplementary measure to ensure that Kuwaiti banks do not become overly leveraged.

The CBK's Instructions relating to Basel III require that the terms and conditions of Tier 1 or Tier 2 instruments issued by a licensed bank in Kuwait must contain a provision that permits such instruments to either be written-off or converted into common equity, as determined by the CBK, should a Trigger Event (as defined below) occur. Pursuant to the Instructions, a **Trigger Event** will have occurred if either of the following events occurs:

- the issuing bank is instructed by its regulator to write-off or convert such instruments, on the grounds of non-viability; or
- an immediate injection of capital is required, by way of an emergency intervention, without which the issuing bank would become non-viable.

Notwithstanding the definition of Trigger Event set out above, the Conditions only allow for a Write-down (as defined in the Conditions), and not a conversion into ordinary shares, of the Capital Securities to take place following the occurrence of a Trigger Event.

### **Credit risk regulations**

- *Loan/financings to deposit ratio* - Kuwaiti banks are restricted by the CBK from lending amounts in excess of a prescribed percentage of qualifying deposits. With effect from October 2016 to April 2020, the prescribed percentage was 90 per cent., irrespective of the maturity profile of such deposits. As described above, the prescribed percentage was increased to 100 per cent. in April 2020 following the outbreak of the COVID-19 pandemic.
- *Credit facility classifications*: The CBK requires banks operating in Kuwait to evaluate and classify their credit facilities into two categories (regular and irregular) on a periodic basis. The relevant CBK instructions specify the cases when a credit facility must be classified as 'irregular' and include where payment of an instalment is not made, interest is not paid on the maturity date or the debit balance exceeds the drawing limits determined for the customer.
- *Consumer and instalment loans*: Consumer credit facilities are granted with the CBK's regulatory framework, lending limits and in accordance with the Bank's internal credit policy. In November 2018, the CBK amended the regulations on granting personal loans/financing. Taking into consideration changes in macroeconomic conditions and the changes in customer demographics, these amendments increased the ceiling for both consumer loans and Islamic financing. In general, the maximum eligible limit for a consumer loan is 25 times the net monthly salary (or continuous monthly income) of the consumer, or KD 25,000, whichever is lower, with a maximum repayment tenor of five years. An "instalment" loan is a long-term personal loan intended for non-commercial purposes, in particular for renovation or purchase of a private residence. The maximum limit on instalment loans is KD 70,000 (which is in addition to the maximum limit on any "consumer" loan advanced to the same customer). The maximum repayment tenor for an instalment loan is 15 years. A customer's total monthly repayment liability (consumer and instalment loans) must not exceed 40 per cent. of that customer's net monthly salary (or continuous monthly income).
- *Extension of facilities for non-residents*: Local banks are permitted to extend credit facilities in KD to non-residents without the need for prior consent from the CBK only in connection with financing contracts awarded by government bodies in Kuwait whose value does not exceed KD 40 million and where the loan does not exceed 70 per cent. of the total value of the contract. In all other cases, CBK consent is required for loans to non-residents.
- *Foreign exchange transactions* - Local banks may deal with foreign banks for foreign exchange transactions, may deposit Kuwaiti dinar with foreign banks and may enter into foreign exchange swap and other derivative transactions, including options, futures and forward contracts.

### **Concentration risk regulations**

- *Investment limits*: The total ratio of the securities portfolio held by a Kuwaiti bank should not exceed 50 per cent. of the bank's capital in its comprehensive concept, as defined under the

CBK's instructions to the local banks in respect of the Capital Adequacy Ratio and the CBK instruction no. BS/101/1995 (as amended) in respect of the credit concentration limits. Further, the ratio of the investment in the securities of any one issuer should be the lower of 10 per cent. of the bank's capital in its comprehensive concept or 10 per cent. of the issuer's capital.

- *Maximum limit for credit concentration:* Subject to certain exceptions or where prior CBK approval has been obtained, the total credit liabilities of any single customer (including its legally or economically associated entities) to a bank may not exceed 15 per cent. of the bank's regulatory capital.
- *Clustering limit – total limit for large concentrations:* The aggregate of large credit concentrations (being concentrations which exceed 10 per cent. of a bank's regulatory capital), including any exceptions approved by the CBK, may not exceed four times a bank's regulatory capital.

### **Interest rate cap regulations**

The CBK's resolutions issued in respect of interest rate ceilings provide that the maximum limits for interest rates on KD loans to corporates should not exceed:

- 2.5 per cent. over the CBK's discount rate in the case of commercial loans with a maturity of one year or less; and
- 4 per cent. over the CBK's discount rate in the case of commercial loans exceeding one year.

Interest rates for consumer and instalment loans denominated in Kuwaiti dinar are currently capped at the CBK discount rate plus 3 per cent. for each block of five years. Such interest rates may be adjusted by no more than plus or minus 2 per cent. for each subsequent block of five years.

Interest rates for loans in currencies other than the Kuwaiti dinar are not regulated by the CBK.

### **Corporate governance**

On 10 September 2019, the CBK issued a revised version of the "Rules and Standards of Corporate Governance" (the **Corporate Governance Rules**) which apply to all banks in Kuwait and is required to be implemented with effect from 30 June 2020. This new regulation replaces the previous "Rules and Standards of Corporate Governance in Kuwaiti Banks" issued in 2012. The Corporate Governance Rules provide principles that should be applied by Kuwaiti banks in order to ensure proper governance. They comprise nine pillars that cover, amongst other things, board composition, independent board members, risk management governance, compliance governance, cyber security, disclosure and transparency, remuneration policies and systems, and overall protection of shareholder and stakeholder's rights. The Corporate Governance Rules require each bank to adopt a corporate governance manual and establish a corporate governance committee, tasked with devising an overall framework for the adherence to the governance manual.

The Corporate Governance Rules require the existence of independent directors in the composition of a banks' board of directors and the board committees. With effect from 30 June 2020, a bank's board must comprise no less than 11 board members, two of whom must be deemed "independent" but in no circumstance should the independent board members occupy more than half of the board seats. Another two independent board members are to be included to provide a total of four independent board members from the, at least, 11 board members. Following the outbreak of the COVID-19 pandemic, the CBK granted Kuwaiti banks an extension to this requirement until 31 December 2020.

The Corporate Governance Rules define the role of a bank's board of directors and executive management (including the chief executive officer and other members of senior management), the executive committee (which is to include the chief executive officer), the risk committee, the audit committee, and any other committees that have an active role in the business of the Bank.

The Board adopts and implements internationally recognised corporate governance practices and adheres to the CBK's requirements under the Corporate Governance Rules. See "*Management and Employees–Management–Corporate governance framework*" for further detail.

### Third party portfolio management

Instructions apply to portfolios managed by banks and investment companies for the account of third parties and invested in foreign securities and other financial instruments.

### Other Instructions

The CBK has also issued Instructions containing guidelines relating to, among other matters: (i) post-dated cheques; (ii) banks' credit policy ratios; (iii) verification of the purpose of credit facilities granted to customers; (iv) collateral to be granted by customers against credit facilities; (v) the provision of facilities for trading in shares listed on the Boursa Kuwait; (vi) the protection of customers; (vii) customers' special needs and (viii) anti-money laundering and combating the financing of terrorism.

### APPLICATION OF CBK REGULATIONS TO THE BANK

The Bank is incorporated as a public shareholding company in Kuwait. The Bank is licensed by the CBK to conduct banking activities and operates under its supervision. The Bank is also listed on Boursa Kuwait. As a company incorporated in the State of Kuwait under the applicable companies' laws, for the Bank to perform any commercial activities, it must have a valid commercial license issued by the Ministry of Commerce and Industry (MOCI). The MOCI issued commercial license is renewable every four years. The Bank has a valid commercial license which expires on 13 November 2023. The Bank has no reason to believe that its commercial licence will not be renewed by MOCI.

The CBK is tasked with maintaining the stability of Kuwait's banking system. As an entity subject to the CBK's oversight, the Bank is required to submit various periodic and one-off reports to the CBK. The CBK also conducts inspections of banking and financial institutions (banks, investment companies and money exchange companies) which are subject to its supervision in order to ascertain their financial sustainability and their adherence to their constitutive documents. These inspections may be in the form of a specific inspection or a full audit of all activities. The CBK routinely and periodically inspects all entities subject to its oversight. The CBK's most recent inspection of the Bank for which a report has been issued was conducted during 2020. The final inspection report is expected to be issued by the CBK in 2021.

Alongside the CBK, the Bank is also regulated by the CMA due to it being a publicly traded company with shares listed on Boursa Kuwait, and conducts some of the "Securities Activities" listed in Module 5 article 1-2 of the CMA Bylaws.

### BANKING SYSTEM

The Kuwait banking sector has experienced increased competition and diversification from the entry of international banks establishing branches in Kuwait, following the promulgation of Law No. 28 of 2004 amending certain provisions of the CBK Law. As at 30 September 2020, total local bank assets in the Kuwaiti banking sector amounted to KD 72.5 billion and total credit facilities to Kuwaiti residents advanced by local banks amounted to KD 40.0 billion (compared to KD 71.0 billion and KD 38.4 billion, respectively, as at 31 December 2019) (source: CBK).

The key performance indicators of the conventional Kuwaiti banks as at 30 September 2020 are set out below (source: financial statements and investor publications published on the company website of each bank listed below).

	<b>Cost to income ratio</b>	<b>Return on assets</b>	<b>Return on equity</b>	<b>Earnings per share</b>
		<i>(per cent.)</i>		<i>(fils*)</i>
National Bank of Kuwait S.A.K.P.....	25.8	0.8	6.6	23
Burgan Bank .....	39.0	<sup>(1)</sup>	4.6	10.1
Gulf Bank.....	36.0	0.4	4.3	6
Commercial Bank of Kuwait.....	28.0	<sup>(1)</sup>	<sup>(1)</sup>	8.9
Al-Ahli Bank of Kuwait K.S.C.P .....	48.5	<sup>(1)</sup>	(3.4)	(9)

\* 1000 fils equals one Kuwaiti dinar.

<sup>(1)</sup> Figure not publicly available as at the date of this Prospectus.



In addition, as at 31 December 2020, 12 foreign bank branches also operate in Kuwait. These are the Bank of Bahrain and Kuwait, BNP Paribas, HSBC, First Abu Dhabi Bank, Citibank, Qatar National Bank, Doha Bank, Mashreq Bank, Al-Rajhi Bank, Bank Muscat, Abu Dhabi Commercial Bank and Industrial and Commercial Bank of China Limited.

#### **FINANCIAL STABILITY LAW AND DEPOSIT GUARANTEE LAW**

In response to the global financial crisis in 2008, the Government took a number of measures, including the passing of Decree No. 2 of 2009 (the **Financial Stability Law**). The Financial Stability Law sought to stabilise the financial sector in Kuwait and other economic sectors so as to encourage the financing of such sectors by local banks. The Financial Stability Law applies only to specific classes of economic ventures which had been entered into as at 31 December 2008.

As a further measure, the Government passed Law No. 30 of 2008 regarding the guarantee of deposits held with local banks (the **Deposit Guarantee Law**). Under the Deposit Guarantee Law, the Government has undertaken to guarantee the principal (but not interest) of all deposits held with local banks in Kuwait, including savings accounts and current accounts.

## TAXATION

*The following is a general description of certain Kuwait, DIFC, EU and United States tax considerations relating to the Capital Securities. It does not purport to be a complete analysis of all tax considerations relating to the Capital Securities. Prospective purchasers of Capital Securities should consult their tax advisers as to the consequences under the tax laws of the countries of their respective citizenship, residence or domicile of acquiring, holding and disposing of Capital Securities and receiving payments under the Capital Securities. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

### **Kuwait**

*This summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955, as amended by Law No. 2 of 2008 "Amending Certain Provisions of Kuwait Income Tax Decree No. 3 of 1955" (the **Amendment**), the Executive Bylaws of the Amendment (the **Regulations**), and various ministerial resolutions and circulars relating thereto issued by the Administrative Resolution (together, the **Taxation Laws**) as interpreted and implemented by the DIT as at the date of this Prospectus. Any subsequent changes in either the Taxation Laws or the interpretation or implementation of the same by the DIT would alter and affect this summary.*

### **Income tax**

Under the Taxation Laws, income tax (at a flat rate of 15 per cent.) is levied on, inter alia, the net income and capital gains realised by any corporate entity (interpreted by the DIT to mean any form of company or partnership), wherever incorporated, that conducts business in Kuwait. However, the DIT to date has granted a concession to such corporate entities incorporated in Kuwait or in any other GCC country (being referred to in this Prospectus as GCC corporate entities) and has only imposed income tax on corporate entities which are not GCC corporate entities (being referred to in this Prospectus as non-GCC corporate entities) which, for the avoidance of doubt, includes shareholders of GCC corporate entities which are themselves non-GCC corporate entities, in each case, conducting business in Kuwait. The following paragraphs in this section are therefore applicable only to non-GCC corporate entities.

Pursuant to the Regulations, income generated from the lending of funds inside Kuwait is considered to be income realised from the conducting of business in Kuwait, and is therefore subject to income tax.

Pursuant to Law No. 22 of 2015 amending Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities (the **CML Law Amendment**), yields of securities, bonds, finance sukuk and all other similar securities regardless of the issuer thereof shall be exempted from taxation. The CML Law Amendment was acknowledged by the Kuwait Ministry of Finance Administrative Resolution No. 2028 of 2015 (the **Administrative Resolution**).

However, see "*Risk Factors - The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Capital Securities which are "non-GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances*".

Individuals are not subject to any Kuwaiti income tax on their income or capital gains.

### **Retention**

Under the Regulations, a Kuwaiti-based party making a payment (being referred to in this section as the payer) to any other party (being referred to in this section as the payee), wherever incorporated, is obliged to deduct 5 per cent. of the amount of each such payment until such time as the DIT issues a tax clearance certificate approving the release of such amount. Unlike with withholding tax, the payer is not required to transfer directly the deducted amount to the DIT immediately, but instead retains such amount and releases it either: (i) to the payee upon presentation to the payer by such payee of a tax clearance certificate from the DIT confirming that the payee is not subject to or is exempt from income tax, or has realised a loss, or has paid or guaranteed the payment of its income tax; or (ii) in the absence of such a tax clearance certificate, to the DIT, on demand.

According to a literal interpretation of the Regulations, payments which are subject to a deduction as described above would include principal and interest payments. Given that neither the CML Amendment nor the Administrative Resolution address the issue of whether or not there remains an obligation, as

described above, to make a deduction, a payer (such as the Guarantor) could be required to deduct 5 per cent. from every payment made by it to a payee (such as the holders of the Capital Securities), which amount would be released by the payer upon presentation to it by the payee of a tax clearance certificate from the DIT.

However, the holders of Capital Securities shall be able to rely on the provisions in the Conditions (in particular, on Condition 9 (*Taxation*)) which require the Issuer and/or Guarantor to gross up each payment by an amount equal to any deduction, irrespective of whether a tax clearance certificate is presented or not and accordingly, in practice, a holder would not need to present such a tax clearance certificate.

#### **Other taxes**

Save as described above, all payments in respect of the Capital Securities may be made without withholding, deduction or retention for, or on account of, present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait.

No stamp, registration or similar duties or taxes will be payable in Kuwait by holders of Capital Securities in connection with the issue or any transfer of the Capital Securities.

#### ***Certain United States Federal Income Taxation Considerations***

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Capital Security. This summary deals only with a Capital Security held by a U.S. Holder or Non-U.S. Holder (each as defined below) that acquires the Capital Security in this offering from the Joint Lead Managers and holds it as a capital asset (generally, property held for investment). This summary does not address all aspects of U.S. federal income taxation that may be applicable to particular U.S. Holders subject to special U.S. federal income tax rules, including, among others, tax-exempt organisations, financial institutions, dealers and traders in securities or currencies, U.S. Holders that will hold a Capital Security as part of a "straddle", hedging transaction, "conversion transaction" or other integrated transaction for U.S. federal income tax purposes, U.S. Holders that enter into "constructive sale" transactions with respect to the Capital Securities, U.S. Holders that directly, indirectly or constructively own 10 per cent. or more of the total voting power or value of all of the Issuer's outstanding equity interests (including for these purposes the Capital Securities), U.S. Holders with a functional currency other than the U.S. dollar, U.S. Holders liable for alternative minimum tax and certain U.S. expatriates or to persons required for U.S. federal income tax purposes to conform the timing of income accruals with respect to the Capital Securities to their financial statements under section 451 of the Code (as defined below). In addition this summary does not address consequences to U.S. Holders of the acquisition, ownership and disposition of a Capital Security under any other U.S. federal tax laws (e.g. Medicare, estate or gift tax laws) or under the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions.

As used herein, the term **U.S. Holder** means a beneficial owner of a Capital Security that is for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the United States, (b) a corporation created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (d) a trust that is subject to U.S. tax on its worldwide income regardless of its source. A **Non-U.S. Holder** is a beneficial owner of Capital Securities that is neither a U.S. Holder nor a partnership.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds a Capital Security, the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Therefore, a partnership holding a Capital Security and its partners should consult their own tax advisors regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of a Capital Security.

The discussion below is based upon the U.S. Internal Revenue Code of 1986, as amended (the **Code**), Treasury Regulations thereunder and judicial and administrative interpretations thereof, all as in effect as of the date of this Prospectus and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

The summary of the U.S. federal income tax consequences set out below is for general information only. Prospective purchasers should consult their tax advisors as to the particular tax consequences to them of

owning the Capital Securities, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

Except as otherwise noted, the summary assumes that the Issuer is not a passive foreign investment company (a **PFIC**) for U.S. federal income tax purposes. If the Issuer were to be a PFIC for any year, materially adverse consequences could result for U.S. Holders.

### **U.S. Federal Income Tax Characterization of the Capital Securities**

The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. Despite the fact that the Capital Securities are denominated as debt, the Capital Securities should be treated as an equity interest in the Issuer for U.S. federal income tax purposes. The Capital Securities have several equity-like features, including (1) the absence of a fixed maturity date, (2) provisions for the cancellation of interest payments and the write-down of principal, (3) the subordination of the Guarantor's obligations under the On-Loan Agreement and Subordinated Guarantee to senior obligations of the Guarantor, and (4) the lack of default provisions. By purchasing a Capital Security, each holder agrees to treat the Capital Security as an equity interest in the Issuer for U.S. federal income tax purposes. Accordingly, each "interest" payment should be treated as a distribution by the Issuer with respect to such equity interest, and any reference in this discussion to "dividends" or "distributions" refers to the "interest" payments on the Capital Securities. Each prospective investor should consult its own tax adviser about the proper characterization of the Capital Securities for U.S. federal income tax purposes. The remainder of this discussion assumes that the Capital Securities will be characterized as equity in the Issuer for U.S. federal income tax purposes.

### **Payments of Interest**

Distributions paid by the Issuer out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) generally will be taxable to a U.S. Holder as dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Capital Securities and thereafter as capital gain. However, the Issuer does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Issuer with respect to Capital Securities will be reported as ordinary dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Issuer.

### **Sale or other Disposition**

Upon a sale or other disposition of Capital Securities, a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Capital Securities. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Capital Securities exceeds one year and will generally be U.S.-source. Certain non-corporate U.S. Holders may be eligible for reduced rates of taxation on long-term capital gains. The deductibility of capital losses is subject to limitations.

### **Passive Foreign Investment Company Considerations**

A foreign corporation will be a PFIC for any taxable year in which either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. Passive income generally includes interest, dividends, rents, royalties and certain gains, subject to certain active business exceptions, including exceptions for certain active banking income and for certain dealer income. The applicable rules provide for a look-through rule for certain payments received from a related party. Under this look-through rule, such payments generally should not be treated as passive income to the extent allocable to the income of a related party that is not passive income. Because the only asset expected to be held by the Issuer is its interest in the On-Loan Agreement with the Guarantor, under these rules the Issuer generally should only be treated as a PFIC if the Guarantor has passive income such that the Issuer is treated as having passive income or passive assets in excess of the thresholds described above.

The application of the PFIC rules to banks is unclear under present U.S. federal income tax law. Banks generally derive a substantial part of their income from assets that are interest bearing or that otherwise could be considered passive under the PFIC rules. The U.S. Internal Revenue Service (**IRS**) issued a notice in 1989 (Notice 89-81, the **Notice**) and proposed regulations in 1996 and amended in 1998 (collectively, the **Proposed Regulations**) that exclude from passive income any income derived in the active conduct of a banking business by a qualifying foreign bank (the "active bank exception"). The Proposed Regulations are proposed to be effective for taxable years beginning after 31 December 1994 and provide that taxpayers may apply the Proposed Regulations to a taxable year beginning after 31 December 1986, provided it is consistently applied to that taxable year and all subsequent taxable years. The IRS notice and Proposed Regulations have different requirements for qualifying as a foreign bank, and for determining the banking income that may be excluded from passive income under the active bank exception. Under both the Notice and Proposed Regulations, loans made in the ordinary course of a banking business are not treated as passive assets.

Based upon certain management estimates and proposed Treasury regulations, the Guarantor believes that it should qualify as an active bank and that the payments it makes under the On-Loan Agreement should primarily be allocable to income that is not passive under the active bank exception. Accordingly, the Issuer does not expect to be a PFIC for its current taxable year or the foreseeable future. However, because there are uncertainties as to the characterization of certain of the Guarantor's income, and because the Issuer's possible status as a PFIC must be determined annually and may be subject to change, there can be no assurance that the Issuer will not be considered a PFIC for any taxable year. If the Issuer were a PFIC for any year in which a U.S. Holder owns Capital Securities, the U.S. Holder may be subject to adverse tax consequences including increased tax rates and interest charges on gains and certain distributions. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

#### **Non-U.S. Holders**

Subject to the discussion below under "*Information reporting and backup withholding*" and "*Foreign Account Tax Compliance Act*", a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any distributions made on the Capital Securities or gain from the sale, redemption or other disposition of the Capital Securities unless: (i) that distribution and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States; or (ii) in the case of any gain realized on the sale or exchange of a Capital Security by an individual Non-U.S. Holder, that Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

#### **Information reporting and backup withholding**

Information returns may be filed with the IRS (unless the U.S. Holder establishes, if requested to do so, that it is an exempt recipient) in connection with payments on the Capital Securities, and the proceeds from the sale, exchange or other disposition of Capital Securities. If information reports are required to be made, a U.S. Holder may be subject to U.S. backup withholding if it fails to provide its taxpayer identification number, or to establish that it is exempt from backup withholding. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding.

U.S. Holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of Capital Securities.

#### **Foreign Financial Asset Reporting**

Certain U.S. Holders who are individuals (and some specified entities) are required to report information relating to an interest in the Capital Securities, subject to certain exceptions (including an exception for Capital Securities held in accounts maintained by financial institutions). U.S. Holders are urged to consult their tax advisers regarding the application of these disclosure requirements to their ownership of the Capital Securities.

**THE ABOVE SUMMARIES ARE NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE INVESTMENT IN THE CAPITAL SECURITIES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS. THIS DISCUSSION IS BASED UPON LAWS AND RELEVANT INTERPRETATIONS THEREOF IN EFFECT AS OF THE DATE OF THIS PROSPECTUS.**

#### ***Dubai International Financial Centre***

Pursuant to Article 14 of Law No. (9) of 2004 in respect of the Dubai International Financial Centre (the **DIFC Law**), entities licensed, registered or otherwise authorised to carry on financial services in the DIFC and their employees shall be subject to a zero rate of tax for a period of 50 years from 13 September 2004. This zero rate of tax applies to income, corporation and capital gains tax. In addition, this zero rate of tax will also extend to repatriation of capital and to transfers of assets or profits or salaries to any party outside the DIFC. Article 14 of the DIFC Law also provides that it is possible to renew the 50-year period to a similar period upon issuance of a resolution by the Ruler of the Emirate of Dubai. As a result no payments by the Issuer under the Capital Securities are subject to any tax in the DIFC, whether by withholding or otherwise.

In the event of the imposition of any withholding, the Issuer and the Guarantor have undertaken to gross-up any payments of principal or interest subject to certain limitations, as described in Condition 9 (*Taxation*).

#### ***The Proposed Financial Transactions Tax (FTT)***

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Capital Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Capital Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Capital Securities are advised to seek their own professional advice in relation to the FTT.

#### ***Foreign Account Tax Compliance Act***

Pursuant to sections 1471 to 1474 (inclusive) of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction, such as Kuwait and the United Arab Emirates, would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Capital Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Capital Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to

FATCA or an IGA with respect to payments on instruments such as the Capital Securities, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment". Holders should consult their own tax advisers regarding how these rules may apply to their investment in Capital Securities. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Capital Securities, no person will be required to pay additional amounts as a result of the withholding.

## CERTAIN ERISA CONSIDERATIONS

The Capital Securities may not be acquired by a "Benefit Plan Investor" or a governmental, church or non-U.S. plan that is subject to any U.S. federal, state, local or non-U.S. law or regulation that is substantially similar to the prohibited transaction provisions of Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**) or Section 4975 of the Code (**Similar Law**).

A **Benefit Plan Investor** includes: (i) an "employee benefit plan" within the meaning of Section 3(3) of ERISA that is subject to Title I of ERISA; (ii) a "plan" within the meaning of Section 4975(e)(1) of the Code that is subject to Section 4975 of the Code; or (iii) an entity whose underlying assets include "plan assets" by reason of an employee benefit plan's or a plan's investment in the entity under U.S. Department of Labor regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA, for purposes of Section 406 of ERISA or Section 4975 of the Code.

Each purchaser and holder of the Capital Securities (or any interest therein) will be deemed to represent and warrant that it is not, and is not acting on behalf of (and for so long as it holds the Capital Securities (or any interest therein) will not be, and will not be acting on behalf of), a Benefit Plan Investor or such governmental, church or non-U.S. plan that is subject to any Similar Law, and will agree to certain transfer restrictions regarding its interest in such Capital Securities.



## TRANSFER RESTRICTIONS

*The following restrictions will apply to the Capital Securities. Investors are advised to consult legal counsel prior to making any offer, sale, resale, pledge or transfer of the Capital Securities.*

### Rule 144A Capital Securities

Each purchaser of the Capital Securities within the United States pursuant to Rule 144A, by accepting delivery of the Prospectus, will be deemed to have represented, agreed and acknowledged that:

- (a) It is (i) a QIB, (ii) acquiring such Capital Securities for its own account or for the account of one or more QIBs, (iii) not acquiring such Capital Securities with a view to further distribute such Capital Securities, and (iv) aware, and each beneficial owner of such has been advised, that the sale of such Capital Securities to it is being made in reliance on Rule 144A.
- (b) It will provide notice of these transfer restrictions to any subsequent transferees.
- (c) It understands that such Capital Securities have not been and will not be registered under the Securities Act and agrees on its own behalf and on behalf of any investor account for which it is investing in the Rule 144A Capital Securities, and each subsequent holder of the Rule 144A Capital Securities by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Rule 144A Capital Securities prior to the date that is one year after the later of the date of the original issue and the last date on which the Issuer or any of its affiliates was the owner of such Rule 144A Capital Securities (or any predecessor thereto) only (i) pursuant to a registration statement that has been declared effective under the Securities Act; (ii) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account of another QIB; (iii) in an offshore transaction to a non-U.S. person in accordance with Regulation S; (iv) pursuant to Rule 144 under the Securities Act (if available); or (v) pursuant to any other available exemption from the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.
- (d) It acknowledges that the Capital Securities offered and sold hereby in the manner set forth in paragraph (a) are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of such Capital Securities.
- (e) It understands that any offer, sale, pledge or other transfer of the Capital Securities made other than in compliance with the above-stated restrictions may not be recognized by the Issuer.
- (f) It understands that the Restricted Individual Certificates, unless otherwise agreed between the Issuer and the Fiscal Agent in accordance with applicable law, will bear a legend to the following effect:

THIS CAPITAL SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A **QUALIFIED INSTITUTIONAL BUYER** (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS CAPITAL SECURITY PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF ISSUE DATE AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH CAPITAL SECURITY, OTHER THAN (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A

PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION TO NON-U.S. PERSONS IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME OR BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR ANY OTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND WILL GIVE TO EACH PERSON TO WHOM THIS CAPITAL SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT FOR REALES OF THIS CAPITAL SECURITY.

BY ACCEPTANCE OF THIS CAPITAL SECURITY BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS CAPITAL SECURITY ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS CAPITAL SECURITY SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS CAPITAL SECURITY ONLY AS PROVIDED HEREIN AND IN THE AGENCY AGREEMENT.

EACH PURCHASER AND HOLDER OF THIS CAPITAL SECURITY (OR ANY INTEREST HEREIN) SHALL BE DEEMED TO HAVE REPRESENTED AND WARRANTED BY SUCH PURCHASE AND/OR HOLDING THAT (I) IT IS NOT, AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS CAPITAL SECURITY (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF), A "BENEFIT PLAN INVESTOR" OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN THAT IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), AND (II) IT WILL NOT TRANSFER THIS CAPITAL SECURITY (OR ANY INTEREST HEREIN) TO A TRANSFEREE UNLESS THE TRANSFEREE CAN MAKE THE SAME REPRESENTATIONS AND WARRANTIES IN CLAUSE (I) ABOVE.

THE TERM "**BENEFIT PLAN INVESTOR**" INCLUDES: (I) AN "EMPLOYEE BENEFIT PLAN" WITHIN THE MEANING OF SECTION 3(3) OF ERISA THAT IS SUBJECT TO TITLE I OF ERISA; (II) A "PLAN" WITHIN THE MEANING OF SECTION 4975(e)(1) OF THE CODE THAT IS SUBJECT TO SECTION 4975 OF THE CODE; OR (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR A PLAN'S INVESTMENT IN THE ENTITY UNDER U.S. DEPARTMENT OF LABOR REGULATION AT 29 C.F.R. § 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, FOR PURPOSES OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE.

- (g) (i) It is not, and is not acting on behalf of (and for so long as it holds the Capital Securities (or any interest therein) will not be, and will not be acting on behalf of), a Benefit Plan Investor or a governmental, church or non-U.S. plan that is subject to any Similar Law and (ii) it will not transfer such Capital Securities (or any interest therein) to a transferee unless the transferee can make the same representations and warranties in clause (i) above.
- (h) If it is acquiring any Capital Securities for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does make) the foregoing acknowledgments, representations and agreements on behalf of each such account. The Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

- (i) It understands that the Capital Securities offered in reliance on Rule 144A will be represented by the Restricted Global Certificate. Before any interest in the Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (j) It understands that the Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

The purchaser or transferee and any fiduciary causing it to acquire an interest in any of the Capital Securities agrees to indemnify and hold harmless the Issuer, the Fiscal Agent, the Joint Lead Managers and their affiliates, from and against any cost, damage or loss incurred by any of them as a result of any of the foregoing representations and agreements being or becoming false.

**Prospective purchasers are hereby notified that the sellers of the Capital Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

### **Regulation S Capital Securities**

Each purchaser of Capital Securities outside the United States pursuant to Regulation S, by accepting delivery of the Prospectus and the Capital Securities, will be deemed to have represented, agreed and acknowledged that:

- (a) It is, or at the time Capital Securities are purchased will be, the beneficial owner of such Capital Securities and (a) it is not a U.S. person, and is not acting for the account or benefit of a U.S. person, and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (b) It understands that such Capital Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and that if it should offer, sell, pledge or otherwise transfer Capital Securities prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Capital Securities), it will do so only: (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB; or (b) to a non U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case, in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
- (c) It understands that the Unrestricted Individual Certificates, unless otherwise agreed between the Issuer and the Fiscal Agent in accordance with applicable law, will bear a legend to the following effect:

THIS CAPITAL SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE CAPITAL SECURITIES OF THE TRANCHE OF WHICH THIS CAPITAL SECURITY FORMS PART.

EACH PURCHASER AND HOLDER OF THIS CAPITAL SECURITY (OR ANY INTEREST HEREIN) SHALL BE DEEMED TO HAVE REPRESENTED AND WARRANTED BY SUCH PURCHASE AND/OR HOLDING THAT (I) IT IS NOT, AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS CAPITAL SECURITY (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF), A "BENEFIT

PLAN INVESTOR" OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN THAT IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT IS SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), AND (II) IT WILL NOT TRANSFER THIS CAPITAL SECURITY (OR ANY INTEREST HEREIN) TO A TRANSFEREE UNLESS THE TRANSFEREE CAN MAKE THE SAME REPRESENTATIONS AND WARRANTIES IN CLAUSE (I) ABOVE.

THE TERM "BENEFIT PLAN INVESTOR" INCLUDES: (I) AN "EMPLOYEE BENEFIT PLAN" WITHIN THE MEANING OF SECTION 3(3) OF ERISA THAT IS SUBJECT TO TITLE I OF ERISA; (II) A "PLAN" WITHIN THE MEANING OF SECTION 4975(e)(1) OF THE CODE THAT IS SUBJECT TO SECTION 4975 OF THE CODE; OR (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR A PLAN'S INVESTMENT IN THE ENTITY UNDER U.S. DEPARTMENT OF LABOR REGULATION AT 29 C.F.R. § 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, FOR PURPOSES OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE.

- (d) It understands that the Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.
- (e) (i) It is not, and is not acting on behalf of (and for so long as it holds the Capital Securities (or any interest therein) will not be, and will not be acting on behalf of), a Benefit Plan Investor or a governmental, church or non-U.S. plan that is subject to any Similar Law and (ii) it will not transfer such Capital Securities (or any interest therein) to a transferee unless the transferee can make the same representations and warranties in clause (i) above.

## SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the **Subscription Agreement**) dated 23 February 2021 between the Issuer, the Guarantor and the Joint Lead Managers, the Issuer has agreed to issue U.S.\$700,000,000 in aggregate principal amount of the Capital Securities and, subject to certain conditions, the Joint Lead Managers have severally agreed to subscribe or procure subscribers for the Capital Securities at the issue price of 100 per cent. of the principal amount of Capital Securities in the following amounts:

<b>Joint Lead Managers</b>	<b>Principal Amount of Capital Securities</b>
	<i>(U.S.\$)</i>
Citigroup Global Markets Limited .....	116,666,000
HSBC Bank plc .....	116,666,000
J.P. Morgan Securities plc .....	116,670,000
Standard Chartered Bank .....	116,666,000
UBS AG London Branch .....	116,666,000
Watani Investment Company K.S.C.C. ....	116,666,000
<b>Total</b> .....	<b>700,000,000</b>

The Joint Lead Managers will be paid certain commissions in respect of their services for managing the issue and the offering of the Capital Securities. To the extent permitted by law, the Issuer, the Guarantor and the Joint Lead Managers may agree that commissions or fees may be paid to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Capital Securities purchased by such intermediary and/or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the relevant intermediary and none of the Issuer, the Guarantor, the Joint Lead Managers or any of their affiliates, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations. Each customer of any such intermediary is responsible for determining for itself whether an investment in the Capital Securities is consistent with its investment objectives.

The Joint Lead Managers will also be reimbursed for certain of their expenses in connection with the issue of Capital Securities and each of the Issuer and the Guarantor has agreed to indemnify the Joint Lead Managers against certain liabilities incurred by them in connection therewith.

Each of the Joint Lead Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer, the Bank and their respective affiliates in the ordinary course of their respective businesses (see further "*General Information*"). Certain Joint Lead Managers are not broker-dealers registered with the SEC, and therefore, may not make sales of any Capital Securities in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that such Joint Lead Managers intend to effect sales of the Capital Securities in the United States, they will do so only through an affiliate which is a U.S. registered broker-dealer or otherwise as permitted by applicable U.S. law.

### **United States**

The Capital Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Capital Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Each Joint Lead Manager has represented and agreed that it will offer and sell Capital Securities: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution of all Capital Securities only to non-U.S. persons outside the United States in accordance with Regulation S under the Securities Act or in the United States in accordance with Rule 144A. Accordingly, neither it, its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Capital Securities, and, in relation to the Unrestricted Capital Securities, it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Joint Lead Manager has further agreed that it will send to each dealer to which it sells its Capital Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Capital Securities within the United States or to, or for the account or benefit of, U.S. persons.

Terms used in this paragraph and not otherwise defined herein have the meanings given to them by Regulation S under the Securities Act.

Each Joint Lead Manager has represented, warranted, undertaken and agreed that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act), nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with any offer and sale of the Capital Securities in the United States.

In addition, until 40 days after the commencement of the offering of the Capital Securities, an offer or sale of the Capital Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

#### **Prohibition of Sales to Retail Investors in the EEA**

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Capital Securities to any retail investor in the EEA. For these purposes, the expression **retail investor** means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

#### **United Kingdom**

##### ***Prohibition of Sales to Retail Investors in the United Kingdom***

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Capital Securities to any retail investor in the United Kingdom. For these purposes, the expression **retail investor** means a person who is one (or more) of the following:

- (a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

##### ***Other Regulatory Restrictions***

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended, the **FSMA**)) received by it in connection with the issue or sale of any Capital Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Capital Securities in, from or otherwise involving the United Kingdom.

## Hong Kong

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Capital Securities other than: (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **C(WUMP)O**) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Capital Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Capital Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

## Japan

The Capital Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Capital Securities in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Capital Securities or caused the Capital Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Capital Securities or cause the Capital Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Capital Securities, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the **SFA**)) pursuant to Section 274 of the SFA; (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where Capital Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be

transferred within six months after that corporation or that trust has acquired the Capital Securities pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

*Singapore SFA Product Classification: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**) the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Capital Securities are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

#### **United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Joint Lead Manager has represented and agreed that the Capital Securities have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates (the **UAE**) other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

#### **Dubai International Financial Centre**

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Capital Securities to any person in the DIFC unless such offer is:

- (a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the **DFSA Rulebook**); and
- (b) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA Rulebook.

#### **State of Kuwait**

Each Joint Lead Manager represents and agrees that the Capital Securities have not been and will not be offered, marketed and/or sold by it in Kuwait unless all necessary approvals from the CMA pursuant to the CML Rules, together with the various resolutions, regulations, directives and instructions issued pursuant thereto or in connection therewith (regardless of nomenclature or type), or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing and/or sale of the Capital Securities.

#### **Kingdom of Saudi Arabia**

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Capital Securities. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires any Capital Securities pursuant to an offering should note that the offer of Capital Securities is a private placement under Article 9 or Article 10 of the Rules on the Offer of Securities and Continuing Obligations as issued by the Saudi Capital Market Authority (**Saudi CMA**) resolution number 3-123-2017 dated 27 December 2017, as amended by the Board of the Saudi CMA resolution number 1-104-2019 dated 30 September 2019 (the **KSA Regulations**), through a person authorised by the Saudi CMA to carry on the securities activity of arranging and following a notification to the Saudi CMA under Article 11 of the KSA Regulations.



The Capital Securities may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Joint Lead Manager has represented that any offer of Capital Securities to a Saudi Investor will be made in compliance with Article 11 and either Article 9 or Article 10 of the KSA Regulations.

The offer of the Capital Securities shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Capital Securities pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Capital Securities to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi CMA and (a) the Capital Securities are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (b) the price to be paid for the Capital Securities in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

### **Kingdom of Bahrain**

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Capital Securities in the Kingdom of Bahrain except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an **accredited investor** means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more excluding that person's principal place of residence;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

### **State of Qatar**

Each Joint Lead Manager has represented and agreed that it has not offered, delivered or sold, and will not offer, deliver or sell, at any time, directly or indirectly, any Capital Securities in Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of Qatar (including the Qatar Financial Centre); and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar (including the Qatar Financial Centre). This Prospectus has not been filed with, reviewed or approved by the Qatar Central Bank, the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or any other relevant Qatar governmental body or securities exchange and may not be publicly distributed in Qatar (including the Qatar Financial Centre).

### **General**

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Capital Securities or possesses or distributes this Prospectus and neither the Issuer, the Guarantor nor any of the Joint Lead Managers shall have any responsibility therefor.

Neither the Issuer, the Guarantor nor any of the Joint Lead Managers represents that Capital Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. Persons into whose possession this Prospectus or the Capital Securities may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of Capital Securities.

In connection with the offering of the Capital Securities, each Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up Capital Securities in the offering and in that

capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Bank or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Capital Securities being offered should be read as including any offering of the Capital Securities to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

## GENERAL INFORMATION

### Authorisation

The giving of the guarantee under the Subordinated Guarantee by the Bank and its entry into the Agency Agreement, the Subordinated Guarantee, the On-Loan Agreement and the Subscription Agreement was duly authorised by the Board of Directors of the Bank on 8 October 2020.

The issue of Capital Securities by the Issuer and its entry into the Agency Agreement, the On-Loan Agreement and the Subscription Agreement was duly authorised by resolutions of the Board of Directors of the Issuer on 27 October 2020 and by resolutions of the sole shareholder of the Issuer on 18 October 2020. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Capital Securities and the execution and performance of the Agency Agreement, the On-Loan Agreement and the Subscription Agreement.

### Approval of the Prospectus, Admission to Trading and Listing of Capital Securities

Application has been made to Euronext Dublin for the Capital Securities to be admitted to the Official List and to trading on the Regulated Market. It is expected that the listing of the Capital Securities on the Official List and admission of the Capital Securities to trading on the Regulated Market will be granted on or around 24 February 2021. The total expenses related to the admission to trading are estimated at €5,000.

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Issuer in relation to the Capital Securities and is not itself seeking admission of the Capital Securities to the Official List or to trading on the Regulated Market.

### Documents Available

For so long as the Capital Securities are outstanding, physical copies of the following documents will, when published, be available for inspection from the registered office of the Bank and from the specified offices of the Fiscal Agent for the time being in London (and on the website of the Bank at <https://www.nbk.com/nbk-group/investor-relations/debt-securities.html>):

- (a) the Certificate of Incorporation and Articles of Association of the Issuer and the Memorandum and Articles of Association (with an English translation thereof if applicable) of the Bank;
- (b) the Subordinated Guarantee, the Agency Agreement (which contains the forms of the Global Certificates and the Individual Certificates) and the Deed Poll; and
- (c) a copy of this Prospectus.

### Clearing Systems

The Capital Securities have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. For the Regulation S Capital Securities, the ISIN is XS2306962841 and the Common Code is 230696284. For the Rule 144A Capital Securities, the ISIN is US62879NAA54, the Common Code is 230755680 and the CUSIP number is 62879NAA5. The Financial Instrument Short Names (FISN) and the Classification of Financial Instruments (CFI) Codes in respect of the Regulation S Capital Securities and the Rule 144A Capital Securities as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the National Numbering Agency that assigned the relevant ISIN, in each case as may be updated.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1 210 Brussels, the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg, and the address of DTC is 55 Water Street, New York, New York 10041, United States of America.

### Legal Entity Identifier (LEI)

The LEI code of the Issuer is 5493000G4QCCEE8YHF19 and the LEI code of the Guarantor is 549300NB7FE83IH6BW96.

## **Significant or Material Change**

Save as disclosed in "*Risk Factors – The outbreak of communicable diseases around the world, in particular the COVID 19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations*", there has been no significant change in the financial performance or position of the Group, and no material adverse change in the prospects of the Issuer, the Bank or the Group, in each case, since 31 December 2020.

## **Litigation**

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Neither the Bank nor any member of the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Bank or the Group.

## **Yield**

The yield of the Capital Securities is 3.625 per cent. on an annual basis. The yield is calculated as at the Issue Date of the Capital Securities on the basis of the issue price. It is not an indication of future yield.

## **Auditors**

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by the laws of the DIFC, and does not intend, to publish audited financial statements or appoint any auditors.

The Group's appointed auditors are Ernst & Young Al Aiban, Al Osaimi & Partners (**E&Y**) whose business address is P.O. Box 74, 18 – 21<sup>st</sup> Floor, Baitak Tower, Ahmed Al Jaber Street, Safat Square 13001, Kuwait and Deloitte & Touche Al Wazzan & Co. (**Deloitte**) whose business address is Ahmed Al-Jaber Street, Sharq, Dar Al-Awadi Complex, Floors 7 & 9, P.O. Box 20174, Safat 13062, Kuwait. Each of E&Y and Deloitte is regulated in Kuwait by the CMA and is a registered auditor licensed to act as an auditor in Kuwait by the Kuwaiti Ministry of Commerce and Industry.

The consolidated financial statements of the Group as at and for the years ended 31 December 2020 and 31 December 2019 have been jointly audited by E&Y and Deloitte in accordance with International Standards on Auditing, as stated in their reports incorporated by reference herein.

## **Websites**

The contents of any website referred to in this Prospectus do not form part of this Prospectus and have not been scrutinised or approved by the CBI.

## **Joint Lead Managers Transacting with the Bank**

In the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Capital Securities. Any such short positions could adversely affect future trading prices of Capital Securities. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**ISSUER**

**NBK Tier 1 Limited**  
c/o Maples Fund Services (Middle East) Limited  
Unit C1407, Level 14, Burj Daman  
Dubai International Financial Centre  
P. O. Box 506734  
Dubai  
United Arab Emirates

**GUARANTOR**

**National Bank of Kuwait S.A.K.P.**  
NBK Tower, Plot 6, Jaber Al Mubarak & Al-Shuhada St., Block 7, Sharq  
P.O. Box 95  
Safat, 13001 Kuwait

**FISCAL AGENT, TRANSFER AGENT AND  
CALCULATION AGENT**

**Citibank N.A., London Branch**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**REGISTRAR**

**Citigroup Global Markets Europe AG**  
Reuterweg 16  
60323 Frankfurt am Main  
Germany

**LEGAL ADVISERS**

*To the Issuer and the Guarantor  
as to English law and DIFC law*

**Clifford Chance LLP**  
Level 15, Burj Daman  
Dubai International Financial Centre  
P.O. Box 9380  
Dubai  
United Arab Emirates

*To the Issuer and the Guarantor  
as to United States law*

**Clifford Chance LLP**  
10 Upper Bank Street  
London E14 5JJ  
United Kingdom

*To the Joint Lead Managers  
as to English law and DIFC law*

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*To the Joint Lead Managers  
as to United States law*

**Allen & Overy LLP**  
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*To the Guarantor  
as to Kuwaiti law*

**ASAR – Al Ruwayeh & Partners**  
Gate 1, 3<sup>rd</sup> Floor Salhiya Complex  
P. O. Box 447  
Safat 13005  
Kuwait

*To the Joint Lead Managers  
as to Kuwaiti law*

**International Counsel Bureau**  
Al Hamra Business Tower  
58th Floor, Al Sharq  
P.O. Box 20941  
Safat 13070  
Kuwait

## AUDITORS

*To the Guarantor*

**Deloitte & Touche Al Wazzan & Co.**  
Ahmed Al-Jaber Street, Sharq  
Dar Al-Awadi Complex, Floors 7 & 9  
P. O. Box 20174, Safat 13062  
Kuwait

**Ernst & Young Al Aiban, Al Osaimi & Partners**  
P. O. Box 74,  
18-21<sup>st</sup> Floor, Baitak Tower  
Ahmed Al-Jaber Street  
Safat Square 13001  
Kuwait

## GLOBAL COORDINATORS, JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

**J.P. Morgan Securities plc**  
25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

**Standard Chartered Bank**  
7th Floor Building One, Gate Precinct  
Dubai International Financial Centre  
P. O. Box 999  
Dubai  
United Arab Emirates

**UBS AG London Branch**  
5 Broadgate  
London EC2M 2QS  
United Kingdom

**Watani Investment Company K.S.C.C.**  
35th Floor, NBK Tower, Plot 6, Jaber Al-  
Mubarak & Al-Shuhada St., Block 7, Sharq  
P.O. Box: 4950 Safat, 13050 Kuwait

## LISTING AGENT

**Arthur Cox Listing Services Limited**  
Ten Earlsfort Terrace  
Dublin 2  
Ireland