IMPORTANT NOTICE

THE ATTACHED BASE PROSPECTUS IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER: (1) QIBs (AS DEFINED BELOW); OR (2) NON-U.S. PERSONS (AS DEFINED IN REGULATION S (AS DEFINED BELOW)) OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the attached base prospectus (the "**Base Prospectus**") and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Base Prospectus. In accessing the attached Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer, the Guarantor, the Arrangers and the Dealers (each as defined in the attached Base Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. NEITHER THE SECURITIES NOR THE GUARANTEE DESCRIBED IN THE ATTACHED BASE PROSPECTUS HAVE BEEN, NOR WILL BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS, NOR MAY THEY 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 ("**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 OR LOCAL SECURITIES LAWS.

THE ATTACHED BASE PROSPECTUS IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THE ATTACHED BASE PROSPECTUS AS A FINANCIAL PROMOTION IS ONLY BEING MADE TO THOSE 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 (THE "**ORDER**") OR HIGH NET WORTH ENTITIES AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER (EACH SUCH PERSON BEING REFERRED TO AS A "**RELEVANT PERSON**"). THIS COMMUNICATION IS BEING DIRECTED ONLY AT RELEVANT PERSONS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. NO PERSON OTHER THAN A RELEVANT PERSON SHOULD RELY ON IT.

THE ATTACHED BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED BASE PROSPECTUS 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 LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED, AND WILL NOT BE ABLE, TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the attached Base Prospectus or make an investment decision with respect to the Notes and/or the Guarantee (each as defined in the attached Base Prospectus), an investor must be: (i) a person that is outside the United States and is not a U.S. person (within the meaning of Regulation S); or (ii) a person that is a "qualified institutional buyer" ("**QIBs**") (within the meaning of Rule 144A under the Securities Act ("**Rule 144A**")). The attached Base Prospectus is being sent at your request and by accepting the e-mail and accessing the attached Base Prospectus, you shall be deemed to have represented to us that: (a) you and any customers you represent are either: (1) non-U.S. persons (within the meaning of Regulation S) outside the United States; or (2) QIBs; (b) you are a person who is permitted under applicable law and regulation to receive the attached Base Prospectus; and (c) you consent to delivery of the attached Base Prospectus and any amendments or supplements thereto by electronic transmission.

By accessing the attached Base Prospectus you further confirm to us that: (i) you understand and agree to the terms set out herein; (ii) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person; and (iii) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Notes.

You are reminded that the attached Base Prospectus has been delivered to you on the basis that you are a person into whose possession the attached Base Prospectus 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 attached Base Prospectus 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.

The attached Base Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer and the Arrangers and Dealers or any affiliate of the relevant Arrangers or Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Arranger or Dealer or such affiliate on behalf of the Issuer or holders of the applicable securities in such jurisdiction.

Under no circumstances shall the attached Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities described herein in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached Base Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the attached Base Prospectus as completed by the applicable Final Terms and/or supplement(s) to the attached Base Prospectus (if any). The attached Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000, as amended does not apply.

The distribution of the attached Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the attached Base Prospectus comes are required by the Issuer, the Guarantor, the Arrangers and the Dealers to inform themselves about, and to observe, any such restrictions.

The attached Base Prospectus has been sent 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 neither the Issuer, the Guarantor, the Arrangers and Dealers nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer, the Guarantor, the Arrangers and the Dealers. Please ensure that your copy is complete. If you received the Base Prospectus by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the “reply” function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail 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.

Base Prospectus dated 11 May 2017

NBK SPC Limited

(*incorporated in the Dubai International Financial Centre as a Special Purpose Company*)

U.S.$3,000,000,000

Global Medium Term Note Programme

unconditionally and irrevocably guaranteed by

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

(*incorporated as a Public Shareholding Company in the State of Kuwait*)

Under this U.S.$3,000,000,000 Global Medium Term Note Programme (the "**Programme**"), NBK SPC Limited (the "**Issuer**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The obligations of the Issuer will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by National Bank of Kuwait S.A.K.P. ("**NBK**", the "**Bank**" or the "**Guarantor**").

Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to any increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Description of the Programme*" and any additional Dealer appointed under the Programme from time to time by NBK (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks, see "*Risk Factors*" on page 1.

This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC (as amended) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC ("**MiFID**") and/or which are to be offered to the public in any member state of the European Economic Area.

References in this Base Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Main Securities Market or have been admitted to trading on such further stock exchanges or markets as may be specified in the applicable Final Terms (as defined below). The Main Securities Market is a regulated market for the purposes of MiFID.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes and the issue price of Notes will be set out in a final terms document (the "**Final Terms**") which, with respect to Notes to be listed on the Irish Stock Exchange, will be delivered to the Central Bank of Ireland and the Irish Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer, the Guarantor and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Neither the Notes nor the Guarantee have been nor will be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or any U.S. state securities laws and the Notes may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons unless an exemption from the registration requirements of the Securities Act is available and the offer or sale is made in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Notes are being offered and sold outside the United States to persons that are not U.S. persons in reliance on Regulation S ("**Regulation S**") under the Securities Act and within the United States only to persons who are "qualified institutional buyers" ("**QIBs**") in reliance on Rule 144A ("**Rule 144A**") under the Securities Act. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

The Issuer and the Guarantor may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a new Base Prospectus, in the case of listed Notes only, if appropriate, will be made available, which will describe the effect of the agreement reached in relation to such Notes.

The rating of certain Series of Notes to be issued under the Programme and the credit rating agency issuing such rating may be specified in the applicable Final Terms.

NBK has been assigned long term ratings of A+ by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and AA- by Fitch Ratings Limited ("**Fitch**"), each with a stable outlook, and Aa3 by Moody's Investors Service Ltd. ("**Moody's**") with a negative outlook.

Each of Fitch, Moody's and Standard & Poor'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 Fitch, Moody's and Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Arrangers

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

Dealers

Citigroup **First Abu Dhabi Bank PJSC** **HSBC**
J.P. Morgan **Standard Chartered Bank** **Watani Investment Company K.S.C.C.**

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Guarantor and the Notes which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor.

The Issuer and the Guarantor accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with any amendments or supplements hereto and with any documents incorporated herein by reference (see "*Documents Incorporated by Reference*") and, in relation to any Tranche of Notes, should be read in conjunction with the applicable Final Terms.

None of the Arrangers or the Dealers has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers or the Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this Base Prospectus or any other information provided by either of the Issuer or the Guarantor in connection with the Programme. None of the Arrangers or the Dealers accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer or the Guarantor in connection with the Programme.

The only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the relevant subscription agreement as the relevant Dealers or the Managers, as the case may be.

No person is or has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor, the Arrangers or any of the Dealers.

Neither this Base Prospectus, nor any other information supplied in connection with the Programme or any Notes: (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 Guarantor, the Arrangers or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor, the Arrangers or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Base Prospectus. The Arrangers and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantor, the Arrangers and the Dealers do not represent

that this Base Prospectus may be lawfully distributed, or that any Notes 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 Guarantor, the Arrangers or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base 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 Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom), Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar (excluding the Qatar Financial Centre), Singapore, Hong Kong, Malaysia, the State of Kuwait and the Republic of Italy. See "*Subscription and Sale and Transfer and Selling Restrictions*".

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer, the Guarantor or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

None of the Issuer, the Guarantor, any Arranger or any Dealer has authorised, nor does it authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer, the Guarantor or any Dealer to publish or supplement a prospectus for such offer.

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Notes being offered, including the merits and risks involved. The Notes and the Guarantee have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

None of the Arrangers, the Dealers, the Issuer or the Guarantor makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- **have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;**
- **have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;**
- **have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where**

the currency for principal or interest payments is different from the potential investor's currency;

- **understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and**
- **be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.**

Some Notes may be complex financial instruments. 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 Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

U.S. INFORMATION

This Base 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 Notes being offered hereby. 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.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, subject to certain exceptions. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the U.S. Treasury regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to persons who are QIBs in transactions exempt from registration under the Securities Act in reliance on Rule 144A or any other applicable exemption. Prospective purchasers are hereby notified that sellers of Registered Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Restricted Global Certificate or any Notes issued in registered form in exchange or substitution therefor (together "Restricted Notes") will be deemed, by its acceptance or purchase of any such Restricted Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*".

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "**restricted securities**" within the meaning of Rule 144(a)(3) of the Securities Act, each of the Issuer and the Guarantor has undertaken in a deed poll dated 11 May 2017 (the "**Deed Poll**") to furnish, upon the request of a holder of such Notes 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 Notes 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 United States 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.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a special purpose company incorporated in the Dubai International Financial Centre (the "**DIFC**") and the Guarantor is a Public Kuwaiti Shareholding Company established in the State of 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 the State of 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 of territory within the United States.

The Notes and the Guarantee are governed by English law and disputes in respect of them may be settled by arbitration under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA Rules**") 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 – Risks Relating to Enforcement – Noteholders may only be able to enforce the Notes through arbitration before the London Court of International Arbitration ("LCIA") and LCIA awards relating to disputes under the Notes may not be enforceable in Kuwait*".

NOTICE TO RESIDENTS OF THE STATE OF KUWAIT

Unless all necessary approvals from the Kuwait Capital Markets Authority (the "**CMA**") pursuant to Law No. 7 of 2010, and its executive bylaws (each as amended) (the "**CML Rules**") together with the various resolutions, regulations, directives and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing, and sale of the Notes, the Notes may not be offered for sale, nor sold, in Kuwait. This Base Prospectus is not for general circulation to the public in Kuwait nor will the Notes be sold by way of a public offering in Kuwait. In the event where the Notes 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 Base Prospectus and do not approve the contents thereof or verify the validity and accuracy of its contents. The CMA, and all other regulatory bodies in Kuwait, assume no responsibility whatsoever for any damages that may result from relying (in whole or in part) on the contents of this Base Prospectus. Prior to purchasing any Notes, it is recommended that a prospective holder of any Notes seeks professional advice from its advisors in respect to the contents of this Base Prospectus so as to determine the suitability of purchasing the Notes.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, Notes issued in connection with this Base 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 ("**CBB**") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or the equivalent amount in any other currency or such other amount as the CBB may determine.

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

The CBB has not reviewed, approved or registered this Base Prospectus or related offering documents and it has not in any way considered the merits of the Notes to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Base 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 Base Prospectus. No offer of securities will be made to the public in the Kingdom of Bahrain and this Base 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 KINGDOM OF SAUDI ARABIA

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of the Notes should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Base Prospectus he or she should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

The Notes will not be offered, sold or delivered, at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Base Prospectus has not been and will not be reviewed or approved by or registered with the Qatar Central Bank, the Qatar Exchange, the Qatar Financial Centre Regulatory Authority or the Qatar Financial Markets Authority in accordance with their regulations or any other regulations in the State of Qatar. The Notes are not and will not be traded on the Qatar Exchange.

NOTICE TO RESIDENTS OF MALAYSIA

Any Notes to be issued under the Programme may not be offered for subscription or purchase and no invitation to subscribe for or purchase such Notes in Malaysia may be made, directly or indirectly, and this Base Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b), and Schedule 8 or Section 257(3), read together with Schedule 9 or section 257(3) of the Capital Market and Services Act 2007 of Malaysia ("**CMSA**") , subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Issuer or the Guarantor and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Base Prospectus.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilisation manager(s) in the relevant subscription agreement (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes 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 relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical financial statements

This Base Prospectus contains the unaudited consolidated financial statements of the Group as of and for the three months ended 31 March 2017 (with comparative data for the three months ended 31 March 2016) (the "**Interim Financial Statements**") and the audited consolidated financial statements of the Group as of and for the year ended 31 December 2016 (with comparative data for the year ended 31 December 2015) (the "**2016 Financial Statements**") and the year ended 31 December 2015 (with comparative data for the year ended 31 December 2014) (the "**2015 Financial Statements**").

This Base Prospectus incorporates by reference the audited consolidated financial statements as of and for the year ended 31 December 2014 (with comparative data for the year ended 31 December 2013) (the "**2014 Financial Statements**") and as of and for the year ended 31 December 2013 (with comparative data for the year ended 31 December 2012) (the "**2013 Financial Statements**", and together with the 2016 Financial Statements, the 2015 Financial Statements and the 2014 Financial Statements, the "**Year-End Financial Statements**"). The Interim Financial Statements and the Year-End Financial Statements are collectively referred to as the "**Financial Statements**" in this Base Prospectus.

The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 '*Interim Financial Reporting*' and have been jointly reviewed 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 the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" as stated in their audit report included elsewhere in this Base Prospectus.

The Year-End Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**"), as adopted by Kuwait for financial services institutions regulated by the CBK, and have been jointly audited by E&Y and Deloitte in accordance with International Standards on Auditing as stated in their audit reports included herein. These regulations require the adoption of all IFRS requirements except for the IAS 39, '*Financial Instruments: Recognition and Measurement*', requirement for a collective provision, which was replaced by the CBK's requirement for a minimum general provision to be made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

The Group's financial year ends on 31 December and references in this Base Prospectus to 2016, 2015, 2014, 2013 and 2012 are to the 12 month period ending on 31 December in each year.

The Financial Statements included in this Base Prospectus should be read in conjunction with the respective notes thereto. Prospective investors are advised to consult their professional advisors 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 Base 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 Base Prospectus includes certain non-IFRS financial measures and ratios. See "*—Non-IFRS Financial Measures*" below.

Any financial information regarding the Group in this Base Prospectus labelled as "unaudited" has not been extracted from the Year-End Financial Statements, but has been extracted or derived from the Interim

Financial Statements or from the Group's unaudited management accounts based on accounting records, as applicable, or is based on calculations of figures from the above-mentioned sources.

Certain numerical figures set out in this Base 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 Financial Statements. Therefore, the sums of amounts given in some columns or rows in the tables and other lists presented in this Base Prospectus may slightly differ from the totals specified for such columns or rows. Similarly, some percentage values presented in the tables in this Base 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 forth in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" are calculated using the numerical data in the relevant Financial Statements and not using the numerical data in the narrative description thereof.

The financial information included in this Base 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 Notes were being registered with the U.S. Securities and Exchange Commission (the "**SEC**").

Average balances and interest rates

This Base Prospectus includes information relating to average balances of interest income and financing income-earning assets and interest expense and financing cost-bearing liabilities of the Group, the amounts of interest income, Islamic financing income, interest expense and Islamic financing cost of the Group and the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities by the Group for the three months ended 31 March 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014. This information is presented and further described in the section "*Selected Statistical Data*". Unless otherwise specified herein, average balances of assets and liabilities for the Group for the three months ended 31 March 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014 were calculated as the sum of assets or liabilities on a quarterly basis divided by two for the three months ended 31 March 2017 and 2016 or five for the years ended 31 December 2016, 2015 and 2014. The quarterly balances were extracted from interim and annual financial statements of the Group. The average interest rate for any line item is calculated by dividing interest income or interest expense, as applicable, by the average balance for such line item for the relevant period.

This Base Prospectus also includes information on changes in interest income or interest expense of the Group, which are attributed to either: (i) changes in average balances (volume change) of interest income and financing income-earning assets or interest expense and financing cost-bearing liabilities; or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities. Such information appears in the section "*Selected Statistical Data*". Changes in the Group's interest income and expense have been allocated between changes in average volume and changes in the average rates for the three months ended 31 March 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014. The volume and rate variances are calculated based on the movements of average balances over the period and changes in average interest rates on interest income and financing income-earning assets and interest expense and financing costs-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 Notes 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

This Base Prospectus contains references to certain non-IFRS measures, including capital adequacy, leverage and certain other ratios.

The non-IFRS measures contained in this Base 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 non-IFRS measures in this Base 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 Base 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 various measures with similar measures used by other companies.

The non-IFRS financial measures contained in this Base Prospectus have not been prepared in accordance with IFRS, US GAAP, SEC requirements or the accounting standards of any other jurisdiction and may not be comparable to similar measures of other companies.

Monetary and Exchange Rate Policy

Kuwait's monetary and exchange rate policy is set and managed by the Central Bank of Kuwait ("**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 the Kuwaiti Dinar Basket (defined as the undisclosed weighted basket of international currencies of Kuwait's major trade and financial partner countries), 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 sets forth the Kuwaiti dinar/U.S. dollar exchange rate based on daily data for the three months ended 31 March 2017 and for the year ended 31 December 2016.

	High	**Low**	**Difference**	**Change (%)**
31 March 2017	0.3064	0.3043	0.0021	0.69
31 December 2016	0.3062	0.2983	0.0079	2.65

Source: Central Bank of Kuwait

Definitions

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

- references to "**GCC**" are to the Gulf Co-operation Council;
- 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;
- references to the "**MENA region**" are to the Middle East and North Africa region; and
- references to "**OPEC**" are to the Organisation of the Petroleum Exporting Countries.

Certain conventions

Certain figures and percentages included in this Base 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.

All references in this Base 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; all references to "**dinar**" and "**KD**" refer to Kuwaiti dinar being the legal currency for the time being of Kuwait; all references to "**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; all references to "**GBP**" refer to the British Pound, the lawful currency of the United Kingdom; and all references to "**Egyptian pounds**" and "**EGP**" refer to the legal currency for the time being of the Arab Republic of Egypt.

ALTERNATIVE PERFORMANCE MEASURES

Certain financial measures presented by the Group in this Base Prospectus are not defined in accordance with IFRS accounting standards. The Group believes that these alternative performance measures (as defined in the European Securities and Markets Authority guidelines (the "**ESMA Guidelines**") on Alternative Performance Measures ("**APMs**")) provide useful supplementary information to both investors and to the Group's 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 Base Prospectus, in the same manner, these are not always directly comparable to performance metrics used by other companies.

Additionally, the APMs presented by the Group in this Base Prospectus are unaudited and have not been prepared in accordance with IFRS or any other accounting standards. Accordingly, these financial measures should not be seen as a substitute for measures defined according to IFRS. The Group considers that the following metrics (which are set out below along with their reconciliation, to the extent that such information is not defined according to IFRS and not included in the Financial Statements included elsewhere in this Base Prospectus) presented in this Base Prospectus constitute APMs for the purposes of the ESMA Guidelines:

APM	Definition / Method of Calculation	Reconciliations with relevant Financial Statements
Return on average assets	Financial measure expressing the profit for the year attributable to shareholders of the Bank divided by average assets for the year, with average assets calculated as the sum of assets on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two.	**Profit for the year attributable to shareholders of the Bank** As set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements.
		Assets Refers to the same concept/figure as "**Total assets**" as set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements.
Return on average equity	Financial measure expressing the profit for the year attributable to shareholders of the Bank divided by average shareholder's equity for the year, with average shareholder's equity calculated as the sum of shareholder's equity on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two.	**Profit for the year attributable to shareholders of the Bank** See above.
		Shareholder's Equity Refers to the same concept/figure as "**Equity Attributable to Shareholders of the Bank**" as set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements.
Cost to income ratio	Financial measure to express operating expenses divided by net operating income.	**Operating expenses** As set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements.

APM	Definition / Method of Calculation	Reconciliations with relevant Financial Statements
		Net operating income As set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements.
Net interest margin	Financial measure to express: (i) the sum of net interest income and net income from Islamic financing; divided by (ii) average interest earning assets for the year, with average interest earning assets calculated as the sum of interest earning assets on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two. Interest 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.	**Net interest income** As set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements. **Net income from Islamic financing** As set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements.
		Cash and short-term funds As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. See also Note 11 to the 2016 Financial Statements and the 2015 Financial Statements, respectively. **Central Bank of Kuwait bonds** As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. See also Note 13 to the 2016 Financial Statements and the 2015 Financial Statements, respectively.

APM	Definition / Method of Calculation	Reconciliations with relevant Financial Statements
		Kuwait Government treasury bonds As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. See also Note 13 to the 2016 Financial Statements and the 2015 Financial Statements, respectively. **Deposits with banks** As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. **Loans, advances and Islamic financing to customers** As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. See also Note 12 to the 2016 Financial Statements and the 2015 Financial Statements, respectively. **Investment securities** As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. See also Note 13 to the 2016 Financial Statements and the 2015 Financial Statements, respectively.
Yield	Financial measure to express interest income and income from Islamic financing divided by average interest income and financing income-earning assets for the year, with average interest income and financing income-earning assets calculated as the sum of interest income and financing income-earning assets on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two.	**Interest income** As set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements. **Income from Islamic financing** Refers to the same concept/figures as "**Murabaha and other Islamic financing income**" set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements. **Cash and short-term funds** See above.

APM	Definition / Method of Calculation	Reconciliations with relevant Financial Statements
		Central Bank of Kuwait bonds See above. **Kuwait Government treasury bonds** See above. **Deposits with banks** See above. **Loans, advances and Islamic financing to customers** See above. **Investment securities** See above.
Funding cost	Financial measure stating the interest expense and finance cost and distribution to depositors divided by the average interest expense and financing cost-bearing liabilities on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two. Interest expense and financing cost-bearing liabilities comprise due to banks and other financial institutions, customer deposits, certificates of deposit issued and Subordinated Tier 2 bonds.	**Interest expense** As set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements. **Finance cost and distribution to depositors** As set out in the Consolidated Statement of Income in each of the Interim Financial Statements and the Annual Financial Statements. **Due to banks and other financial institutions** As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. **Customer deposits** As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. **Certificates of deposit issued** As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. **Subordinated Tier 2 bonds** As set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the

APM	Definition / Method of Calculation	Reconciliations with relevant Financial Statements
		Annual Financial Statements.
Net profit margin	Financial measure to express profit for the year attributable to shareholders of the Bank divided by net operating income for the year.	**Profit for the year attributable to shareholders of the Bank** See above. **Operating income** See above.
Impaired loans ratio	Financial measure to express impaired loans as a percentage of total gross loans.	**Impaired loans** Refers to the same concept/figure as "**Past due and impaired loans, advances and Islamic financing to customers**" as set out in Note 29 to the 2016 Financial Statements, Note 28 to the 2015 Financial Statements, respectively. **Gross loans** Refers to the sum of: (i) the figure "**Loans, advances and Islamic financing to customers**" as set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements; plus (ii) the figure corresponding to "**Provision for credit losses**" in Note 12 to the 2016 Financial Statements and the 2015 Financial Statements, respectively.
Loan loss coverage ratio	Financial measure to express loan loss provisions as a percentage of impaired loans.	**Loan loss provisions** The figure corresponding to "**Provision for credit losses**" in Note 12 to the 2016 Financial Statements and the 2015 Financial Statements, respectively **Impaired loans** See above.
Liquidity coverage ratio	Financial measure calculated as stipulated in CBK Circular number 2/RB/345/2014 dated 23 December 2014. Reporting of the liquidity coverage ratio was introduced from 1 January 2015.	Calculated as stipulated in CBK Circular number 2/RB/345/2014 dated 23 December 2014.
Loans to customer and financial institution deposits ratio	Financial measure to express loans, advances and Islamic financing to customers as a percentage of the sum of due to other financial institutions and customers' deposits.	**Loans, advances and Islamic financing to customers** See above.

APM	Definition / Method of Calculation	Reconciliations with relevant Financial Statements
		Due to other financial institutions Derived from the figure for "**Due to banks and other financial institutions**", as set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements. **Customer deposits** See above.
Loans to total deposits ratio	Financial measure to express loans, advances and Islamic financing to customers as a percentage of total deposits (comprising the sum of customer deposits, due to banks and other financial institutions and certificates of deposit issued).	**Loans, advances and Islamic financing to customers** See above. **Total deposits** Derived from the sum of "**Due to banks and other financial institutions**", "**Customer deposits**" and "**Certificates of deposit issued**", each as set out in the Consolidated Statement of Financial Position in each of the Interim Financial Statements and the Annual Financial Statements.
Common equity tier 1 capital adequacy ratio	Financial measure calculated in accordance with Basel III regulations issued by the CBK via circular 2/RB, RBA/A336/2014 dated 24 June 2014.	As contained in note 30 to the 2016 Financial Statements and note 29 to the 2015 Financial Statements, respectively.
Tier 1 capital adequacy ratio	Financial measure calculated in accordance with Basel III regulations issued by the CBK via circular 2/RB, RBA/A336/2014 dated 24 June 2014.	As contained in note 30 to the 2016 Financial Statements and note 29 to the 2015 Financial Statements, respectively.
Total capital adequacy ratio	Financial measure calculated in accordance with Basel III regulations issued by the CBK via circular 2/RB, RBA/A336/2014 dated 24 June 2014.	As contained in note 30 to the 2016 Financial Statements and note 29 to the 2015 Financial Statements, respectively.
Leverage ratio	Financial measure calculated in accordance with CBK Circular number 2/BS/342/2014 dated 21 October 2014.	As contained in note 30 to the 2016 Financial Statements and note 29 to the 2015 Financial Statements, respectively.

FORWARD-LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward-looking statements. Forward-looking statements include statements concerning NBK'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 Base Prospectus. NBK has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although NBK believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable as at the date of this Base Prospectus, if one or more of the risks or uncertainties materialise, including those which NBK has identified in this Base Prospectus, or if any of NBK's underlying assumptions prove to be incomplete or inaccurate, NBK's actual results of operation may vary from those expected, estimated or predicted.

The risks and uncertainties referred to above include:

- macro-economic and financial market conditions generally and, in particular, the current depressed macro-economic environment, driven by ongoing volatility in international oil prices and challenging conditions in the international debt and equity capital markets, which have materially adversely affected and may continue to materially adversely affect NBK's business, results of operations, financial condition and prospects;

- credit risks, including the impact of a higher level of credit defaults arising from adverse economic conditions, NBK's ability to successfully re-price and restructure loans, the impact of provisions and impairments and concentration of NBK's loan portfolio;

- liquidity risks, including the inability of NBK to meet its contractual and contingent cash flow obligations or the inability to fund its operations;

- changes in interest rates and other market conditions, including changes in LIBOR, EIBOR, spreads and net interest margins; and

- NBK is subject to political and economic conditions in Kuwait and the Middle East.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed in "*Risk Factors*".

These forward-looking statements speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, NBK expressly disclaims any obligations or undertaking to disseminate after the date of this Base 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 STATISTICAL INFORMATION AND OTHER DATA

There is no independently determined financial services industry data available in Kuwait. As a result, any Group market share data included in this Base Prospectus represents the Group's own estimates of its market shares based on the consolidated annual financial statements published by Kuwaiti banking groups and, where available, industry data, such as that produced by the CBK. All such market share information is referred herein to as having been estimated and potential investors should note that the data so derived includes significant assets and liabilities outside Kuwait and excludes any Kuwaiti assets and liabilities of non-Kuwaiti banking groups. As a result, it simply represents an approximation of the Group's actual market shares. Nevertheless, the Group believes that its estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Group's knowledge of the market within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Kuwait included in this Base Prospectus has been derived from official public sources, including OPEC, the International Monetary Fund ("**IMF**"), the Kuwait Public Authority for Civil Information, the CBK and the Kuwait Central Statistics Bureau. All such statistical information may differ from that stated in other sources for a variety of reasons, including the fact that the underlying assumptions and methodology (including definitions and cut-off times) may vary from source to source. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased the Notes.

The statistical information in this Base Prospectus, including in relation to Gross Domestic Product ("**GDP**") and revenues of the Kuwaiti government, have been obtained from public sources identified in this Base Prospectus. All statistical information provided in this Base Prospectus, and the component data on which it is based, may not have been compiled in the same manner as data provided by, and may be different from statistics published by, other sources, reflecting. Accordingly, the statistical data contained in this Base Prospectus should be treated with caution by prospective investors.

Where information has not been independently sourced, it is the Group's own information.

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RISK FACTORS

Any investment in the Notes 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 Notes, together with all of the information that is included in this Base Prospectus, and should form their own view before making an investment decision with respect to the Notes. 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 Bank'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 Notes 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 Notes, but the Issuer's and the Bank's inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer and the Bank do not represent that the statements below regarding the risks of holding the Notes 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 Notes.

This Base 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 Base Prospectus. See "Forward-Looking Statements".

FACTORS THAT MAY AFFECT THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS IN RESPECT OF NOTES ISSUED UNDER THE PROGRAMME AND/OR THE GUARANTEE

Difficult macro-economic and financial market conditions have affected and could 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. As at the date of this Base Prospectus, global debt and equity markets have been adversely impacted by the ongoing volatility in the macro-economic climate which has had, and which continues to have, a material adverse effect on the economies of the GCC states, including Kuwait.

Between July 2014 and January 2016, international crude oil prices declined dramatically (falling by approximately 75 per cent. from a high monthly average OPEC Reference Basket price per barrel of U.S.$107.9 in July 2014, to a monthly average price of U.S.$26.50 in January 2016). Notwithstanding the partial correction in global crude oil prices through 2016 (according to the OPEC website, the average price of the OPEC Reference Basket was approximately U.S.$51.70 per barrel for the year ended 31 December 2016), the economies of the oil-revenue dependent GCC states have continued to be adversely affected with greater budget deficits, a decrease in fiscal revenues and consequent lower public spending seen in 2016 and expected to continue through 2017. Government fiscal deficits are likely to result in a weakened net asset position, larger external financing needs and/or continued lower government spending.

In Kuwait, the oil sector remains the principal contributor to the economy, accounting for 52.4 per cent. of Kuwait's real GDP in 2015. Additionally, oil revenues continue to constitute the majority of fiscal revenue, with 88.6 per cent. of total government revenues for the fiscal year ended 31 March 2016 being derived from the oil sector. Accordingly, Kuwait's economy is significantly impacted by international oil prices and the sustained period of low crude oil prices has negatively affected Kuwait's economy and is expected to continue to have a negative effect on its economy in 2017 (assuming that crude oil prices remain low for much of the year). See "*— Kuwait's economy and government revenues are significantly impacted by, and are dependent upon, international oil prices*" below. The impact on Kuwait's economy of the prevailing low oil price climate has also negatively impacted economic sectors which are, in part, dependent on the success of the oil and gas sector. For example, the Kuwaiti government has reduced, and may continue to reduce, government expenditure in light of the budgetary pressures caused by low or falling oil prices. The Kuwaiti government has undertaken a process of rationalisation of 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. In addition, ancillary industrial activities related to oil and gas exploration and production are also negatively affected by low oil prices. Furthermore, 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 undisclosed weighted basket of international currencies of Kuwait's major trade and financial partner countries (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.

The Group's operations are heavily concentrated in Kuwait and the MENA region. For the three months ended 31 March 2017, 77.3 per cent. of the Group's net operating income was derived from its operations in Kuwait (31 December 2016: 74.9 per cent.). As at 31 December 2016, 76.5 per cent. of its maximum exposure to credit risk (including contingent liabilities) was concentrated in the MENA region, principally in Kuwait. Outside of 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, as at 31 December 2016, accounted for 9.6 per cent. of the Group's net operating income. Egypt, in recent years, and particularly since the 2011 Egyptian revolution, has experienced a turbulent period including significant political unrest and multiple terrorist attacks which have culminated in a period of economic instability. In particular, a decline in tourism related fiscal revenues (as a significant contributor to the Egyptian economy), together with a rising budget deficit, a contraction in foreign investment, domestic inflationary pressures and significant levels of government indebtedness have contributed to a particularly challenging macroeconomic environment for the Group's Egyptian operations.

In addition, the Group is impacted by exchange rate movements in the Egyptian pound. For example, on 3 November 2016, the Central Bank of Egypt liberalised the Egyptian pound exchange rate and moved to a free float mechanism. The subsequent decline in the value of the Egyptian Pound negatively impacted the Group's profit for the period for the three months ended 31 March 2017, when compared with profit for the period for the three months ended 31 March 2016. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of operations for the three months ended 31 March 2017 compared to the three months ended 31 March 2016".* Any further devaluations of the Egyptian pound could have a material adverse effect on the Group's business, results of operations and financial condition.

A continued deterioration in macro-economic conditions in the MENA region 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 "*— The Group's loan and investment portfolios and deposit base are concentrated by geography, sector and client*" below.

Further, and as discussed elsewhere in this Base Prospectus (see "*– The Group may experience a higher level of customer and counterparty defaults arising from adverse changes in credit and recoverability that are inherent in the Group's business*"), the performance of international debt and equity markets and investor sentiment generally across the EU and United States has been affected by political events during 2016, notably the United Kingdom's "Brexit" vote and the result of the presidential election in the United States.

As a result of market conditions prevailing as at the date of this Base Prospectus, companies to which the Group directly extends credit have historically 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. The Group's impairment charge for loans, advances and Islamic financing to customers totalled KD 35 million for the three month period ended 31 March 2017 and KD 126 million and KD 130 million, respectively, for the years ended 31 December 2016 and 31 December 2015. If current market conditions continue to deteriorate, the Group may incur further impairment charges and experience increases in defaults by its debtors which would have a material adverse effect on the Group's business, results of operations and financial condition.

These extremely volatile market conditions have resulted in reduced liquidity, widening of credit spreads and lack of price transparency in credit and capital markets. The adverse market conditions have impacted investment markets both globally and in the GCC, with increased volatility in interest rates and exchange rates. The decision of the U.S. Federal Reserve to raise interest rates in December 2015 (for the first time since 2006), and again in December 2016 and March 2017 (with further rate rises expected during the remainder of 2017) will, if the pace of U.S. interest rate movements develops as expected, likely further exacerbate the reduced liquidity environment.

The business, results of operations and financial condition of the Group have been materially adversely affected by these trends and may be further materially adversely affected by a continuation of the general unfavourable economic conditions in Kuwait and the GCC and emerging markets generally as well as by United States, European and international trading market conditions and/or related factors.

The Group's business, results of operations and financial condition have historically been adversely affected by credit risks and may again be affected by credit risks if economic conditions do not improve

Credit risk 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. Concentrations of credit 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.

Credit risks and concentrations of credit risk have materially adversely affected, and could continue to materially adversely affect, the Group's business, financial condition and results of operations. Some of the credit risks currently facing the Group are described in more detail below.

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

As a result of adverse economic and political developments in recent years, adverse changes in consumer confidence levels, consumer spending, liquidity levels, bankruptcy rates and commercial and residential real estate prices, among other factors, have historically impacted the Group's customers and counterparties and, in certain cases, adversely affected their ability to repay their loans or other obligations to the Group. This, in turn, along with increased market volatility and decreased pricing transparency has, historically, adversely affected the Group's credit risk profile.

As at the date of this Base Prospectus, the global macroeconomic climate remains volatile (see "*– Difficult macro-economic and financial market conditions have affected and could continue to materially adversely affect the Group's business, results of operations and financial condition*"). While international prices for hydrocarbon related products have begun to recover from the record-low prices seen in January 2016, investor confidence in international debt and equity markets (and, in turn, the performance of those markets) has been adversely impacted by recent political events. In particular, the United Kingdom's "leave" vote in the June 2016 referendum on its membership of the EU and the election of Donald J. Trump as President of the United States may result in a period of instability across international financial markets and impact on the general political and macro-economic conditions in the United Kingdom, the EU, the United States and globally, until the precise terms of the United Kingdom's exit from the EU and the impact of the fiscal-stimulus policies of the Trump administration, respectively, become clearer. Additionally, movements in global interest rates have continued to be unpredictable. The U.S. Federal Reserve's decision to further increase interest rates in December 2016 and March 2017 (having also raised rates in December 2015 for the first time since 2006) has contributed to the prevailing mood of economic uncertainty.

In the GCC, and notwithstanding the partial correction in global crude oil prices through 2016 (according to the OPEC website, the average price of the OPEC Reference Basket was approximately U.S.$51.70 per barrel for the year ended 31 December 2016), the oil-producing economies of the GCC states, including Kuwait, have continued to be adversely affected with greater budget deficits, a decrease in fiscal revenues and consequent lower public spending seen in 2016 and expected to continue through 2017. In Kuwait, the prevailing low oil price environment has stimulated a policy of rationalisation of fiscal spending in light of the budgetary pressures caused by low or falling oil prices which, in turn, has led to an ongoing transformation within the Kuwaiti economy.

As at 31 March 2017, the Group's loans, advances and Islamic financing provided to customers (net of provisions), amounted to KD 14,049 million, as compared to KD 13,611 million as at 31 December 2016 and KD 13,551 million as at 31 December 2015. The Group's impairment charge for loans, advances and Islamic financing to customers totalled KD 35 million for the three month period ended 31 March 2017 and KD 126 million and KD 130 million, respectively, for the years ended 31 December 2016 and 31 December 2015.

Of its total net loan portfolio as at 31 March 2017, the borrowers in respect of 92.4 per cent. were located in the MENA region (principally in Kuwait), (31 December 2016: 92.1 per cent.). This level of geographic concentration causes the Group's credit risk profile to be particularly susceptible to adverse economic conditions at a regional level. In particular, factors such as house prices, levels of employment, interest rates and the amount of consumers' disposable income in the MENA region can each have a material impact on its business. See "*– The Group's loan and investment portfolios and deposit base are concentrated by geography, sector and client*" below.

This challenging economic environment, together with the anticipated reduction in government spending and the likely impact on the level of economic activity in Kuwait, is expected to continue to have an adverse effect on the Group's credit risk profile. Although the Group regularly reviews its credit exposures and has re-priced a portion of its loan portfolio and, in very limited cases, restructured some of its loans under stress, customer defaults may continue to occur. The occurrence of these events and any failure by the Group to maintain the quality of its assets through effective risk management policies to mitigate against credit risk could materially adversely affect, the Group's business, results of operations and financial condition.

The Group's loan and investment portfolios and deposit base are concentrated by geography, sector and client

The Group's loan portfolio is concentrated, geographically, in Kuwait and the MENA region. The current challenging macro-economic environment, together with the ongoing process of rationalisation of government expenditure across the oil-producing GCC states, including Kuwait, has had a material adverse effect on certain areas of this geographically concentrated portfolio and continues to impact the Group. See "*– The Group may experience a higher level of customer and counterparty defaults arising from adverse changes in credit and recoverability that are inherent in the Group's business*" and "*– Difficult macro-economic and financial market conditions have affected and could continue to materially adversely affect the Group's business, results of operations and financial condition*".

Of its total net loan portfolio as at 31 March 2017, the borrowers in respect of 92.4 per cent. were located in the MENA region (principally in Kuwait), (31 December 2016: 92.1 per cent.), and the borrowers in respect of the remaining 7.6 per cent. were located outside the MENA region (31 December 2016: 7.9 per cent.). Of the Group's total net loan portfolio as at 31 December 2016, retail loans accounted for 32 per cent. and real estate related loans accounted for 21 per cent., each representing a material exposure for the Group.

The Group's loan portfolio and investment securities portfolio (including its holding of Kuwaiti government treasury bonds and CBK bonds) together constituted 75.4 per cent. of its total assets, or KD 18,707 million, as at 31 March 2017, 74.5 per cent. of its total assets, or KD 18,028 million, as at 31 December 2016 and 74.2 per cent. of its total assets, or KD 17,519 million, at 31 December 2015.

The Group's investment securities portfolio has significant exposure to MENA region issuers which are principally Kuwaiti and other governments. As at 31 March 2017, KD 3,218 million, or 69.1 per cent. of the portfolio comprised exposure primarily to MENA region issuers (KD 2,943 million, or 66.6 per cent. as at 31 December 2016 and KD 2,673 million or 67.4 per cent. as at 31 December 2015). These issuers are predominantly Kuwaiti and other governments and includes the Group's holding of Kuwaiti government treasury bonds and CBK bonds. Of the Group's investment securities portfolio, KD 1,506 million or 32.3 per cent. of the total portfolio as at 31 March 2017 comprised CBK bonds and Kuwaiti government bonds (31 December 2016: KD 1,242 million or 28.1 per cent. and 31 December 2015: KD 1,184 million or 29.8 per cent.).

As a result of the concentration of the Group's loan and investment portfolios and deposit base in Kuwait and the MENA region, any continued deterioration in general economic conditions in Kuwait or the MENA region or any failure of the Group to effectively manage its geographic, sectoral and client risk concentrations could have a material adverse effect on its business, results of operations and financial condition.

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 Group's maximum exposure to credit risk has concentrations of exposure to particular economic sectors, including other banks and financial institutions which, as at 31 December 2016, accounted for 33.0 per cent. of its maximum total exposure to credit risk, as compared to 33.1 per cent. as at 31 December 2015. The next highest sectoral concentration as at 31 December 2016 was the retail sector, which accounted for 16.3 per cent. of the Group's maximum exposure to credit risk (31 December 2015: 15.7 per cent.). The quality of the Group's loan portfolio exposure to this sector depends on, among other things, customer creditworthiness. This, in turn, is significantly affected by macroeconomic business conditions. Various factors may contribute to a deterioration in the quality of the Group's loan portfolio engaged in the retail sector, and in particular events or circumstances which are beyond the Group's control, such as deteriorating macroeconomic conditions or the declaration of bankruptcy of a customer or a group of customers to which the Group's exposures are significant.

The Group's 20 largest loans, advances and Islamic financing provided to customers outstanding as a percentage of its gross loan portfolio as at 31 March 2017 was 16 per cent. (31 December 2016; 16 per cent. and 31 December 2015; 15 per cent.).

The Group's customer deposits constituted 61.3 per cent. of its total liabilities, or KD 13,151 million, as at 31 March 2017, 60.6 per cent. of its total liabilities, or KD 12,608 million, as at 31 December 2016 and 59.1 per cent. of its total liabilities, or KD 12,059 million, as at 31 December 2015. Deposits from the Kuwaiti government and its related agencies accounted for approximately 25 per cent. to 30 per cent. of the Group's total funding in the period between 31 December 2014 and 31 March 2017.

In terms of liabilities, the Group's 20 largest customer deposits constituted 33 per cent. of its total customer deposits as at 31 March 2017 (34 per cent. of total customer deposits as at 31 December 2016 and 31 per cent. of total customer deposits as at 31 December 2015).

Although the Group regularly reviews its credit exposures and has in place systems for assessing the financial condition and creditworthiness of its debtors, its failure to do so accurately or effectively may result in an increase in the rate of default for the Group's loan portfolio, which could have a material adverse effect on its business, results of operations and financial condition. See "*– 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*".

If the Group is unable to effectively monitor and control the level of or, where required, successfully restructure its impaired loans with debtors in financial distress, or its allowances for loan impairment are insufficient to cover loan losses, the Group's financial condition and results of operations would be adversely affected

As at 31 March 2017, the Group's impaired loans ratio (defined as impaired loans as a percentage of total gross loans) was 1.27 per cent. As at 31 December 2016, the Group had KD 183 million of impaired loans and carried impairment allowances of KD 668 million to cover potential loan losses (31 December 2015: KD 190 million of impaired loans and KD 613 million of impairment allowances and 31 December 2014: KD 186 million of impaired loans and KD 515 million of impairment allowances). In accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK, the Group is required to reflect the impairment calculated (which is established based on its best estimates of recoveries and judgments leading to calculation of probable losses) as an upfront charge to the income statement. This will be written back to the income statement as and when interest or principal (as applicable) on the debt is received. However, there is no guarantee that impairment allowances recognised by the Group will be sufficient to cover its actual credit portfolio losses. As at 31 March 2017, provision covered 348.2 per cent. of the Group's impaired assets (31 December 2016: 365.2 per cent. and 31 December 2015: 322.4 per cent.).

The estimated fair value of collateral and other security enhancements held against gross past due or impaired loans, advances and Islamic financing to customers as at 31 December 2016 was KD 75.6 million (31 December 2015: KD 55.6 million and 31 December 2014: KD 59.1 million).

Collateral held as security against impaired loans primarily relates to real estate and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess following re-settlement is paid back to the customers and is not available for offset against other loans.

The Group regularly reviews and monitors compliance with lending limits to individual financial institutions and country limits. Further, the Group's executive management level executive committee is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives as promulgated by the Board and the Board risk committee (see "*Risk Management – Credit risk*").

If the Group fails to, where required, appropriately restructure or monitor and control the levels of, and adequately provide for, its impaired loans and loans under stress, the Group may need to make further impairment charges and its business, results of operations and financial condition could be materially adversely affected.

A substantial increase in new impairment allowances or losses greater than the level of previously recorded impairment allowances for doubtful loans, advances and Islamic financing to customers would adversely affect the Group's results of operations and financial condition

In connection with lending activities, the Group periodically establishes impairment allowances for loan losses, which are recorded in its income statement. The Group's overall level of impairment allowances is based upon the volume and type of lending being conducted, collateral held, applicable regulations, past due loans, economic conditions and other factors related to the recoverability of various loans. Although the Group endeavours to establish an appropriate level of impairment allowances based on its best estimate of the amount of incurred loss, it may have to significantly increase its impairment allowances for loan losses in the future as a result of increases in non-performing assets, deteriorating economic conditions leading to increases in defaults and bankruptcies, or for other reasons.

IFRS 9 will, when introduced for reporting periods commencing on 1 January 2018, replace IAS 39 and introduce an 'expected credit loss' model for the measurement of the impairment of financial assets, such that it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The expected impact of IFRS 9, as ultimately adopted by the CBK, on the Group's calculation of impairment allowances is uncertain. As at the date of this Base Prospectus, the Group has not chosen to adopt IFRS 9 ahead of its mandatory effective date of 1 January 2018 and is continuing to utilise its existing models for assessment and calculation of impairment allowances. However, any mandatory change to such impairment calculation models to comply with requirements imposed by IFRS 9 may adversely impact impairment allowances established by the Group which would have an adverse effect on its business, results of operations and financial condition.

Additionally, any significant increase in impairment allowances for loan losses or a significant change in the Group's estimate of the risk of loss inherent in its portfolio of non-impaired loans, as well as the occurrence of loan losses in excess of the impairment allowances allocated with respect thereto, would have an adverse effect on its business, results of operations and financial condition.

Security interests or loan guarantees provided in favour of the Group may not be sufficient to cover any losses and may not be legally enforceable

The practice of pledging assets (such as share portfolios and real estate assets) to obtain a bank loan is subject to certain limitations and administrative restrictions under Kuwaiti law. In particular, such security may not be enforced without a court order. 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 loans.

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 loan losses. As at 31 March 2017, the Group had a loans, advances and Islamic financing to customers portfolio (net of provisions) totalling KD 14,049 million (31 December 2016: KD 13,611 million). For each of the previous three financial years ended 31 December 2016, 31 December 2015 and 31 December 2014, respectively, approximately

50.0 per cent. of the Group's loans, advances and Islamic financing to customers portfolio (net of provisions) was secured by collateral, primarily including cash, shares and real estate collateral.

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

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

Against the backdrop of constraints on liquidity and the high cost of funds in the interbank lending market, and given the high level of interdependence between financial institutions that became most evident following the bankruptcy of Lehman Brothers in 2008, the Group is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. 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.

The Group's business, results of operations and financial condition could be adversely affected by liquidity risks

Liquidity risk 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. Liquidity risks could materially adversely affect the Group's business, results of operations and financial condition. Some of the liquidity risks currently facing the Group are described in more detail below.

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.

The Group's asset liability executive committee ("**ALEC**") sets and monitors liquidity ratios, regularly revises and updates the Group's liquidity management policies and seeks to ensure that the Group is in a position to meet its obligations as they fall due (see further "*Risk Management*"). Further, the Group conducts analysis of maturities of assets and liabilities on a periodic basis to determine its on-going funding needs and to ensure adequate liquidity is maintained across the defined time horizon. The Group's Board risk committee ("**BRC**") receives regular updates on the Group's liquidity under both normal and stressed market conditions, as well as developing strategies to ensure liquidity is available for defined time horizons under stress scenarios. As at 31 March 2017, the Group had cash and short term funds of KD 2,705 million (31 December 2016:

KD 2,687 million and 31 December 2015: KD 3,481 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 held to maturity, divided by total assets) of 38.3 per cent. (31 December 2016: 38.6 per cent. and 31 December 2015: 37.1 per cent.). See "*Selected Statistical Data – Maturity profile*" for further detail on the Group's funding profile as at 31 March 2017 and 31 December 2016, 2015 and 2014.

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 an acute 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 that the minimum value of the ratio is 100 per cent. (i.e., an institution's stock of HQLAs should at least equal total net cash outflows) while the CBK has introduced LCR in a phased manner, setting a benchmark of 70 per cent. in 2016 which would later reach 100 per cent. by 2019. Kuwaiti 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. As at 31 March 2017, the Group held a portfolio of HQLAs valued at KD 5,293 million and had an LCR ratio of 155.0 per cent. (31 December 2016: HQLAs valued at KD 5,537 million and LCR ratio of 160.2 per cent. and 31 December 2015: HQLAs valued at KD 5,244 million and LCR ratio of 130.5 per cent.).

The Group's requirement to comply with the LCR and the associated requirement to maintain a significant buffer of HQLAs may adversely affect the Group's core businesses of consumer and wholesale banking, particularly given the inherent cost of maintaining a HQLA portfolio of sufficient size and quality to cover regulatory outflow assumptions embedded in the LCR. If the Group were to choose to mitigate against these additional costs by introducing selective deposit fees or minimum lending rates, this may result in a loss of customer deposits, a key source of the Group's funding, net new money outflows and / or a declining market share in its domestic loan portfolio. Additionally, the inherent costs associated with LCR compliance and maintaining a sufficient portfolio of HQLAs 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.

If 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

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 of the existing or future loan portfolio or the cost of obtaining them differs from market prices.

Although the Group has accessed wholesale funding, through international financial markets, in order to diversify and increase the maturity of its funding sources, such borrowings have not eliminated asset-liability maturity gaps. As at 31 March 2017, 81.5 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 (31 December 2016, 80.8 per cent. and 31 December 2015: 83.2 per cent.). See "*Selected Statistical Data – Maturity profile*". If a substantial portion of the Group's 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.

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 revocable and irrevocable commitments to extend credit, guarantees, letters of credit and other financial facilities and makes commitments to invest in securities before such commitments have been fully funded. All of these are accounted for off-balance sheet until such time as they are actually funded or cancelled. Although these commitments are contingent and therefore off-balance sheet they, nonetheless, subject the Group to related credit, liquidity and market risks. Credit-related commitments are subject to the same credit approval terms and compliance procedures as loans, advances and Islamic financing to customers, and commitments to extend credit are contingent on customers maintaining required credit standards. Although the Group anticipates that not all of its obligations in respect of these commitments will be triggered, it may have to make payments in respect of a substantial portion of such commitments, which could have a material adverse effect on its financial position and, in particular, its liquidity position. As at 31 March 2017, the Group had KD 4,077 million in such contingent liabilities and commitments, equal to 29.0 per cent. of its loan portfolio (31 December 2016: KD 4,074 million, representing 29.9 per cent. of its loan portfolio and 31 December 2015: KD 3,905 million, representing 28.8 per cent. of its loan portfolio).

The Group's business, results of operations and financial condition could be affected by market risks

The Group's business exposes it to 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 will affect the Group's income or the fair value of its holdings of financial instruments. Market risks could adversely affect the Group's business, results of operations and financial condition. Some of the market risks currently facing the Group are described in more detail below.

Changes in interest rate levels may affect the Group's net interest 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. In particular, the Group's activities depend on the Group's interest rate risk management, as well as the connections between market rates and interest margins. The result on interest achieved by the Group largely depends on the level of the Group's interest-bearing assets and liabilities, as well as the average interest rate on interest-bearing assets and liabilities and on the average interest on interest-bearing assets and liabilities.

Interest rates 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, the U.S. Federal Reserve raised interest rates in December 2015 for the first time since 2006. In December 2016 and again in March 2017, further 0.25 per cent. rate hikes were announced by the U.S. Federal Reserve with further rate increases anticipated during the remainder of 2017. If the pace of U.S. interest rate movements develops as expected, it may adversely impact the Group's borrowing costs.

If interbank reference rates rise, the interest payable on the Group's floating rate borrowings increases. The Group's marginal cost of funding may increase as a result of a variety of factors, including further deterioration of conditions in the financial markets or loss of confidence by and between financial institutions. If the Group fails to pass on such increase 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.

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 rate sensitivity position as at 31 December 2016, 2015 and 2014 was based on contractual re-pricing arrangements and is set out elsewhere in this Base Prospectus – see "*Risk Management – Interest rate risk*".

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

The Group holds investment securities (equity and fixed income) and a decrease in the realised and unrealised fair value investment gains, together with fair value losses on such investment securities has had a material adverse impact as a result of global macro-economic volatility. The current instability in the international debt and equity capital markets is likely to continue to have a material adverse impact on the Group's investment portfolios and its financial condition and results of operations.

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 – Equity price risk*", which illustrates the Group's sensitivity to a 5 per cent. increase in relevant market indices as at 31 December 2016, 2015 and 2014. 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 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 – 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 2016, 2015 and 2014. As at 31 December 2016, 27.5 per cent. of the Group's gross loan portfolio was denominated in currencies other than Kuwaiti dinar (namely, in order of largest exposure, U.S. dollars, Egyptian pounds, pounds sterling, euro and other currencies).

In addition, the Group is impacted by exchange rate movements in the Egyptian pound. For example, on 3 November 2016, the Central Bank of Egypt liberalised the Egyptian pound exchange rate and moved to a free float mechanism. The subsequent decline in the value of the Egyptian Pound negatively impacted the Group's profit for the period for the three months ended 31 March 2017, when compared with profit for the period for the three months ended 31 March 2016. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of operations for the three months ended 31 March 2017 compared to the three months ended 31 March 2016*". Any further devaluations of the Egyptian pound could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group enters into derivative transactions, such as interest rate swaps and forward foreign exchange contracts, to hedge/manage its own interest rate risk on its interest bearing assets and liabilities and to manage its foreign currency open positions and cash flows. These derivative contracts had a notional value of KD 3,300 million as at 31 March 2017, KD 3,555 million as at 31 December 2016 and KD 2,744 million as at 31 December 2015 and the Group's derivatives portfolio had a negative fair value of KD 6.8 million as at 31 March 2017, a positive fair value of KD 2.6 million as at 31 December 2016 and a negative fair value of KD 28.9 million as at 31 December 2015. 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.

The Group's business, results of operations and financial condition could be adversely affected by operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks could adversely affect the Group's business, results of operations and financial condition. Some of the operational risks currently facing the Group are described in more detail below.

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. 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 is susceptible to, amongst other things, failure of internal processes or systems, unauthorised transactions by employees and operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems, and fraud by employees or outsiders. See "– *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'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.

As at 31 December 2015, non-Kuwaitis comprised 83.1 per cent. of Kuwait's total labour force. 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 that should be employed by respective industries, with the government's recommended policy for financial institutions being that 64 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2016 was 66.4 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 corrective action by the CBK.

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 that 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. 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. Such a failure to accommodate growth, or an increase in costs related to such information systems, would have a material adverse effect on the Group's business. The cost of improving or upgrading such systems and technologies may be substantial and the cost of maintaining such systems is likely to increase from its current level. The Group's business operations and business processes are 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. 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.

The Group's business is dependent on its information and technology systems which are subject to potential cyber-attack

In common with other financial institutions based in the GCC and elsewhere in the world, the threat to the security of the Group's information and customer data from cyber-attacks is real and continues to grow at pace. 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. Failure to adequately manage cyber-security risk and continually review and update current processes in response to new threats could disrupt its 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.

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 Base Prospectus, the Group is required to make certain estimates in preparing its financial statements, including accounting estimates to determine loan 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*". These judgments and estimates include, for example, the determination of when assets may be impaired, the classification of financial assets, the determination of provisions for 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 that its significant accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that 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. See "*Banking Industry and Regulation in Kuwait*". These controls include laws and regulations promulgated by the CBK, the CMA and the Kuwait Stock Exchange (the "**KSE**"), as well as the laws and regulations of the other countries in which the Group operates including, but not limited to, the United Kingdom, Switzerland, Lebanon, the Cayman Islands, Iraq and Egypt.

In particular (but without limitation), the Group is subject to the following restrictions:

Liquidity regulations

- The CBK requires banks to maintain 18 per cent. of their KD customer deposits in the form of balances with the CBK.
- As part of the CBK's full implementation of Basel III in Kuwait, the CBK has introduced LCR in a phased manner, setting a benchmark of 70 per cent. in 2016 which would later reach 100 per cent. by 2019. The minimum required Net Stable Funding Ratio ("**NSFR**"), introduced by the CBK in 2015, is calculated as a percentage of available stable funding to required stable funding that should not be less than 100 per cent and is effective from the beginning of 2018.

Basel III capital adequacy and leverage regulations

- The CBK's minimum capital adequacy ratio requirement is 13.0 per cent. from 31 December 2016. The CBK has also established additional capital requirements for systemically important banks (such as the Bank, which has been designated as a domestically systemic important bank ("**D-SIB**") with an additional Common Equity Tier 1 D-SIB surcharge of 2 per cent. required from 31 December 2016). As a result, the Group's total minimum capital requirement from 31 December 2016 is 15 per cent. As at 31 March 2017, the Group's Tier 1 capital adequacy ratio (calculated according to CBK Basel III standards) was 15.8 per cent. and its total capital adequacy ratio was 17.8 per cent. (31 December 2016: Tier 1 capital adequacy ratio 15.7 per cent. and total capital adequacy ratio 17.7 per cent and 31 December 2015: Tier 1 capital adequacy ratio 14.7 per cent. and total capital adequacy ratio 16.8 per cent.), in each case comfortably above the minimum CBK threshold (including the additional D-SIB surcharge). Additionally, pursuant to CBK regulations on Basel III capital adequacy, banks in Kuwait may also be subject to a countercyclical capital buffer, ranging from 0 per cent. to an additional 2.5 per cent. As at date of this Base Prospectus, and for the years ended 31 December 2016, 2015 and 2014, the countercyclical capital buffer is not included in the minimum capital requirements of Kuwaiti banks and the CBK has not indicted when the countercyclical capital buffer will be required. To the extent such buffer is required, Basel Committee guidelines provide a lead period of 12 months to comply.

- The CBK have also introduced a Basel III 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) requirement of a minimum of 3 per cent. as a supplementary measure to ensure that Kuwaiti banks do not become overly leveraged. The Group's leverage ratio was 9.1 per cent. as at 31 March 2017, 9.2 per cent. at 31 December 2016 and 8.5 per cent. as at 31 December 2015, in each case comfortably above the minimum CBK requirement.

Credit risk regulations

- With effect from October 2016, Kuwaiti banks are restricted by the CBK from lending amounts in excess of 90 per cent. of qualifying deposits, irrespective of the maturity profile of the relevant qualifying deposit. As at 31 March 2017, the Bank is in compliance with this regulation.

Concentration risk regulations

- 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. As at 31 March 2017, the Bank is in compliance with this regulation.

- 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. As at 31 March 2017, the Bank is in compliance with this regulation.

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-denominated loans to corporates should not exceed: (i) 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 (ii) 4 per cent. over the CBK's discount rate in the case of commercial loans exceeding one year. As at 31 March 2017, the CBK's discount rate available to banks in Kuwait was 2.75 per cent and, in the period between 4 October 2012 and 31 March 2017, has fluctuated from between 2 per cent. and 2.75 percent.

Such regulations may limit the Group's ability to increase its loan portfolio or raise capital or may increase the Group's cost of doing business. Any further 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 Bank; (ii) an increase in credit risk, credit losses or impairment allowances; (iii) an inability to obtain capital; (iv) the results of the Bank's activities; (v) a decline in the value of the Bank's securities portfolio; (vi) the inaccurate estimates adopted by the Bank regarding the amount of capital required to cover operating risk; (vii) changes in the accounting principles or recommendations related to the calculation of the solvency ratio of banks; (viii) fluctuations in exchange rates which influence the value of foreign currency denominated assets; (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. Non-compliance with regulatory guidelines could expose the Group to potential liabilities and fines. Although the Group works closely with its regulators and continually monitors compliance with CBK and other applicable regulations and policy, future changes in regulation, fiscal or other policies cannot be predicted and are beyond its control.

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 ("**OFAC**"), 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 BANK 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. The oil sector accounted for 52.4 per cent. of Kuwait's real GDP in 2015. The oil sector continues to be the main contributor to Kuwait's annual revenues, accounting for 88.6 per cent. of total government revenues for the fiscal year ended 31 March 2016. Accordingly, Kuwait's economy is significantly impacted by, and is dependent upon, international oil prices.

As oil is Kuwait's principal export, any change in oil prices significantly affects macroeconomic and other aspects of the Kuwaiti economy, including but not limited to: GDP, government revenues and foreign trade. Since June 2014, international crude oil prices have fallen dramatically (by approximately 60.0 per cent. from a monthly average OPEC Reference Basket price per barrel of U.S.$107.90 in June 2014, to a monthly average price of U.S.$51.70 in December 2016). This sustained period of low crude oil prices has negatively affected Kuwait's economy and is expected to continue to have a negative effect on its economy in 2017 (assuming that crude oil prices remain low for much of the year).

The current sustained decline in global oil prices can be attributed to a number of factors including, but not limited to, a decline in demand for oil due to a worsening of global economic conditions, the increase in oil production by other producers and competition from alternative energy sources. In general, international prices for crude oil are also affected by the economic and political developments in oil-producing regions, particularly in the Middle East; the price and availability of new technologies such as renewable energy and unconventional oil and gas extraction methods; and the global geopolitical climate and other relevant conditions. Oil demand may also be affected in the long term by international regulatory efforts, such as the 2015 Paris Climate agreement to curb greenhouse gas emissions and limit climate change which recently came into force. There can be no assurance that these factors, in combination with others, will not result in a prolonged or further decline in oil prices, which may continue to have an adverse effect on the Kuwaiti economy.

In addition, low oil prices also have a negative indirect impact on Kuwait's economy. Many of Kuwait's other economic sectors are in part dependent on the oil and gas sector. For example, the Kuwaiti government has reduced and may continue to reduce, government expenditures in light of the budgetary pressures caused by low or falling oil prices. Government fiscal deficits are likely to result in a weakened net asset position, larger external financing needs and/or continued lower government current spending. In addition, ancillary industrial activities related to oil and gas exploration and production are also negatively affected by low oil prices. Furthermore, 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.

If the prevailing low international prices for hydrocarbon products are sustained for a significant period of time into the future this could continue to have a significant adverse effect on Kuwait's 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 Notes.

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 interrelationships 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 Notes.

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 actors, 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 Middle East and North Africa ("**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.

Furthermore, other world events could have an impact on the political and security situation in Kuwait and the wider MENA region. On 20 January 2017, Donald J. Trump was inaugurated as the 45th President of the United States ("**President Trump**"). Since the 1990 Gulf War, Kuwait and the United States have enjoyed close economic and strategic ties. However, President Trump's foreign policy objectives, including trade, immigration, military and economic support of historic partners, and the U.S. relationship with Iran, have remained somewhat opaque making his stance towards a continuing relationship with Kuwait and the wider region unclear. While President Trump has stated that he intends to pursue a non-interventionist agenda that would increasingly focus U.S. investment on domestic matters, he has also advocated for expanding oil drilling operations and pledged support of American troops being deployed in the region to confront ISIL (Daesh). However, 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 Notes.

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*".

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 Bank) 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 that the Bank's large size has been, to some extent, a constraint on its ability to grow its loan book across different business groups as the size of its portfolio makes settlements larger, as compared to local smaller peers which, in turn, requires significantly more effort to grow at a faster rate than smaller competitors in order to maintain the Bank's net market share.

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.

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

The Bank has a long-term foreign currency issuer default rating of AA- with stable outlook from Fitch, a long-term bank deposits rating of Aa3 with negative outlook from Moody's and an issuer credit rating of A+ with stable outlook from S&P. These ratings, which are intended to measure the Bank's ability to meet its debt obligations as they mature, are an important factor in determining the Bank's cost of borrowing funds.

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. A downgrade of the Bank's credit ratings, or a negative change in their outlook, may:

- limit the Bank's or any member of the Group's ability to raise funding;
- increase the Bank's or any member of the Group's cost of borrowing; and
- limit the Bank's or any member of the Group's ability to raise capital,

each of which could adversely affect its business, financial condition and results of operations. Moreover, actual or anticipated changes in the Bank's credit rating may affect the market value of the Notes.

According to each of Moody's, S&P and Fitch, a significant factor underpinning the Bank's ratings is their assessment that there is an extremely high probability of support for the Bank from the Kuwaiti authorities. Any event that causes these or any other applicable rating agency in the future to adjust this view would be likely to result in a negative change in the Bank's rating. See "*—The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*".

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 Notes.

The Kuwaiti government is under no obligation to support the Group

Following the global financial crisis in 2007 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. The Notes 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 Base 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 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. VAT on goods and services with effect from 1 January 2018. In addition, the Kuwait government is implementing fiscal reforms that includes introducing a proposed 10 per cent. corporate income tax, again with effect from 2018.

The GCC-wide framework agreement for VAT and national legislation in Kuwait or the other GCC states implementing this framework agreement have yet to be made available and no details of the regime, including whether or not it will apply to companies located in a free zone, such as the Issuer, have been released as at the date of this Base Prospectus.

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 that applied to the Group's operations in Kuwait would reduce its profits available for distribution to shareholders through dividends.

The implementation of VAT and/or any future corporation tax regime which may be introduced in Kuwait may have a material adverse effect on the Group's business, results of operations and financial condition, which in turn could affect the Group's ability to perform its obligations in respect of any Notes.

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 Noteholders.

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 Notes 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 herein 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 Notes, 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 Notes 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 Notes carries risks that are not typically associated with investing in Notes issued by issuers in more mature markets. 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.

Risks Relating to Enforcement

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

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

Noteholders will only be able to enforce their contractual rights under the Notes through arbitration before the London Court of International Arbitration ("LCIA") and LCIA awards relating to disputes arising under the Notes may not be enforceable in Kuwait

The payments under the Notes are dependent upon the Issuer, failing whom the Guarantor, making payments to investors in the manner contemplated under the Notes and the Guarantee. If the Issuer and the Guarantor fail to do so, it may be necessary to bring an action against the Issuer and/or the Guarantor to enforce their respective obligations and/or to claim damages, as appropriate, which may be costly and time consuming.

The Programme Agreement, the Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Notes (the "**Documents**") each contain a provision to the effect that disputes arising under the Documents will be referred to arbitration under the London Court of International Arbitration Rules.

Noteholders will therefore only have recourse to LCIA arbitration in order to enforce their contractual rights under the Notes, and will not have the right to bring proceedings relating to the Notes 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 above) 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. 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.

As noted above, enforcement of a foreign arbitral award or foreign judgment 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 (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) and so 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.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE NOTES

The Issuer has a limited operating history and no material assets

The Issuer is a special purpose company with limited liability, incorporated under the laws of the Dubai International Financial Centre on 30 April 2017 and, accordingly, only has a limited operating history. The Issuer has not engaged, and will not engage, in any business activity other than the issuance of Notes under the Programme, the issuance of shares in its capital and other related activities as required under the Transaction Documents, including lending the proceeds of issuance of the Notes to the Bank.

The Issuer is not expected to have any income except payments received from the Bank in respect of loans made by the Issuer to the Bank, which will be the only material source of funds available to meet the claims of the Noteholders. Accordingly, the Issuer is subject to the same risks that affect the Bank to the extent that those risks limit the Bank's ability to satisfy in full, and on a timely basis, its obligations under the Transaction Documents.

In the absence of sufficient repayment of any inter-company loan, the Issuer's ability to pay principal and interest and other amounts will depend on the Bank's ability to obtain additional external financing. As a result, the Issuer is subject to all the risks to which the Bank and other Group companies are subject, to the extent that such risks could limit their ability to satisfy in full and on a timely basis their respective obligations to the Issuer under any such loans. Please see "*– Factors that may affect the Bank's ability to fulfil its* *obligations in respect of Notes issued under the Programme and/or the Guarantee*" above for a further description of these risks.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

The Notes may be subject to optional redemption by the Issuer

Any optional redemption feature that any Notes may include is likely to limit their market value. During any period when the Issuer may elect to redeem certain Notes, the market value of such Notes generally will not rise substantially above the price at which they may be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Notes may be redeemed prior to their final maturity date for tax reasons

If the Issuer becomes obliged to pay any additional amounts in respect of the Notes as provided or referred to in Condition 9 (*Taxation*) or the Guarantor is unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Relevant Tax Jurisdiction (as defined in Condition 9 (*Taxation*)) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, the Issuer may redeem all but not some only of the outstanding Notes of such Tranche in accordance with Condition 8 (*Redemption and Purchase*) of the Notes.

In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security with a similar rate of return, which may have an adverse effect on the position of such investor. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the Early Redemption Amount. Potential investors should consider re-investment risk in light of other investments available at that time.

Partly-paid Notes are subject to additional risks

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Inverse Floating Rate Notes are subject to increased volatility

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes are subject to additional risk

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the then prevailing rates on the Notes.

Notes issued at a substantial discount or premium are subject to increased volatility

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

The Subordinated Notes and the Guarantee in respect of the Subordinated Notes are expressed to rank junior to unsubordinated creditors of, respectively, the Issuer and the Guarantor

The Subordinated Notes and the Guarantee in respect of the Subordinated Notes shall constitute subordinated obligations of, respectively, the Issuer and the Guarantor, as more particularly described in Condition 4 (*Status*). Accordingly, in the event of a winding-up or administration of the Issuer or the Guarantor, as the case may be, or an analogous process under the laws of the DIFC or Kuwait, the rights and claims of the holders of Subordinated Notes will be contractually subordinated to, respectively, Senior Creditors of the Issuer (as defined in Condition 4.3 (*Status of the Subordinated Notes*)) or Senior Creditors of the Guarantor (as defined in Condition 4.4 (*Status of the Deed of Guarantee in respect of the Subordinated Notes*)), as the case may be, and the relevant liquidator, applying the contractual terms, would first apply assets of, respectively, the Issuer or the Guarantor, as the case may be, to satisfy claims of, respectively, all Senior Creditors of the Issuer or all Senior Creditors of the Guarantor, as the case may be. The Subordinated Notes will share equally in payment with the subordinated obligations of the Issuer or, as the case may be, the Guarantor if, respectively, the Issuer or, as the case may be, the Guarantor, does not have sufficient funds to make full payment on all of them. In such a situation, holders of Subordinated Notes could lose all or some of their investment.

The Notes are subject to modification by a majority of Noteholders without the consent of all Noteholders

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests. These provisions permit defined majorities to bind all Noteholders (including Noteholders who did not attend or vote at the relevant meeting as well as Noteholders who did attend the relevant meeting, but voted in a manner contrary to the majority).

A change of law may adversely affect the Notes

The Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

Certain bearer notes, the denomination of which involves integral multiples, may be illiquid and difficult to trade

If an issue of Bearer Notes is in denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bearer Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Bearer Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Investors in the Notes must rely on DTC, Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for the Depository Trust Company ("**DTC**"). Except in the circumstances described in each Global Note or Global Certificate, investors will not be entitled to receive Notes 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 each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or Global Certificate, 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 Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the Notes. The Issuer shall have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note or Global Certificate will not have a direct right to vote in respect of the Notes 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.

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: (i) Notes constitute legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to any purchase or pledge of any Notes by the investor. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules and regulations.

The Issuer may, without the consent of the Noteholders, issue additional Notes. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, may be treated as a separate series for U.S. federal income tax purposes

The Issuer may, without the consent of the holders of the Notes of the relevant Series, issue additional Tranches of Notes which may be consolidated and form a single Series with one or more Tranches previously issued. Notwithstanding the foregoing, such additional Tranches may be treated as a separate series for U.S. federal income tax purposes. In such a case, the Notes of any such additional Tranche may be considered to have been issued with "original issue discount" for U.S. federal income tax purposes and this may reduce the market value of the Notes of such Tranche to certain classes of investor.

A secondary market may not develop for any Notes

The Notes may have no established trading market when issued. A market may not develop for such Notes and, if a market does develop, such market may not be liquid. The liquidity of any market for the Notes will depend on a number of factors, including, but not limited to:

- the method of calculating the principal and interest in respect of the Notes;
- the time remaining to the maturity of the Notes;
- the outstanding amount of the Notes;
- the redemption features of the Notes; and
- the level, direction and volatility of market interest rates generally.

As a result, investors may not be able to sell their Notes easily or at prices that will provide a yield comparable to similar investments that have a developed secondary market. Such risks are heightened for any Notes that: (i) are especially sensitive to interest rate risks, currency risk or other market risks; (ii) have been designed for specific investment objectives or strategies; or (iii) have been structured to meet the investment requirements of certain limited categories of investors, as such types of Notes generally would have a more limited secondary market and increased price volatility than conventional debt securities. The relative illiquidity of Notes may have a severely adverse effect on such Notes' market value.

Notes may be subject to exchange rate risks and exchange controls

Neither the Issuer nor the Guarantor has any control over factors that generally affect exchange rate risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and such exchange rate volatility with a variety of currencies may continue in the future.

The Issuer or, as the case may be, the Guarantor will pay principal and any interest due on any Notes in the currency specified in the applicable Final Terms (the "**Specified Currency**"). If an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency, it may therefore bear certain exchange rate risks. These include: (i) the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency); and (ii) the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Any appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Notes; (ii) the Investor's Currency-equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payment of principal or interest on a Note. As a result, investors may receive less interest or principal than expected, or no interest or principal. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note would not be available at such Note's maturity.

Credit ratings may not reflect all risks

As at the date of this Base Prospectus, the Guarantor's long term credit rating is AA- by Fitch and A+ by Standard & Poor's, each with a "stable" outlook, and Aa3 by Moody's with a "negative" outlook. Each of Standard & Poor's, Fitch and Moody's is established in the European Union and is registered under the CRA Regulation.

One or more independent credit rating agencies may also assign credit ratings to the Guarantor or any Notes. Any ratings of either the Guarantor or the Notes 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 any Notes. 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 Guarantor's credit ratings or the ratings of the Notes generally will affect the market value of the Notes. 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, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU-registered 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). 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.

Foreign Account Tax Compliance Act withholding may affect payments on the Notes

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" 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. A number of jurisdictions (including the United Arab Emirates and the State of Kuwait) 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 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 Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, 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 Notes, such withholding would not apply prior to 1 January 2019. Noteholders should consult their tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

DESCRIPTION OF THE PROGRAMME

This description must be read as an introduction to this Base Prospectus. Any decision to invest in any Notes should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference, by any investor. This description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in "**Form of the Notes**" and "**Terms and Conditions of the Notes**" shall have the same meanings in this description.

Issuer..	NBK SPC Limited. See "*Description of the Issuer*".
Guarantor...	National Bank of Kuwait S.A.K.P. See "*Description of the Group*".
Description	U.S.$3,000,000,000 Global Medium Term Note Programme.
Arrangers	Citigroup Global Markets Limited, HSBC Bank plc, J.P. Morgan Securities plc and Watani Investment Company K.S.C.C.
Dealers	Citigroup Global Markets Limited First Abu Dhabi Bank PJSC HSBC Bank plc J.P. Morgan Securities plc Standard Chartered Bank Watani Investment Company K.S.C.C. The Issuer and the Guarantor may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme.
Certain restrictions......................................	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*") including the following restrictions applicable as at the date of this Base Prospectus. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale and Transfer and Selling Restrictions*").
Fiscal Agent and Exchange Agent..............	Citibank N.A., London Branch
Registrar and Transfer Agent	Citigroup Global Markets Deutschland AG
Programme Size...	Up to U.S.$3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme

Agreement) outstanding at any time. The Issuer and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution... Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies... Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer, the Guarantor and the relevant Dealer.

Maturities.. The Notes will have such maturities as may be agreed between the Issuer, the Guarantor and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Issue Price .... Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes... The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Fixed Rate Notes.. Fixed interest will be payable on such date or dates as may be agreed between the Issuer, the Guarantor and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

Floating Rate Notes .... Floating Rate Notes will bear interest at a rate determined:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series) plus or minus the applicable margin; or

(ii) on the basis of the relevant Reference Rate as adjusted for any applicable margin; or

(iii) on such other basis as may be agreed between the Issuer, the Guarantor and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer, the Guarantor and the relevant Dealer for each Series of Floating Rate Notes.

Other provisions in relation to Floating Rate Notes .... Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer, the Guarantor and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer, the

Guarantor and the relevant Dealer.

Interest Period and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the applicable Final Terms.
Zero Coupon Notes.......................................	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified in the applicable Final Terms prior to such stated maturity, and at a price or prices specified in the applicable Final Terms and on such other terms as may be agreed between the Issuer, the Guarantor and the relevant Dealer. The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms. Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain restrictions*" above.
Denomination of Notes	The Notes will be issued in such denominations as may be agreed between the Issuer, the Guarantor and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain restrictions*" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency). The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.$200,000 (or the approximate equivalent thereof in any other currency).
Taxation...	All payments in respect of the Notes and under the Guarantee will be made without deduction or retention for or on account of withholding taxes imposed by any Relevant Tax Jurisdiction as provided in Condition 9 (*Taxation*) unless such withholding, retention or deduction is required by law.

	In the event that any such deduction or retention is made, the Issuer and the Guarantor will, save in certain limited circumstances provided in Condition 9 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 5 (*Negative Pledge*).
Cross-Default	The terms of the Senior Notes will contain a cross-default provision as further described in Condition 11 (*Events of Default*).
Status of the Senior Notes	The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.
Status of the Guarantee in respect of the Senior Notes	The obligations of the Guarantor under the Guarantee in respect of Senior Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Guarantor and will rank *pari passu* and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time outstanding.
Status and Subordination of the Subordinated Notes	The Subordinated Notes will constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Noteholders against the Issuer in respect of the Subordinated Notes will be subordinated as described in Condition 4.3 *(Status – Status of the Subordinated Notes).*
Status of the Guarantee in respect of the Subordinated Notes	The Guarantee in respect of the Subordinated Notes will be direct, unsecured and subordinated obligations of the Guarantor. The rights and claims of the Noteholders against the Guarantor under the Guarantee in respect of the Subordinated Notes will be subordinated as described in Condition 4.4 *(Status – Status of the Deed of Guarantee in respect of the Subordinated Notes).*
Rating	The Guarantor has been rated A+ by Standard & Poor's, AA- by Fitch and Aa3 by Moody's. Each of Standard & Poor's, Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. Each Series of Notes may be unrated or rated by all or one or two only of the credit rating agencies. Where a Series of Notes is rated, such rating will be specified in the applicable Final Terms. 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.

Approval, Listing and Admission to trading	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Main Securities Market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer, the Guarantor and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Clearing Systems	Euroclear and/or Clearstream, Luxembourg and/or DTC or, in relation to any Tranche of Notes, any other clearing system.
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar (excluding the Qatar Financial Centre), Singapore, Hong Kong, Malaysia, the State of Kuwait and the Republic of Italy and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "*Subscription and Sale and Transfer and Selling Restrictions*").
United States Selling Restrictions	Regulation S, Category 2. Rule 144A and TEFRA C/TEFRA D/TEFRA not applicable, as specified in the applicable Final Terms. ERISA restrictions as specified in the applicable Final Terms.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published, and have been filed with the Central Bank of Ireland, shall be incorporated in, and form part of, this Base Prospectus:

- the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2014, together with the notes to the consolidated financial statements and the auditors' report thereon, an electronic copy of which is available at: http://cis.boursakuwait.com.kw/Portal/FData/2212015108279881O1-DEC-2014-E.pdf

- the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2013, together with the notes to the consolidated financial statements and the auditors' report thereon, an electronic copy of which is available at: http://cis.boursakuwait.com.kw/Portal/FData/2332014134041690101-DEC-2013-E.pdf

Each of the Issuer and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Notes.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and the Guarantor and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus

Copies of the documents incorporated by reference in this Base Prospectus can be obtained from the website of the Irish Stock Exchange (http://www.ise.ie), the registered office of each of the Issuer and the Guarantor and from the specified office of the Fiscal Agent for the time being in London.

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

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of a temporary global note (a "**Temporary Global Note**") or, if so specified in the applicable Final Terms, a permanent global note (a "**Permanent Global Note**") and, together with a Temporary Global Note, the "**Global Notes**" which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg. Whilst any Bearer Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased such Bearer Note for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Fiscal Agent.

On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for: (a) interests in a Permanent Global Note of the same Series; or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given *provided that* purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

Each Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that: (i) an Event of Default (as defined in Condition 11 (*Events of Default*)) has occurred and is continuing; or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 1 year and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(J) AND 1287(A) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note certificate in registered form (an "**Unrestricted Global Certificate**"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in an Unrestricted Global Certificate may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Unrestricted Global Certificate will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may also be offered and sold in private transactions to persons who are QIBs. The Registered Notes of each Tranche sold to QIBs will be represented by one or more global note certificates in registered form (a "**Restricted Global Certificate**" and, together with an Unrestricted Global Certificate, the "**Global Certificates**").

Global Certificates will either: (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC; or (ii) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Global Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Global Certificates will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.4 (*Payments – Payments in respect of Registered Notes*)) as the registered holder of the Global Certificates. None of the Issuer, the Guarantor, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.4 (*Payments – Payments in respect of Registered Notes*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Global Certificate will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that: (i) an Event of Default has occurred and is continuing; (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act; or (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Certificate) may give notice to the Registrar requesting exchange. Any such exchange shall occur no later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests in Global Certificates

Interests in a Global Certificate may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Global Certificate. No beneficial owner of an interest in a Global Certificate will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions*".**

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Fiscal Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11 (*Events of Default*). In such circumstances, where any Note is still represented by a Global Note or Global Certificate and the Global Note or Global Certificate (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note or Global Certificate then the Global Note or Global Certificate will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note or Global Certificate credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer or, failing which, the Guarantor on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of a deed of covenant (a "**Deed of Covenant**") dated 11 May 2017 and made by the Issuer and a deed of guarantee (a "**Deed of Guarantee**") dated 11 May 2017 and made by the Guarantor. In addition, holders of interests in such Global Certificate credited to their accounts with DTC may require DTC to deliver definitive Notes in registered form in exchange for their interest in such Global Certificate in accordance with DTC's standard operating procedures.

FORM OF FINAL TERMS

NBK SPC Limited

Issue of [●] [●]
unconditionally and irrevocably guaranteed by
NATIONAL BANK OF KUWAIT S.A.K.P.
under the U.S.$3,000,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated 11 May 2017 [and the supplemental prospectus dated [●]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the "**Prospectus Directive**"). [This document constitutes the applicable Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus][1]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these applicable Final Terms and the Base Prospectus. The Base Prospectus is available for viewing in accordance with Article 14 of the Prospectus Directive on the website of the Central Bank of Ireland (*http://www.centralbank.ie*) and during normal business hours at National Bank of Kuwait S.A.K.P., P.O. Box 95 Safat, 13001, State of Kuwait, and copies may be obtained from National Bank of Kuwait S.A.K.P., P.O. Box 95 Safat, 13001, State of Kuwait.

1.	(a)	Issuer:	NBK SPC Limited
	(b)	Guarantor:	National Bank of Kuwait S.A.K.P.
2.	(a)	Series Number:	[●]
	(b)	Tranche Number:	[●]
	(c)	Date on which the Notes become fungible:	[Not applicable/The Notes shall be consolidated and form a single Series with the existing tranche(s) of the Series on [the Issue Date]/[●]]
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount of Notes admitted to trading:		[●]
	(a)	Series:	[●]
	(b)	Tranche:	[●]
5.	Issue Price:		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6.	(a)	Specified Denominations (in the case of Registered Notes this means the minimum integral amount in which transfers can be made):	[●] [and integral multiples of [●] in excess thereof]
	(b)	Calculation Amount:	[●]

1 *Delete where the Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive.*

7.	(a)	Issue Date:	[●]
	(b)	Interest Commencement Date:	[●]/[Issue Date]/[Not Applicable]
8.	Maturity Date:		[●]
9.	Interest Basis:		[[●] per cent. Fixed Rate] [[●] [+/-] [●] per cent. Floating Rate] [Zero Coupon]
10.	Redemption/Payment Basis:		[Redemption at par]/[Partly Paid]/[Instalment]
11.	Change of Interest Basis or Redemption/Payment Basis:		[Applicable]/[Not Applicable]
12.	Put/Call Options:		[Investor Put] [Issuer Call]
13.	(a)	Status of the Notes:	[Senior]/[Subordinated]
	(b)	Status of the Guarantee:	[Senior]/[Subordinated]
14.	Date [Board] approval for issuance of Notes and Guarantee obtained:		[●] and [●], respectively

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions:		[Applicable]/[Not Applicable]
	(a)	Rate(s) of Interest:	[●] per cent. per annum [payable [annually]/[semi-annually]/[quarterly] in arrear]
	(b)	Interest Payment Date(s):	[●] [,[●],[●]][and [●]] in each year up to and including the Maturity Date
	(c)	First Interest Payment Date:	[Issue Date]/[●]
	(d)	Fixed Coupon Amount(s):	[[●] per Calculation Amount]/[Not Applicable]
	(e)	Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in]/[on] [●]/[Not Applicable]
	(f)	Day Count Fraction:	[30/360]/[Actual/Actual (ICMA)]/[Actual/365 (Fixed)]
	(g)	Determination Date(s):	[[●] in each year]/[Not Applicable]
	(h)	Business Day Convention:	[Floating Rate Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[Not Applicable]
16.	Floating Rate Note Provisions:		[Applicable]/[Not Applicable]
	(a)	Specified Period(s):	[●]
	(b)	Specified Interest Payment Dates:	[●]
	(c)	Business Day Convention:	[Floating Rate Convention]/[Following Business

			Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[Not Applicable]
	(d)	Additional Business Centre(s):	[●]
	(e)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination]/[ISDA Determination]
	(f)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent):	[●]
	(g)	Screen Rate Determination:	[Applicable]/[Not Applicable]
		(i) Reference Rate:	[LIBOR]/[EURIBOR]/[KIBOR]/[HIBOR]/[KLIBOR]/[TRLIBOR]/[TRYLIBOR]/[SIBOR]/[EIBOR]/[TIBOR]/[SAIBOR]
		(ii) Interest Determination Date(s):	[●]
		(iii) Relevant Screen Page:	[●]
		(iv) Relevant Time:	[●]
		(v) Relevant Financial Centre:	[●]
	(h)	ISDA Determination:	[Applicable]/[Not Applicable]
		(i) Floating Rate Option:	[●]
		(ii) Designated Maturity:	[●]
		(iii) Reset Date:	[●]
	(i)	Linear Interpolation:	[Not Applicable]/[Applicable – the Rate of Interest for the [long]/[short] [first]/[last] Interest Period shall be calculated using Linear Interpolation]
	(j)	Margin(s):	[+/-] [●] per cent. per annum
	(k)	Minimum Rate of Interest:	[●] per cent. per annum
	(l)	Maximum Rate of Interest:	[●] per cent. per annum
	(m)	Day Count Fraction:	[Actual/Actual (ISDA)]/[Actual/Actual]/[Actual/365 (Fixed)]/[Actual/365 (Sterling)]/[Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis]/[30E/360 (ISDA)]
17.	Zero Coupon Note Provisions:		[Applicable]/[Not Applicable]
	(a)	Accrual Yield:	[●] per cent. per annum
	(b)	Reference Price:	[●]

	(c)	Day Count Fraction in relation to Early Redemption Amounts and late payment:		[Conditions 8.5(c) (*Early Redemption Amounts*) and 8.10 (*Late Payment on Zero Coupon Notes*) apply]

PROVISIONS RELATING TO REDEMPTION

18.	Issuer Call:			[Applicable]/[Not Applicable]
	(a)	Optional Redemption Date(s):		[●]
	(b)	Optional Redemption Amount:		[●] per Calculation Amount
	(c)	If redeemable in part:		
		(i)	Minimum Redemption Amount:	[●]
		(ii)	Maximum Redemption Amount:	[●]
	(d)	Notice period (if other than as set out in the Conditions):		[●]
19.	Investor Put:			[Applicable]/[Not Applicable]
	(a)	Optional Redemption Date(s):		[●]
	(b)	Optional Redemption Amount:		[●] per Calculation Amount
	(c)	Notice period (if other than as set out in the Conditions):		[●]
20.	Final Redemption Amount:			[●] per Calculation Amount
21.	Early Redemption Amount payable on redemption for taxation reasons or on event of default:			[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	Form of Notes:	[Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Notes only upon an Exchange Event] [Temporary Global Note exchangeable for definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for definitive Notes only upon an Exchange Event] [Registered Notes: [Unrestricted Global Certificate registered in the name of a nominee for [DTC]/[a common depositary for Euroclear and Clearstream, Luxembourg]] [Restricted Global Certificate registered in the name of a nominee for [DTC]/[a common depositary for Euroclear and Clearstream, Luxembourg]] [Reg. S Compliance Category 2; [TEFRA

		C]/[TEFRA D]/[TEFRA not applicable]]
23.	Additional Financial Centre(s) or other special provisions relating to Payment Days:	[●]/[Not Applicable]
24.	Talons for future Coupons or Receipts to be attached to definitive Notes (and dates on which such Talons mature):	[Yes]/[No]
25.	Partly Paid Notes:	[●]/[Not Applicable]
	(a) Instalment Amount(s):	[●]/[Not Applicable]
	(b) Instalment Date(s):	[●]/[Not Applicable]
26.	ERISA:	[ERISA eligible]/[Not ERISA eligible]

Signed on behalf of NBK SPC Limited:

By: ....
Duly authorised

By: ....
Duly authorised

Signed on behalf of National Bank of Kuwait S.A.K.P.:

By: ....
Duly authorised

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING**

(a)	Listing and Admission to trading:	[Application [has been]/[is expected to be] made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Main Securities Market of the Irish Stock Exchange with effect from [●]]/[Not Applicable]
(b)	Estimate of total expenses related to admission to trading:	[●]/[Not Applicable]

2. **RATINGS**

Ratings: [Fitch: [●]]

[Moody's: [●]]

[Standard & Poor's: [●]]

[Unrated]

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the [Managers]/[Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers]/[Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer, the Guarantor or their affiliates in the ordinary course of business for which they may receive fees.]

4. **YIELD (Fixed Rate Notes Only)**

Indication of yield: [●]

5. **OPERATIONAL INFORMATION**

(a)	ISIN Code:	[●]
(b)	Common Code:	[●]
(c)	CUSIP:	[●]
(d)	CINS:	[●]
(e)	Any clearing system(s) other than DTC, Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s):	[●]/[Not Applicable]
(f)	Delivery:	Delivery [against]/[free of] payment
(g)	Names and addresses of additional Paying Agent(s) (if any):	[●]/[Not Applicable]

6. **THIRD PARTY INFORMATION**

[[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading]/[Not Applicable]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which, subject to completion in accordance with the provisions of Part A of the applicable Final Terms (and save for the text in italics) will be incorporated by reference into each Global Note or Global Certificate (each as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer, the Guarantor and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note or Global Certificate and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

1. Introduction

NBK SPC Limited (the "**Issuer**") has established a Global Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$3,000,000,000 in aggregate principal amount of notes (the "**Notes**") outstanding.

Notes issued under the Programme will be issued in series (each, a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may comprise one or more tranches of notes (each, a "**Tranche**") issued on the same or different issue dates. The specific terms of each Tranche (which will, save in respect of the denominations, issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set forth in the applicable Final Terms (the "**Final Terms**"), which should be read in conjunction with these terms and conditions. The terms and conditions applicable to any particular Tranche of Note are these terms and conditions, as completed by the applicable Final Terms (together, the "**Conditions**"). In the event of any inconsistency between these Conditions and the applicable Final Terms, the applicable Final Terms shall prevail. The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"), as specified in the applicable Final Terms.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of, and the Registered Notes are constituted by, a deed of covenant (the "**Deed of Covenant**") dated 11 May 2017 and made by the Issuer and are the subject of a fiscal agency agreement (as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 11 May 2017 and made between the Issuer for the benefit of holders of the Notes ("**Noteholders**" or "**holders**"), the National Bank of Kuwait S.A.K.P. as guarantor (the "**Guarantor**"), Citibank N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression shall include any successor fiscal agent) and the other paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents) and as exchange agent (the "**Exchange Agent**", which expression shall include any successor exchange agent), Citigroup Global Markets Deutschland AG as the registrar (the "**Registrar**", which expression shall include any successor registrar) and as a transfer agent (the "**Transfer Agent**", which expression shall include any additional or successor transfer agents). The payment of all amounts in respect of the Notes has been guaranteed by the Guarantor pursuant to a deed of guarantee (the "**Deed of Guarantee**") dated 11 May 2017 and executed by the Guarantor.

All subsequent references in these Terms and Conditions to "**Notes**" are to the Notes of the same Series.

Interest bearing definitive Bearer Notes have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes (whether in bearer form or represented by a registered global note certificate (a "**Global Certificate**") and Bearer Notes represented by a global bearer note (a "**Global Note**") do not have Receipts, Coupons or Talons attached on issue.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note or Global Certificate, be construed as provided below.

Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

Copies of the Agency Agreement, the Deed of Guarantee, a deed poll (the "**Deed Poll**") dated 11 May 2017 and made by the Issuer and the Guarantor and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the specified office of each of the Paying Agents, the Registrar and Transfer Agent (such Agents and the Registrar being together referred to as the "**Agents**") and copies may be obtained from the registered office of the Issuer, c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Guarantee, the Deed Poll, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and *provided that*, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

2. Form, Denomination and Title

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.

The Notes may be Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

The Notes may be Instalment Notes, Partly Paid Notes or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

The Notes will either be unsubordinated in the manner described under Condition 4.1 (*Status of the Senior Notes*) below (a "**Senior Note**") or subordinated in the manner described under Condition 4.3 (*Status of the Subordinated Notes*) below (a "**Subordinated Note**") depending upon the status specified in the applicable Final Terms.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Guarantor and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note or Global Certificate, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note or Global Certificate held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer, the Guarantor and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note or the registered holder of the relevant Global Certificate shall be treated by the Issuer, the Guarantor and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note or Global Certificate and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

For so long as the Depository Trust Company ("**DTC**") or its nominee is the registered owner or holder of a Global Certificate, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Certificate for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note or Global Certificate will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be.

References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

3. Transfers of Registered Notes

3.1 Transfer

One or more Registered Notes may be transferred, in whole or in part in the Specified Denominations set out in the applicable Final Terms and subject to the minimum transfer amounts specified therein, upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Registered Note(s), together with the form of transfer endorsed on such Registered Note(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent (as applicable) may reasonably require, including for the purposes of establishing title to the relevant Registered Note, and the identity of the person making the request. In the case of a transfer of part only of a holding of a Registered Note, a new Registered Note shall be issued to the transferee in respect of the part transferred and a further new Registered Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Registered Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Notes scheduled to the Agency Agreement. A copy of the current regulations will be made available by the Registrar or any Transfer Agent or Paying Agent to any Noteholder upon request.

3.2 Delivery

Each new Registered Note to be issued pursuant to Condition 3.1 (*Transfer*) shall be available for delivery within five business days of receipt of the form of transfer and surrender of the Registered Note for exchange. Delivery of the new Registered Note(s) shall be made at the specified office of the Registrar or Transfer Agent (as the case may be) to whom delivery or surrender of such form of transfer of a Registered Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Registered Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar or Transfer Agent the costs of such other method of delivery and such insurance as it may specify. In this Condition 3.2, "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or Transfer Agent (as the case may be).

3.3 No Charge

Transfers of Registered Notes shall be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent (as applicable), but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and security as the Registrar or relevant Transfer Agent may require).

3.4 Restrictions on Transfer

No Noteholder may require the transfer of a Registered Note to be registered during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount or interest amount in respect of, that Registered Note.

3.5 Forced Transfer

As specified in the Agency Agreement, if, at any time, the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a QIB is not a QIB, the Issuer may (a) compel such beneficial owner to sell its Notes to a person who is (i) a U.S. person who is a QIB and that is, in each case, otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (ii) not a U.S. person within the meaning of Regulation S or (b) compel the beneficial owner to sell such Notes to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100% of the principal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in a Restricted Global Certificate or of a Note in definitive form to a U.S. person who is not a QIB.

3.6 Definitions

In this Condition 3 (*Transfers of Registered Notes*), the following expressions shall have the following meanings:

"**QIB**" means a "qualified institutional buyer" within the meaning of Rule 144A;

"**Regulation S**" means Regulation S under the Securities Act;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Restricted Global Certificate**" means a Global Certificate representing Registered Notes sold in the United States or to persons that are QIBs; and

"**Securities Act**" means the United States Securities Act of 1933, as amended.

4. Status

4.1 Status of the Senior Notes

The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding. The Issuer shall execute such instruments and do or take any such action as may be required by the Dubai International Financial Centre to ensure the effectiveness of such ranking following any change in any law or regulation relating thereto which becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and which requires the Issuer to take such action.

4.2 Status of the Deed of Guarantee in respect of the Senior Notes

The obligations of the Guarantor under the Deed of Guarantee in respect of the Senior Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Guarantor and (save for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

4.3 Status of the Subordinated Notes

The Subordinated Notes and any relative Receipts and Coupons are direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves.

In the event of:

(a) an order being made, or an effective resolution being passed, for the winding-up of the Issuer or an analogous process under the laws of the Dubai International Financial Centre (except, in any such case, a solvent winding-up or an analogous process under the laws of the Dubai International Financial Centre solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a successor in business of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution: (x) have previously been approved by an Extraordinary Resolution; and (y) do not provide that the Subordinated Notes shall thereby become redeemable or repayable in accordance with these Conditions); or

(b) an administrator of the Issuer (or official with an analogous position under the laws of the Dubai International Financial Centre) being appointed and such administrator (or official with an analogous position under the laws of the Dubai International Financial Centre) giving notice that it intends to declare and distribute a dividend,

the rights and claims of the Noteholders against the Issuer in respect of, or arising under, including any damages awarded for breach of any obligations under, the Subordinated Notes (whether on account of principal, interest or otherwise) will be subordinated to the claims of all Senior Creditors but will rank at least *pari passu* with the claims of holders of all other subordinated obligations of the Issuer which do not rank or are not expressed by their terms to rank junior to the payment obligations under the Subordinated Notes and will rank in priority to all claims of holders of all undated or perpetual subordinated obligations of the Issuer and to all claims of holders of all classes of share capital of the Issuer.

In this Condition 4.3, "**Senior Creditors**" shall mean creditors of the Issuer (including depositors) whose claims are admitted to proof in the winding up or administration of the Issuer (or an analogous process under the laws of the Dubai International Financial Centre) and who are unsubordinated creditors of the Issuer.

Each holder of a Subordinated Note unconditionally and irrevocably waives any right of setoff, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Note. No collateral is or will be given for the payment obligations under the Subordinated Notes 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 Subordinated Notes. The Issuer shall execute such instruments and do or take any such action as may be required by the Dubai International Financial Centre to ensure the effectiveness of such ranking following any change in any law or regulation relating thereto which becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and which requires the Issuer to take such action.

4.4 Status of the Deed of Guarantee in respect of the Subordinated Notes

The Deed of Guarantee in respect of the Subordinated Notes is a direct, unsecured and subordinated obligation of the Guarantor.

In the event of:

(a) an order being made, or an effective resolution being passed, for the winding-up of the Guarantor (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Guarantor of a successor in business of the Guarantor, the terms of which reorganisation, reconstruction, amalgamation or substitution: (x) have previously been approved by an Extraordinary Resolution; and (y) do not provide that the Subordinated Notes shall thereby become redeemable or repayable in accordance with these Conditions); or

(b) an administrator of the Guarantor (or official with an analogous position under Kuwaiti law) being appointed and such administrator (or official with an analogous position under Kuwaiti law) giving notice that it intends to declare and distribute a dividend,

the rights and claims of the Noteholders against the Guarantor under the Deed of Guarantee in respect of or arising under, including any damages awarded for breach of any obligations under, the Subordinated Notes will be subordinated to the claims of all Senior Creditors but will rank at least *pari passu* with the claims of holders of all other subordinated obligations of the Guarantor which do not rank or are not expressed by their terms to rank junior to the payment obligations of the Guarantor under the Deed of Guarantee in respect of the Subordinated Notes and will rank in priority to all claims of holders of all undated or perpetual subordinated obligations of the Guarantor and to all claims of holders of all classes of share capital of the Guarantor.

In this Condition 4.4, "**Senior Creditors**" shall mean creditors of the Guarantor (including depositors) whose claims are admitted to prove in the winding up or administration of the Guarantor and who are unsubordinated creditors of the Guarantor.

Each holder of a Subordinated Note 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 Deed of Guarantee in respect of the Subordinated Notes. No collateral is or will be given for the payment obligations under the Deed of Guarantee in respect of the Subordinated Notes 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 of the Guarantor under the Deed of Guarantee in respect of the Subordinated Notes.

5. Negative Pledge

This Condition 5 only applies to Senior Notes.

So long as any Senior Note remains outstanding (as defined in the Agency Agreement), the Issuer will not, and will ensure that none of its Subsidiaries will create, or have outstanding any mortgage, charge, lien, pledge or other security interest (other than (i) arising solely by operation of law or (ii) a Permitted Security Interest) (each a "**Security Interest**"), upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or payment under any guarantee or indemnity granted by the Issuer or any Subsidiary in respect of any Relevant Indebtedness without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

The Guarantor has agreed in the Deed of Guarantee in respect of the Senior Notes that, so long as any Senior Note remains outstanding (as defined in the Agency Agreement), the Guarantor will not, and will ensure that none of its Principal Subsidiaries will create, or have outstanding any Security Interest (other than (i) arising solely by operation of law or (ii) a Permitted Security Interest), upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or payment under any guarantee or indemnity granted by the Guarantor or any Principal Subsidiary in respect of any Relevant Indebtedness without at the same time or prior thereto according to the Deed of Guarantee the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

In these Conditions:

"**Excluded Subsidiary**" at any time means a Subsidiary of the Guarantor which is a special purpose company whose principal assets are constituted by a project or projects and none of whose indebtedness is directly or indirectly the subject of security or a guarantee, indemnity or any other form of assurance, undertaking or support from the Guarantor or any of its Principal Subsidiaries;

"**Group**" means the Issuer and its Subsidiaries or the Guarantor and its Subsidiaries (as the case may be);

"**Indebtedness**" shall be construed so as to include any obligation for the payment or repayment of money, whether present or future, actual or contingent;

"**Permitted Security Interest**" means any Security Interest:

(a) in respect of any Relevant Indebtedness of any member of the Group incurred:

(i) to finance the ownership, acquisition, development, redevelopment or operation of any asset; or

(ii) to finance or facilitate the receipt of any specified revenues or receivables,

in respect of which the person or persons to whom any such Relevant Indebtedness is or may be owed (for the purposes of this definition the "**Lender**") by such member of the Group (for the purposes of this definition the "**Borrower**") has or have no recourse whatsoever to any other member of the Group for the repayment thereof other than:

(A) recourse to the relevant Borrower for amounts limited to the cash flow or the net cash flow from such asset, revenues or receivables, as the case may be; and/or

(B) recourse to the proceeds of enforcement of any Security Interest (x) given by such Borrower over such asset, revenue or receivable or the income, cash flow or other proceeds deriving therefrom ("**Relevant Property**") and/or (y) given by any owner of voting equity interest in a Borrower over such equity interest ("**Related Property**") to secure such Relevant Indebtedness *provided that* the extent of such recourse to such Borrower is limited solely to the amount of any recoveries made in respect of such enforcement, or

(b) securing Relevant Indebtedness of any person existing at the time that such person is acquired by or merged into or consolidated with any member of the Group, *provided*, *however*, *that* such Security Interest was not created in contemplation of such acquisition, merger or consolidation and does not extend to any assets or property of any member of the Group other than that of such person prior to such acquisition, merger or consolidation, as the case may be;

"**Principal Subsidiary**" means a Subsidiary of the Guarantor (not being an Excluded Subsidiary):

(a) whose total assets represent not less than 12 per cent. of the consolidated total assets of the Guarantor and its Subsidiaries taken as a whole; or

(b) whose net operating income is more than 12 per cent. of the consolidated net operating income of the Guarantor and its Subsidiaries taken as a whole,

all as calculated by reference to the then latest audited consolidated accounts of the Guarantor; or

(c) to which is transferred all or substantially all of the business, undertaking or assets of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall immediately become a Principal Subsidiary but shall cease to be a Principal

Subsidiary under this sub-paragraph (c) (but without prejudice to the provisions of sub-paragraph (a) or (b) above) upon publication of its next audited accounts.

A report by the Chief Executive Officer or the Chief Financial Officer of the Guarantor that in their opinion a Subsidiary of the Guarantor is or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Relevant Indebtedness**" means any Indebtedness having an original maturity of more than one year which is in the form of, or represented or evidenced by, bonds, trust certificates, notes, debentures, loan stock or other securities which (with the consent of the issuer thereof) are for the time being listed or traded on a stock exchange or other recognised securities market other than any notes, bonds, trust certificates or other debt securities issued by an acquired Subsidiary prior to the date of the acquisition and not issued in contemplation of such acquisition; and

"**Subsidiary**" means, in respect of any person (the "**first person**") at any particular time, any other person (the "**second person**"):

(a) whose affairs and policies the first person controls or has the power to control (directly or indirectly), whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

6. Interest

6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(a) in the case of Fixed Rate Notes which are represented by a Global Note or Global Certificate, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note or Global Certificate (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

(a) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of: (A) the number of days in such Determination Period; and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Dates that would occur in one calendar year;

(b) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; and

(c) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365.

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.2 Interest on Floating Rate Notes

(a) ***Interest Payment Dates***

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding

Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each "**Interest Period**" (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

In these Conditions, if a "**Business Day Convention**" is specified in the applicable Final Terms and: (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur; or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date: (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis*; or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event: (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day; and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, "**Business Day**" means a day which is both:

(i) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Additional Business Centre specified in the applicable Final Terms; and

(ii) either: (i) in relation to any sum payable in a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open.

(b) ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(i) ***ISDA Determination for Floating Rate Notes***

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable

Final Terms) the Margin (if any). For the purposes of this subparagraph (i), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period specified in the applicable Final Terms; and

(C) the relevant Reset Date is either: (I) if the applicable Floating Rate Option is based on the London interbank offered rate ("**LIBOR**") or on the Euro-zone interbank offered rate ("**EURIBOR**"), the first day of that Interest Period; or (II) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i) "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) ***Screen Rate Determination for Floating Rate Notes***

(A) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page at the Relevant Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Fiscal Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Fiscal Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(B) If the Relevant Screen Page is not available or, if sub-paragraph 6.2(b)(ii)(A)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph 6.2(b)(ii)(A)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the Relevant Time, subject as provided below, the Fiscal Agent shall request the principal Relevant Financial Centre office of each of the Reference Banks to provide the Fiscal Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Fiscal Agent; and

(C) If paragraph (B) above applies and the Fiscal Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Fiscal Agent by the Reference Banks or any two or more of them, at which such banks were offered at the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the Relevant Financial Centre interbank market or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Fiscal Agent it is quoting to leading banks in the Relevant Financial Centre interbank market *provided that*, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period).

For the purposes of this Condition 6.2(b)(ii):

"**Interest Determination Date**" has the meaning given in the applicable Final Terms;

"**Reference Banks**" means four major banks selected by the Issuer in the interbank market that is most closely connected with the Reference Rate;

"**Reference Rate**" means one of the following benchmark rates (as specified in the applicable Final Terms) in respect of the currency and period specified in the applicable Final Terms:

- LIBOR;
- EURIBOR;
- KIBOR;
- HIBOR;
- KLIBOR;
- TRLIBOR or TRYLIBOR;
- SIBOR;
- EIBOR;
- TIBOR; and
- SAIBOR;

"**Relevant Financial Centre**" means the financial centre specified as such in the applicable Final Terms;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Final Terms; and

"**Relevant Time**" means the time specified as such in the applicable Final Terms.

(c) ***Minimum Rate of Interest and/or Maximum Rate of Interest***

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(d) ***Determination of Rate of Interest and calculation of Interest Amounts***

The Fiscal Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Fiscal Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Notes which are represented by a Global Note or Global Certificate, the aggregate outstanding nominal amount of the Notes represented by such Global Note or Global Certificate (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

(i) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of: (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366; and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (\mathrm{Y}_2 - \mathrm{Y}_1)] + [30 \times (M_2 - M_1)] + (\mathrm{D}_2 - \mathrm{D}_1)}{360}$$

Where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (\mathrm{Y}_2 - \mathrm{Y}_1)] + [30 \times (M_2 - M_1)] + (\mathrm{D}_2 - \mathrm{D}_1)}{360}$$

where: "$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls; and

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and "D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) lf "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

Where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless: (i) that day is the last day of February but not the Maturity Date; or (ii) such number would be 31, in which case D_2 will be 30.

(e) ***Linear Interpolation***

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Period, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period *provided that*, if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (i) in relation to Screen Rate Determination, the period of time designated in the Reference Rate; and (ii) in relation to ISDA Determination, the Designated Maturity.

(f) ***Notification of Rate of Interest and Interest Amounts***

The Fiscal Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Guarantor and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the second London Business Day after the Interest Determination Date) and notice thereof to be published in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 15 (*Notices*). For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Fiscal Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error or proven error) be binding on the Issuer, the Guarantor, the Fiscal Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes.

6.4 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 15 (*Notices*).

7. Payments

7.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*).

7.2 Presentation of definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 7.1 (*Method of Payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 7.1 (*Method of Payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph.

Payment of the final instalment will be made in the manner provided in Condition 7.1 (*Method of Payment*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon *provided that* such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

7.3 Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Bearer Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive

Bearer Notes or otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment so made, distinguishing between any payment of principal and any payment of interest, will be made on any Global Note in bearer form by the Paying Agent to which it was presented and such record shall be ***prima facie*** evidence that the payment in question has been made.

7.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "**Register**") at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if: (i) a holder does not have a Designated Account; or (ii) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business (in the relevant clearing system) on the day prior (whether or not such day is a business day) to the relevant due date (the "**Record Date**") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition 7.4 arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Global Certificate in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the Guarantor or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

7.5 General provisions applicable to payments

The holder of a Global Note or Global Certificate shall be the only person entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note or Global Certificate in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note or Global Certificate.

Notwithstanding the foregoing provisions of this Condition 7 (*Payments*), if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer and the Guarantor have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

7.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 10 (*Prescription*)) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

  (i) in the case of Notes in definitive form only, the relevant place of presentation;

  (ii) each Additional Business Centre specified in the applicable Final Terms;

  (iii) either: (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and

  (iv) in the case of any payment in respect of a Global Certificate denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Global Certificate) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

7.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 9 (*Taxation*);

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.5 (*Early Redemption Amounts*)); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes. Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 (*Taxation*).

8. Redemption and Purchase

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount, in the relevant Specified Currency on the Maturity Date, in each case, as specified in the applicable Final Terms.

8.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if the Notes are not Floating Rate Notes) or on any Interest Payment Date (if the Notes are Floating Rate Notes), on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 15 (*Notice*), the Noteholders (which notice shall be irrevocable), if:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Relevant Tax Jurisdiction (as defined in Condition 9 (*Taxation*)) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(b) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition 8.2, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.5 (*Early Redemption Amounts*) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

8.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15 (*Notices*); and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Fiscal Agent and, in the case of a redemption of Registered Notes, the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC, in the case of Redeemed Notes represented by a Global Note or Global Certificate, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 (*Notices*) not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note or Global Certificate will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*) at least five days prior to the Selection Date.

8.4 Redemption at the option of the Noteholders (Investor Put)

This Condition 8.4 only applies to Senior Notes.

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 15 (*Notices*) not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem or, at the Issuer's option, purchase (or procure the purchase of), subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed or, as the case may be, purchased under this Condition in any multiple of their lowest Specified Denomination. An Investor Put can only be exercised in accordance with this Condition 8.4, as completed by the applicable Final Terms.

To exercise the right to require redemption of Notes pursuant to this Condition 8.4 the holder of the relevant Note must, if such Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a "**Put Notice**") and in which the holder must specify a bank account to which payment is to be made under this Condition 8.4 and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 3 (*Transfers of Registered Notes*). If the Notes are in definitive bearer form, the Put Notice must be accompanied by the relevant Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Notice, be held to its order or under its control. If the Notes are represented by a Global Note or Global Certificate or are in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, to exercise the right to require redemption of a Note the holder of the relevant Note must, within the notice period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and DTC from time to time and if the Notes are represented by a Global Note or Global Certificate, at the same time present or procure the presentation of the Global Note or Global Certificate to the Fiscal Agent or Registrar (as applicable) for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC given by a holder of any Note pursuant to this Condition 8.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 8.4 and instead to declare such Note forthwith due and payable pursuant to Condition 11 (*Events of Default*).

8.5 Early Redemption Amounts

For the purpose of Condition 8.2 (*Redemption for tax reasons*) above and Condition 11 (*Events of Default*), each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^{y}$$

Where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360 day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360.

8.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8.5 (*Early Redemption Amounts*).

8.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of Conditions 8.1 (*Redemption at maturity*) to 8.5 (*Early Redemption Amounts*) above and as completed by the applicable Final Terms.

8.8 Purchases

The Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor may, at any time purchase Notes (*provided that*, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Guarantor, surrendered to any Paying Agent for cancellation.

8.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.8 (*Purchases*) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

8.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8.1 (*Redemption at maturity*), 8.2 (*Redemption for tax reasons*), 8.3 (*Redemption at the option of the Issuer (Issuer Call)*) or 8.4 (*Redemption at the option of the Noteholders (Investor Put)*) above or upon its becoming due and repayable as provided in Condition 11 (*Events of Default*) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.5(c) (*Early Redemption Amounts*) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 15 (*Notices*).

9. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer and all payments under the Deed of Guarantee by the Guarantor will be made without withholding, retention or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Relevant Tax Jurisdiction unless such withholding, retention or deduction is required by law. In such 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 holders of the Notes, Receipts or Coupons after such withholding, retention or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding, retention or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment in a Relevant Tax Jurisdiction; or

(b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Relevant Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.6 (*Payment Day*)).

As used herein:

(i) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Fiscal Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15 (*Notices*); and

(ii) "**Relevant Tax Jurisdiction**" means in the case of any payment by the Issuer, the United Arab Emirates (including the Dubai International Financial Centre) or, in the case of any payment by the Guarantor, the State of Kuwait or, in either case, any political subdivision or any authority thereof or therein having power to tax.

Notwithstanding anything to the contrary in these Conditions, the Issuer and the Guarantor shall be permitted to withhold or deduct any amounts required by Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), any treaty, law, regulation or other official guidance implementing FATCA, or any agreement (or related guidance) between the Issuer, the Guarantor, a paying agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA and none of the Issuer, the Guarantor, any paying agent or any other person shall be required to pay any additional amounts with respect to any such withholding or deduction imposed on or with respect to any Note.

10. Prescription

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 10 or any Talon which would be void pursuant to Condition 7.2 (*Presentation of definitive Bearer Notes, Receipts and Coupons*).

11. Events of Default

11.1 Event of Default for Senior Notes

This Condition 11.1 only applies to Senior Notes.

If any one or more of the following events (each an "**Event of Default**") shall occur and be continuing:

(a) ***Non Payment***

Default is made in the payment of any principal or interest due in respect of the Notes or any of them or the Deed of Guarantee and the default continues for a period of seven days in the case of principal and 14 days in the case of interest; or

(b) ***Breach of Obligations***

The Issuer or the Guarantor fails to perform or observe any of its other obligations under the Conditions or the Deed of Guarantee and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer or the Guarantor of notice requiring the same to be remedied; or

(c) ***Cross Acceleration***

(i) any Indebtedness of the Issuer or the Guarantor or any of the Guarantor's Principal Subsidiaries for or in respect of moneys borrowed or raised is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes due and payable prior to its stated maturity by reason of default (however described); or

(iii) the Issuer or the Guarantor or any of the Guarantor's Principal Subsidiaries fails to pay when due any amount payable by it under any guarantee of any Indebtedness for or in respect of moneys borrowed or raised,

provided that the events mentioned in this paragraph (c) shall not constitute an Event of Default unless the aggregate amount of all such Indebtedness for or in respect of moneys borrowed or raised, either alone or when aggregated with all other such Indebtedness in respect of which such an event shall have occurred and be continuing, shall be more than U.S.$50,000,000 (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates); or

(d) ***Liquidation and Other Events***

(i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, save in connection with a Permitted Reorganisation; or

(ii) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save in connection with a Permitted Reorganisation, or the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(iii) proceedings are initiated against the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official (and such proceedings are not being actively contested in good faith by the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be), or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them; and in any case (other than the appointment of an administrator) is not discharged within 30 days; or

(iv) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or, save in connection with a Permitted Reorganisation, any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(v) any event occurs which under the laws of the Dubai International Financial Centre, the United Arab Emirates or any Emirate therein, the State of Kuwait or any other jurisdiction has an analogous effect to any of the events referred to in paragraphs (i) to (iv) above.

(e) ***Authorisation and Consents***

Any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable each of the Issuer and the Guarantor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Conditions or the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes or the Deed of Guarantee admissible in evidence in the courts of the Dubai International Financial Centre, the United Arab Emirates or any Emirate therein or the State of Kuwait is not taken, fulfilled or done; or

(f) ***Illegality***

At any time it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with any or all of its obligations under or in respect of the Notes or the Deed of Guarantee or any of the material obligations of the Issuer or the Guarantor thereunder are not or cease to be legal, valid, binding or enforceable; or

(g) ***Cessation of the Deed of Guarantee***

The Deed of Guarantee ceases to be, or is claimed by the Issuer or the Guarantor not to be, in full force and effect,

then any holder of a Note may, by 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, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

In these Conditions:

"**Permitted Reorganisation**" means:

(i) any disposal by any Subsidiary of the Guarantor of the whole or a substantial part of its business, undertaking or assets to the Guarantor or other Subsidiary of the Guarantor;

(ii) any amalgamation, consolidation or merger of a Subsidiary with any other Subsidiary of the Guarantor; or

(iii) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by an Extraordinary Resolution.

11.2 Events of Default for Subordinated Notes

This Condition 11.2 only applies to Subordinated Notes.

(a) ***Non Payment***

If default is made in the payment of any principal or interest due under the Notes or any of them or the Deed of Guarantee and the default continues for a period of seven days in the case of principal and 14 days in the case of interest, any Noteholder may institute proceedings in the Dubai International Financial Centre, the United Arab Emirates or any Emirate therein (but not elsewhere) for the dissolution and liquidation of the Issuer and in the State of Kuwait (but not elsewhere) for the dissolution and liquidation of the Guarantor.

(b) ***Liquidation and other events***

If 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 in connection with a Permitted Reorganisation; or

(ii) the Issuer or the Guarantor ceases or threatens to cease to carry on the whole or a substantial part of its business, save in connection with a Permitted Reorganisation, or the Issuer or the Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent;

(iii) proceedings are initiated against the Issuer or the Guarantor under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official (and such proceedings are not being actively contested in good faith by the Issuer or as the case may be, the Guarantor), or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or the Guarantor or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of the Issuer or the Guarantor, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of the Issuer or the Guarantor; and in any case (other than the appointment of an administrator) is not discharged within 14 days; or

(iv) the Issuer or the Guarantor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or, save in connection with a Permitted Reorganisation, any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(v) any event occurs which under the laws of the Dubai International Financial Centre, the United Arab Emirates or any Emirate therein, the State of Kuwait or any other jurisdiction has an analogous effect to any of the events referred to in paragraphs (i) to (iv) above,

then the holder of any Note 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 Note is due and payable, whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment without presentation, demand, protest or other notice of any kind.

(c) ***Breach of Obligations***

To the extent permitted by applicable law and by these Conditions, a Noteholder may at its discretion institute such proceedings against the Issuer or the Guarantor as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer or the Guarantor under the Notes or the Deed of Guarantee, the Receipts or the Coupons, but the institution of such proceedings shall not have the effect that the Issuer or, as the case may be, the Guarantor shall be obliged to pay any sum or sums sooner than would otherwise have been payable by it.

(d) ***Other Remedies***

No remedy against the Issuer or the Guarantor, other than the institution of the proceedings referred to in paragraph (a) or (c) above and the proving or claiming in any dissolution and liquidation of the Issuer or the Guarantor, shall be available to the Noteholders, the Receiptholders or the Couponholders whether for the recovering of amounts owing in respect of the Notes, the Receipts or the Coupons or in respect of any breach by the Issuer or the Guarantor of any other obligation, condition or provision binding on it under the Notes, the Receipts or the Coupons.

12. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. Agents

The names of the initial Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, *provided that*:

(a) there will at all times be a Fiscal Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) 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; and

(c) so long as any of the Global Certificates payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in London.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.5 (*General provisions applicable to payments*). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10 (*Prescription*).

15. Notices

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in the Republic of Ireland (which is expected to be the Irish Times) or published on the website of the Irish Stock Exchange plc (www.ise.ie) or, if in either case such publication is not practicable, in a leading English Language newspaper having general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes or Global Certificates representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note or Global Certificate, such notice may be given by any holder of a Note to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

16. Currency Indemnity

If, under any applicable law and whether pursuant to a judgment being made or registered against the Issuer and/or the Guarantor or in the liquidation, insolvency or any similar process of the Issuer and/or the Guarantor or for any other reason, any payment under or in connection with the Notes, the Receipts or the Coupons is made or falls to be satisfied in a currency (the other currency) other than the Specified Currency, then, to the extent that the payment (when converted into the Specified Currency at the rate of exchange on the date of payment or, if it is not practicable for the relevant recipient to purchase the Specified Currency with the other currency on the date of payment, at the rate of exchange as soon thereafter as it is practicable for it to do so or, in the case of a liquidation, insolvency or analogous process, at the rate of exchange on the latest date permitted by applicable law for the determination of liabilities in such liquidation, insolvency or analogous process) actually received by the relevant recipient falls short of the amount due under these Conditions, the Issuer and the Guarantor jointly and severally undertake that they shall, as a separate and independent obligation, indemnify and hold harmless the recipient against the amount of the shortfall. For the purpose of this Condition 16, rate of exchange means the rate at which the relevant recipient is able on the London foreign exchange market on the relevant date to purchase the Specified Currency with the other currency and shall take into account any premium and other reasonable costs of exchange.

17. Meetings of Noteholders and Modification

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or the Guarantor and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes, the Receipts or the Coupons or amending the Deed of Guarantee), the quorum shall be one or more persons holding or representing not less than three-quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-quarter in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Issuer or, as the case may be, the Guarantor may, without the consent of the Noteholders, Receiptholders or Couponholders, make any modification to the Notes, the Receipts, the Coupons, the Deed of Guarantee, the Deed of Covenant, the Deed Poll or the Agency Agreement which is:

(a) not prejudicial to the interests of the Noteholders; or

(b) of a formal, minor or technical nature or is made to correct a manifest or proven error.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

18. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. Governing Law and Arbitration

20.1 Governing law

The Agency Agreement, the Deed Poll, the Deed of Covenant, the Deed of Guarantee, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

20.2 Arbitration

Any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes, the Receipts and/or the Coupons, these Conditions, the Agency Agreement, the Deed of

Covenant or the Deed of 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 LCIA Arbitration Rules (the "**Rules**"), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 20.2. 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 thereto 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. In the event that 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.

On receipt by the Issuer or the Guarantor of a Request for Arbitration (as defined in the Rules) initiated by a Noteholder, Receiptholder or Couponholder (as the case may be), the Issuer or the Guarantor, as applicable, shall send a copy of the Request for Arbitration to all Noteholders, Receiptholders or Couponholders, as applicable, (the "**Notification**") within 30 days of receipt. The arbitral proceedings shall be suspended until the earlier of the completion of the Notification process or 30 days following the receipt by the Issuer or the Guarantor, as applicable, of a Request for Arbitration.

Any Noteholder, Receiptholder or Couponholder (as applicable) may, on receipt of such Notification, request to be joined with any other Noteholder, Receiptholder or Couponholder (as applicable) to that arbitration, by filing a written notice (a "**Joinder Notice**") with the relevant Noteholder, Receiptholder or Couponholder (as applicable) and the Issuer or Guarantor, as applicable, prior to disclosure of documents in that arbitration. Each Noteholder, Receiptholder or Couponholder hereby agrees to accept the joinder of any other Noteholder, Receiptholder or Couponholder (as applicable) where the interests of the Noteholders, Receiptholders or Couponholders (as applicable) are materially similar. Failure to file a Joinder Notice does not preclude any Noteholder, Receiptholder or Couponholder (as applicable) from bringing any action (whether arising from similar facts to those relevant to the arbitration in respect of which the Notification is provided or otherwise) in the future.

Any multi-party arbitration resulting from the joinder of any other Noteholder(s), Receiptholder(s) or Couponholder(s) (as applicable) will be formally settled in single arbitral proceedings.

In multi-party arbitration proceedings, the arbitral tribunal shall have all powers necessary to establish any supplementary procedural rules required or desirable in view of the multi-party nature of the proceedings.

In the event of arbitration proceedings where the interests of Noteholders, Receiptholders or Couponholders (as applicable) are sufficiently similar to permit those parties to be represented by a single counsel without generally accepted principles regarding conflicts of interest being infringed, such parties are obliged to act together and through one counsel only. In the event that there is some question as to whether the interests of some or all of the Noteholders, Receiptholders or Couponholders (as applicable) concerned are sufficiently similar to invoke the terms of this provision requiring joint representation, then that may be determined as a preliminary issue by the arbitral tribunal.

20.3 Appointment of Process Agent

Each of the Issuer and the Guarantor appoints Maples and Calder at its registered office at 11th Floor, 200 Aldersgate Street, London EC1A 4HD, United Kingdom as its authorised agent for service of process in England, and undertakes that, in the event of Maples and Calder ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Disputes and notify the Noteholders, the Receiptholders and the Couponholders of such appointment in accordance with Condition 15 (*Notices*). The Issuer and the Guarantor will procure that, so long as any of the Notes remains outstanding, a person with an office in London shall be appointed to accept service. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

20.4 Enforcement

Each of the Issuer and the Guarantor agrees that an arbitral award, in connection with a Dispute arising out of or in connection with these Conditions, shall be binding on it and may be enforced against it in the courts of any competent jurisdiction. For the purposes of the foregoing, in respect of any proceedings arising out of or connected with the enforcement and/or execution of any arbitral award made against the Issuer or the Guarantor, each of the Issuer and the Guarantor hereby expressly submits to the jurisdiction of any court in which any such proceedings are brought.

20.5 Other documents

Each of the Agency Agreement, the Deed of Guarantee, the Deed of Covenant and the Deed Poll contain governing law, arbitration, process agent appointment and enforcement terms that are substantially similar to those set out above.

21. Corporate Obligations

Each Noteholder acknowledges and agrees that notwithstanding any other provision contained herein, the obligations of the Issuer under the Conditions and the Notes are corporate or limited liability obligations of the Issuer and, no Noteholder shall have any recourse against any of the directors, officers, employees or corporate services providers of the Issuer (the "**Limited Parties**") (nor shall any of the Limited Parties be personally liable for any claims, losses, damages, liabilities, indemnities, representations or other obligations whatsoever of the Issuer), under or in connection with the Notes or the Conditions, save in the case of the wilful default or actual fraud of such Limited Party. Reference herein to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant Limited Party.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be lent by the Issuer to the Guarantor and will be applied by the Guarantor for its general corporate purposes.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below has been extracted or derived from the Financial Statements set out elsewhere, or incorporated by reference, in this Base Prospectus and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", the Financial Statements and the related notes thereto. The Interim Financial Statements have been prepared in accordance with IAS 34 and have been jointly reviewed by E&Y and Deloitte, in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as stated in their audit report included elsewhere in this Base Prospectus. The Year-End Financial Statements have been prepared in accordance with IFRS issued by the IASB as adopted by Kuwait for financial services institutions regulated by the CBK and have been jointly audited by E&Y and Deloitte, in accordance with International Standards of Auditing as stated in their audit reports included elsewhere in this Base Prospectus.

Consolidated Income Statement Data

	Three months ended 31 March		**Year ended 31 December**		
	2017	**2016**	**2016**	**2015**	**2014**
			(KD thousands)		
	(unaudited)				
Interest income	168,231	155,722	665,263	585,084	513,518
Interest expense	(46,621)	(42,056)	(189,653)	(139,427)	(114,046)
Net interest income	**121,610**	**113,666**	**475,610**	**445,657**	**399,472**
Murabaha and other Islamic financing income	35,937	29,907	128,000	106,369	87,061
Finance cost and distribution to depositors	(10,003)	(6,950)	(33,873)	(21,875)	(17,195)
Net income from Islamic financing	**25,934**	**22,957**	**94,127**	**84,494**	**69,866**
Net interest income and net income from Islamic financing	**147,544**	**136,623**	**569,737**	**530,151**	**469,338**
Net fees and commissions	33,643	33,410	132,826	129,802	121,846
Net investment income	5,133	1,467	6,398	32,156	40,789
Net gains from dealing in foreign currencies	8,030	7,399	35,391	33,154	27,213
Other operating income	1,031	339	957	3,494	1,860
Non-interest income	**47,837**	**42,615**	**175,572**	**198,606**	**191,708**
Net operating income	**195,381**	**179,238**	**745,309**	**728,757**	**661,046**
Staff expenses	(36,523)	(33,905)	(143,844)	(137,213)	(122,402)
Other administrative expenses	(20,189)	(19,499)	(87,435)	(77,168)	(72,412)
Depreciation of premises and equipment	(4,007)	(4,049)	(16,380)	(15,338)	(15,215)
Amortisation of intangible assets	(792)	(1,198)	(4,362)	(4,968)	(5,062)
Operating expenses	**(61,511)**	**(58,651)**	**(252,021)**	**(234,687)**	**(215,091)**
Operating profit before provision for credit losses and impairment losses	**133,870**	**120,587**	**493,288**	**494,070**	**445,955**
Provision charge for credit losses and impairment losses	**(37,737)**	**(30,917)**	**(152,317)**	**(164,397)**	**(146,695)**
Operating profit before taxation	**96,133**	**89,670**	**340,971**	**329,673**	**299,260**
Taxation	(6,415)	(6,966)	(28,811)	(33,154)	(25,606)
Profit for the period	**89,718**	**82,704**	**312,160**	**296,519**	**273,654**
Attributable to:					
Shareholders of the Bank	85,355	78,935	295,178	282,160	261,810
Non-controlling interests	4,363	3,769	16,982	14,359	11,844

Consolidated Balance Sheet Data

	As at 31 March	As at 31 December		
	2017	2016	2015	2014
		(KD thousands)		
	(unaudited)			
Assets				
Cash and short term funds	2,705,067	2,686,963	3,481,371	3,131,991
Central Bank of Kuwait bonds	738,955	748,889	803,930	534,688
Kuwait Government treasury bonds	766,890	493,101	380,052	344,529
Deposits with banks	2,321,857	2,407,915	1,426,679	2,050,515
Loans, advances and Islamic financing to customers	14,048,746	13,611,491	13,550,966	11,908,708
Investment securities	3,152,131	3,174,632	2,784,334	2,493,693
Investment in associates	72,233	73,644	92,713	119,398
Land, premises and equipment	260,698	255,086	226,501	203,414
Goodwill and intangible assets	585,940	581,840	677,594	696,416
Other assets	161,733	170,508	173,490	162,371
Investment in an associate held for sale	-	-	-	138,408
Total assets	**24,814,250**	**24,204,069**	**23,597,630**	**21,784,131**
Liabilities				
Due to banks and other financial institutions	7,432,480	7,347,803	7,306,467	6,705,717
Customer deposits	13,151,268	12,608,092	12,059,203	11,259,736
Certificates of deposit issued	450,335	415,989	655,257	675,065
Subordinated Tier 2 bonds	124,709	124,700	124,664	-
Other liabilities	308,897	302,753	260,915	273,073
Total liabilities	**21,467,689**	**20,799,337**	**20,406,506**	**18,913,591**
Equity				
Share capital	591,744	563,566	503,972	479,973
Proposed bonus shares	-	28,178	25,198	23,999
Statutory reserve	281,783	281,783	251,986	239,987
Share premium account	803,028	803,028	699,840	699,840
Treasury shares	(77,799)	(77,799)	(77,799)	(78,795)
Treasury shares reserve	13,994	13,994	13,994	14,878
Other reserves	1,214,200	1,271,813	1,338,748	1,273,389
Equity attributable to shareholders of the Bank	2,826,950	2,884,563	2,755,939	2,653,271
Perpetual Tier 1 Capital Securities	210,700	210,700	210,700	-
Non-controlling interests	308,911	309,469	224,485	217,269
Total equity	**3,346,561**	**3,404,732**	**3,191,124**	**2,870,540**
Total liabilities and equity	**24,814,250**	**24,204,069**	**23,597,630**	**21,784,131**

Selected Ratios

	As at and for the three months ended 31 March		As at and for the year ended 31 December		
	2017	2016	2016	2015	2014
			%		
Performance measures					
Return on average assets[1]	1.41	1.32	1.22	1.22	1.28
Return on average equity[2]	12.5	12.1	10.2	10.5	10.5
Cost to income ratio[3]	31.5	32.7	33.8	32.2	32.5
Financial ratios					
Net interest margin[4]	2.55	2.39	2.47	2.42	2.45
Yield[5]	3.53	3.25	3.43	3.16	3.13
Funding cost[6]	1.10	0.95	1.08	0.82	0.75
Net profit margin[7]	43.7	44.0	39.6	38.7	39.6
Asset quality					
Impaired loans ratio[8]	1.27	1.32	1.28	1.34	1.50
Loan loss coverage ratio[9]	348.2	334.8	365.2	322.4	276.1
Liquidity coverage ratio[10]	155.0	124.4	160.2	130.5	n/a
Loans to customer and financial institution deposits ratio[11]	80.5	78.0	80.0	82.8	78.1
Loans to total deposits ratio [12]	66.8	64.0	66.8	67.7	63.9
Liquid asset ratio[13]	38.3	40.1	38.6	37.1	38.8
Other ratios					
CET 1 capital adequacy ratio[14][15]	14.2	12.9	14.1	13.2	13.2
Tier 1 capital adequacy ratio[14][16]	15.8	14.3	15.7	14.7	13.3
Total capital adequacy ratio[14][17]	17.8	16.4	17.7	16.8	14.5
Leverage ratio[18]	9.1	8.1	9.2	8.5	7.8

(1) Profit for the period attributable to shareholders of the Bank divided by average assets for the period, with average assets calculated as the sum of assets on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two.

(2) Profit for the period attributable to shareholders of the Bank less interest paid on Tier 1 Capital divided by average shareholders' equity for the period, with average shareholders' equity calculated as the sum of shareholders' equity on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two.

(3) Operating expenses divided by net operating income.

(4) Net interest income and net income from Islamic financing divided by average interest income and financing income-earning assets for the period, with average interest income and financing income-earning assets calculated as the sum of interest income and financing income-earning assets on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two. Interest income and financing 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 divided by average interest income and financing income-earning assets for the period, with average interest income and financing income-earning assets calculated as the sum of interest income and financing income-earning assets on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two.

(6) Interest expense and financing costs and distribution to depositors divided by the average interest expense and financing cost-bearing liabilities on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two. Interest expense and financing cost-bearing liabilities comprise due to banks and other financial institutions, customer deposits, certificates of deposit issued and Subordinated Tier 2 bonds.

(7) Profit for the period attributable to shareholders of the Bank divided by net operating income for the period.

(8) Impaired loans as a percentage of total gross loans.

(9) Loan loss provisions as a percentage of impaired loans.

(10) Calculated and disclosed as daily averages of the ratio components for the corresponding quarter-end, in accordance with the requirements of CBK Circular number 2/RB/345/2014 dated 23 December 2014. Reporting to the CBK and disclosing of the liquidity coverage ratio was introduced from 1 January 2015.

(11) Net loans, advances and Islamic financing to customers divided by the sum of customer deposits and deposits from financial institutions.

(12) Net loans, advances and Islamic financing to customers divided by the sum of customer deposits, dues to banks and other financial institutions and certificates of deposits issued.

(13) Sum of cash and short term funds, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, deposits with banks and investment securities excluding those held to maturity, divided by total assets.

(14) 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.

(15) CET 1 capital adequacy ratio is defined as CET 1 capital divided by risk-weighted assets at a given date.

(16) Tier 1 capital adequacy ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date.

(17) Total capital adequacy ratio is defined as total capital resources divided by risk-weighted assets at a given date.

(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).

Selected Financial Data as of and for the years ended 31 December 2013 and 2012

Consolidated income statement data

	Year ended 31 December	
	2013	2012[(1)]
	(KD thousands)	
Interest income	489,328	491,464
Interest expense	(101,614)	(118,747)
Net interest income	**387,714**	**372,717**
Murabaha and other Islamic financing income	73,836	29,757
Finance cost and distribution to depositors	(10,076)	(4,650)
Net income from Islamic financing	**63,760**	**25,107**
Net interest income and net income from Islamic financing	**451,474**	**397,824**
Net fees and commissions	110,975	103,397
Net investment income[(2)]	35,011	123,194
Net gains from dealing in foreign currencies	26,232	24,038
Other operating income	2,558	1,477
Non-interest income	**174,776**	**252,106**
Net operating income	**626,250**	**649,930**
Staff expenses	(114,940)	(102,169)
Other administrative expenses	(71,780)	(63,755)
Depreciation of premises and equipment	(14,539)	(13,706)
Amortisation of intangible assets	(5,837)	(4,053)
Operating expenses	**(207,096)**	**(183,683)**
Operating profit before provision for credit losses and impairment losses	**419,154**	**466,247**
Provision charge for credit losses and impairment losses	**(148,746)**	**(139,018)**
Operating profit before taxation	**270,408**	**327,229**
Taxation	(18,886)	(18,632)
Profit for the period	**251,522**	**308,597**
Attributable to:		
Shareholders of the Bank	238,137	305,125
Non-controlling interests	13,385	3,472

(1) In 2012, the Group acquired an additional equity interest of 11.1 per cent. in Boubyan Bank, increasing its effective equity interest to 58.4 per cent. Having obtained control, the Group reclassified its investment in Boubyan Bank from an associate to a subsidiary and consolidated the financial statements of Boubyan Bank from 31 July 2012 (the effective acquisition date). As the business combination was achieved in stages, in accordance with IFRS 3: Business Combinations, the Group remeasured its previously held equity interest in Boubyan Bank at the effective acquisition date fair value and recognised the resulting gain of KD 81.5 million under investment income in the Group's consolidated statement of income. Excluding the one-off gain, the Group's profit attributable to shareholders of the Bank for the year ended 31 December 2012 would have been KD 223.6 million.

(2) Net investment income includes share of results of associates of KD 16.3 million for the year ended 31 December 2013 and KD 13.4 million for the year ended 31 December 2012.

Consolidated balance sheet data

	As at 31 December	
	2013	2012
	(KD thousands)	
Assets		
Cash and short term funds	2,412,059	1,610,765
Central Bank of Kuwait bonds	534,459	614,152
Kuwait Government treasury bonds	320,248	356,211
Deposits with banks	899,672	1,203,418
Loans, advances and Islamic financing to customers	10,695,317	9,860,620
Investment securities	2,350,175	1,577,149
Investment in associates	259,801	213,175
Land, premises and equipment	192,199	191,485
Goodwill and intangible assets	700,085	722,933
Other assets	236,130	142,563
Total assets	**18,600,145**	**16,492,471**
Liabilities		
Due to banks and other financial institutions	4,944,865	4,154,983
Customer deposits	10,478,048	9,507,754
Certificates of deposit issued	240,984	-
Other liabilities	224,454	213,739
Total liabilities	**15,888,351**	**13,876,476**
Equity		
Share capital	457,117	435,349
Proposed bonus shares	22,856	21,768
Statutory reserve	228,559	217,675
Share premium account	699,840	699,840
Treasury shares	(80,302)	(79,171)
Treasury share reserve	16,224	17,957
Other reserves	1,164,550	1,113,097
Equity attributable to shareholders of the Bank	2,508,844	2,426,515
Non-controlling interests	202,950	189,480
Total equity	**2,711,794**	**2,615,995**
Total liabilities and equity	**18,600,145**	**16,492,471**

Selected Financial Data by Segment

2013

	Consumer and Private Banking	Corporate Banking	Investment Banking and Asset Management	Islamic Banking	Group Centre	International	Total
				(KD thousands)			
Net interest income and net income from Islamic financing	152,541	122,626	203	63,760	23,632	88,712	451,474
Net operating income	202,311	164,803	24,306	68,821	25,533	140,476	626,250
Profit/(loss) for the year	**114,603**	**102,225**	**13,323**	**12,720**	**(61,094)**	**69,745**	**251,522**
Total assets	**3,390,320**	**4,503,234**	**62,505**	**2,191,986**	**2,275,486**	**6,176,614**	**18,600,145**
Total liabilities	**3,547,023**	**1,947,352**	**7,881**	**1,922,499**	**2,227,508**	**6,236,088**	**15,888,351**

2012

	Consumer and Private Banking	Corporate Banking	Investment Banking and Asset Management	Islamic Banking	Group Centre	International	Total
				(KD thousands)			
Net interest income and net income from Islamic financing	148,694	128,113	354	25,107	25,385	70,171	397,824
Net operating income.................	195,150	165,398	25,580	24,862	112,910	126,030	649,930
Profit/(loss) for the year	**114,524**	**90,080**	**13,650**	**6,022**	**20,639**	**63,682**	**308,597**
Total assets..............................	**3,148,826**	**4,136,216**	**60,644**	**1,795,878**	**2,257,855**	**5,093,052**	**16,492,471**
Total liabilities	**3,182,758**	**1,640,999**	**5,971**	**1,621,549**	**2,712,366**	**4,712,833**	**13,876,476**

Selected Ratios and Other Financial Data

	As at and for the year ended 31 December	
	2013	**2012**
	%	
Performance measures		
Return on average assets[1]..	1.32	2.03
Return on average equity[2]..	10.0	13.4
Cost to income ratio[3]..	33.1	28.3
Financial ratios		
Net interest margin[4]	2.70	2.86
Asset quality		
Impaired loans ratio[5]..	1.96	2.75
Loan loss coverage ratio[6]..	199.8	157.1
Loans to total deposits ratio[7]...	68.3	72.2
Liquid asset ratio[8]	34.6	32.4
Other ratios		
Tier 1 capital adequacy ratio[9] [10]...	16.8	17.7
Total capital adequacy ratio[9] [11]..	17.3	18.3
Other financial data		
Risk-weighted assets[12]	11,253,031	10,298,557
Liquid assets[13]...	6,439,968	5,336,025
Impaired loans[14]..	217,894	283,506
Special provisions[15]	66,684	72,867
General provisions[15]..	76,879	51,416

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(1) Profit for the period attributable to shareholders of the Bank divided by average assets for the period, with average assets calculated as the sum of assets on a quarterly basis divided by five.

(2) Profit for the period attributable to shareholders of the Bank less interest paid on Tier 1 Capital divided by average shareholders' equity for the period, with average shareholders' equity calculated as the sum of shareholders' equity on a quarterly basis divided by five.

(3) Operating expenses divided by net operating income.

(4) Net interest income and net income from Islamic financing divided by average interest income and financing income-earning assets for the period, with average interest income and financing income-earning assets calculated as the sum of interest income and financing income-earning assets on a quarterly basis divided by five. Interest income and financing 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) Impaired loans as a percentage of total gross loans.

(6) Loan loss provisions as a percentage of impaired loans.

(7) Net loans, advances and Islamic financing to customers divided by the sum of customer deposits, dues to banks and other financial institutions and certificates of deposits issued.

(8) Sum of cash and short term funds, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, deposits with banks and investment securities excluding those held to maturity, divided by total assets.

(9) 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/BS/184/2005 dated 21 December 2005 (based on Basel II framework).

(10) Tier 1 capital adequacy ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date.

(11) Total capital adequacy ratio is defined as total capital resources divided by risk-weighted assets at a given date.

(12) Risk-weighted assets are calculated under the standardised approach.

(13) Liquid assets comprise cash and short term funds, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, deposits with banks and investment securities excluding those held to maturity.

(14) 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.

(15) Comprising provisions in respect of both cash and non-cash facilities.

SELECTED STATISTICAL DATA

The following selected statistical data is included for analytical purposes and has been taken or derived from the Group's 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 Financial Statements appearing elsewhere in this Base Prospectus. For further information, see also "Presentation of Financial and Other Information—Average balances and interest rates". To the extent selected statistical data as at and for the three months ended 31 March 2017 and 2016 has not been provided, such data is not produced or is not available to the same extent as the year-end.

Average balances and ratio information

The following tables set out 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.

	Three months ended 31 March									
	2017					2016				
	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	%
	(KD thousands, except percentages)									
Interest income and financing income-earning assets										
Cash and short term funds and deposits with banks	5,060,901	21.6	15,013	7.4	1.20	5,501,816	24.0	14,140	7.6	1.03
Central Bank of Kuwait bonds	743,922	3.2	2,184	1.1	1.19	742,303	3.2	1,788	1.0	0.97
Kuwait Government treasury bonds	629,996	2.7	2,567	1.3	1.65	385,266	1.7	1,263	0.7	1.32
Loans, advances and Islamic financing to customers	13,830,119	59.0	152,621	74.8	4.48	13,555,191	59.0	140,713	75.8	4.18
Investment securities	3,163,382	13.5	31,783	15.6	4.07	2,780,696	12.1	27,725	14.9	4.01
Total interest income and financing income-earning assets	**23,428,319**	**100.0**	**204,168**	**100.0**	**3.53**	**22,965,271**	**100.0**	**185,629**	**100.0**	**3.25**
Interest expense and financing cost-bearing liabilities										
Due to banks and other financial institutions	7,390,142	35.5	19,870	35.1	1.09	7,786,636	37.6	15,676	32.0	0.81
Customer deposits	12,879,680	61.8	33,629	59.4	1.06	12,161,367	58.7	30,639	62.5	1.01
Certificates of deposit issued	433,162	2.1	1,633	2.9	1.53	660,267	3.2	1,235	2.5	0.75
Subordinated Tier 2 bonds	124,705	0.6	1,492	2.6	4.85	124,670	0.6	1,456	3.0	4.70
Total interest expense and financing cost-bearing liabilities	**20,827,688**	**100.0**	**56,624**	**100.0**	**1.10**	**20,732,939**	**100.0**	**49,006**	**100.0**	**0.95**
Net interest spread[(1)(3)]					2.43					2.30
Net interest income and Net income from Islamic Financing (KD thousands)					147,544					136,623
Net interest margin[(2)(3)]					2.55					2.39

(1) Net interest spread is the difference between the yield (interest income and financing income divided by average interest income and financing income-earning assets based on balances at the end and the beginning of the quarter divided by two) and funding costs (interest expense and financing cost divided by the average interest expense and financing cost-bearing liabilities based on balances at the end and the beginning of the quarter divided by two). Financing income comprises income from Islamic financing. Financing cost comprises Islamic finance cost and distribution to depositors.

(2) Net interest margin is net interest income and net income from Islamic financing divided by average interest income and financing income-earning assets for the period, with average interest income and financing income-earning assets calculated as the sum of interest income and financing income-earning assets based on balances at the end and the beginning of the quarter divided by two.

(3) Average yield/rate, net interest spread and net interest margin ratios for the three months ended 31 March 2017 and 2016 have been annualised.

	Year ended 31 December									
	2016					2015				
	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	%
	(KD thousands, except percentages)									
Interest income and financing income-earning assets										
Cash and short term funds and deposits with banks	5,289,137	22.9	47,470	6.0	0.90	5,360,364	24.5	38,316	5.5	0.71
Central Bank of Kuwait bonds	740,909	3.2	7,584	1.0	1.02	666,615	3.0	5,345	0.8	0.80
Kuwait Government treasury bonds	424,078	1.8	6,161	0.8	1.45	352,956	1.6	4,660	0.7	1.32
Loans, advances and Islamic financing to customers	13,660,295	59.1	607,929	76.6	4.45	12,755,418	58.3	529,205	76.5	4.15
Investment securities	2,996,934	13.0	124,119	15.6	4.14	2,741,891	12.5	113,928	16.5	4.16
Total interest income and financing income-earning assets	**23,111,353**	**100.0**	**793,263**	**100.0**	**3.43**	**21,877,244**	**100.0**	**691,453**	**100.0**	**3.16**
Interest expense and financing cost-bearing liabilities										
Due to banks and other financial institutions	7,538,030	36.4	68,767	30.8	0.91	7,375,030	37.3	45,455	28.2	0.62
Customer deposits	12,451,048	60.2	144,208	64.5	1.16	11,732,054	59.3	112,934	70.0	0.96
Certificates of deposit issued	570,610	2.8	4,637	2.1	0.81	656,890	3.3	2,222	1.4	0.34
Subordinated Tier 2 bonds	124,683	0.6	5,914	2.6	4.74	24,933	0.1	691	0.4	2.77
Total interest expense and financing cost-bearing liabilities	**20,684,371**	**100.0**	**223,526**	**100.0**	**1.08**	**19,788,906**	**100.0**	**161,302**	**100.0**	**0.82**
Net interest spread(1)					2.35					2.35
Net interest income and Net income from Islamic Financing (KD thousands)					569,737					530,151
Net interest margin(2)					2.47					2.42

(1) Net interest spread is the difference between the yield (interest income and financing income divided by average interest income and financing income-earning assets on a quarterly basis divided by five) and funding costs (interest expense and financing cost divided by the average interest expense and financing cost-bearing liabilities on a quarterly basis divided by five). Financing income comprises income from Islamic financing. Financing cost comprises Islamic finance cost and distribution to depositors.

(2) Net interest margin is net interest income and net income from Islamic financing divided by average interest income and financing income-earning assets for the year, with average interest income and financing income-earning assets calculated as the sum of interest income and financing income-earning assets on a quarterly basis divided by five.

	Year ended 31 December									
	2015					2014				
	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	%
	(KD thousands, except percentages)									
Interest income and financing income-earning assets										
Cash and short term funds and deposits with banks	5,360,364	24.5	38,316	5.5	0.71	4,616,363	24.1	28,940	4.8	0.63
Central Bank of Kuwait bonds	666,615	3.0	5,345	0.8	0.80	609,925	3.2	4,968	0.8	0.81
Kuwait Government treasury bonds	352,956	1.6	4,660	0.7	1.32	338,527	1.8	4,562	0.8	1.35
Loans, advances and Islamic financing to customers	12,755,418	58.3	529,205	76.5	4.15	11,281,667	58.8	470,445	78.3	4.17
Investment securities	2,741,891	12.5	113,928	16.5	4.16	2,348,006	12.2	91,664	15.3	3.90
Total interest income and financing income-earning assets	**21,877,244**	**100.0**	**691,453**	**100.0**	**3.16**	**19,194,487**	**100.0**	**600,579**	**100.0**	**3.13**
Interest expense and financing cost-bearing liabilities										
Due to banks and other financial institutions	7,375,030	37.3	45,455	28.2	0.62	6,181,518	35.3	31,394	23.9	0.51
Customer deposits	11,732,054	59.3	112,934	70.0	0.96	10,910,186	62.3	98,801	75.3	0.91
Certificates of deposit issued	656,890	3.3	2,222	1.4	0.34	422,879	2.4	1,046	0.8	0.25
Subordinated Tier 2 bonds	24,933	0.1	691	0.4	2.77	-	-	-	-	-
Total interest expense and financing cost-bearing liabilities	**19,788,906**	**100.0**	**161,302**	**100.0**	**0.82**	**17,514,583**	**100.0**	**131,241**	**100.0**	**0.75**
Net interest spread(1)					2.35					2.38
Net interest income and Net income from Islamic Financing (KD thousands)					530,151					469,338
Net interest margin(2)					2.42					2.45

(1) Net interest spread is the difference between the yield (interest income and financing income divided by average interest income and financing income-earning assets on a quarterly basis divided by five) and funding costs (interest expense and financing cost divided by the average interest expense and financing cost-bearing liabilities on a quarterly basis divided by five). Financing income comprises income from Islamic financing. Financing cost comprises Islamic finance cost and distribution to depositors.

(2) Net interest margin is net interest income and net income from Islamic financing divided by average interest income and financing income-earning assets for the year, with average interest income and financing income-earning assets calculated as the sum of interest income and financing income-earning assets on a quarterly basis divided by five.

The following table sets forth the Group's most recent quarterly net interest margin data for the periods indicated.

	Three months ended				
	31 December 2016	30 September 2016	30 June 2016	31 March 2016	31 December 2015
Yield on interest-income and financing income-earning assets	3.63%	3.43%	3.36%	3.25%	3.26%
Funding cost on interest expense and financing cost-bearing liabilities	1.17%	1.11%	1.07%	0.95%	0.89%
Net interest margin	2.58%	2.44%	2.40%	2.39%	2.46%

Net changes in interest income and expense – volume and rate analysis

The following tables provide a comparative analysis of net changes in interest income and interest expense by reference to changes in average volume and rates for the period indicated. Net changes in net interest income are attributed to either changes in average balances (volume changes) or changes in average rates (rate change) for interest income and financing income-earning assets and sources of funds on which interest is received or paid. 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.

	Three months ended 31 March					
	2017/2016					
	Increase (decrease) due to changes in					
	Volume		Rate		Net change	
	Amount	% of total	Amount	% of total	Amount	% of total
	(KD thousands, except percentage)					
Interest income and Income from Islamic Financing						
Cash and short term funds, deposits with banks	(944)	(14.0)	1,817	15.4	873	4.7
Central Bank of Kuwait bonds	4	0.1	392	3.3	396	2.1
Kuwait Government treasury bonds	943	14.0	361	3.1	1,304	7.0
Loans, advances and Islamic financing to customers	2,898	43.0	9,010	76.4	11,908	64.2
Investment securities	3,843	57.0	215	1.8	4,058	21.9
Total Interest Income and Income from Islamic Financing	**6,744**	**100.0**	**11,795**	**100.0**	**18,539**	**100.0**
Interest expense and Financing cost						
Due to banks and other financial institutions	(750)	(83.7)	4,945	73.6	4,195	55.1
Customers' deposits	1,850	206.4	1,139	16.9	2,989	39.2
Certificates of deposits issued	(204)	(22.7)	602	9.0	398	5.2
Subordinated Tier 2 bonds	0	0.0	36	0.5	36	0.5
Total interest expense and Financing cost	**897**	**100.0**	**6,721**	**100.0**	**7,618**	**100.0**
Net change in net interest income and net income from Islamic Financing	**5,847**		**5,074**		**10,921**	

	Year ended 31 December						Year ended 31 December					
	2016/2015						2015/2014					
	Increase (decrease) due to changes in						Increase (decrease) due to changes in					
	Volume		Rate		Net change		Volume		Rate		Net change	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(KD thousands, except percentages)											
Interest income and Income from Islamic Financing												
Cash and short term funds, deposits with banks	(502)	(1.0)	9,656	18.9	9,154	9.0	5,014	6.0	4,361	54.5	9,375	10.3
Central Bank of Kuwait bonds	643	1.3	1,596	3.1	2,239	2.2	453	0.5	(76)	(1.0)	377	0.4
Kuwait Government treasury bonds	1,002	2.0	499	1.0	1,501	1.5	187	0.2	(89)	(1.1)	98	0.1
Loans, advances and Islamic financing to customers	38,890	76.9	39,835	77.8	78,725	77.3	61,131	73.8	(2,371)	(29.7)	58,760	64.7
Investment securities	10,561	20.9	(370)	(0.7)	10,191	10.0	16,092	19.4	6,172	77.2	22,264	24.5
Total Interest Income and Income from Islamic Financing	**50,594**	**100.0**	**51,216**	**100.0**	**101,810**	**100.0**	**82,877**	**100.0**	**7,997**	**100.0**	**90,874**	**100.0**
Interest expense and Financing cost												
Due to banks and other financial institutions	1,026	8.2	22,286	44.8	23,312	37.5	6,676	42.3	7,384	51.7	14,061	46.8
Customers' deposits	7,247	58.2	24,027	48.3	31,274	50.3	7,698	48.8	6,435	45.0	14,133	47.0
Certificates of deposits issued	(250)	(2.0)	2,665	5.4	2,415	3.9	707	4.5	469	3.3	1,176	3.9
Subordinated Tier 2 bonds	4,434	35.6	789	1.6	5,223	8.4	691	4.4	-	-	691	2.3
Total interest expense and Financing costs	**12,458**	**100.0**	**49,766**	**100.0**	**62,224**	**100.0**	**15,772**	**100.0**	**14,289**	**100.0**	**30,061**	**100.0**
Net change in net interest income and net income from Islamic Financing	**38,136**		**1,450**		**39,586**		**67,105**		**(6,292)**		**60,813**	

The tables below set forth a geographical analysis of net interest income and net income from Islamic financing and net operating income for the periods indicated.

	Three months ended 31 March 2017		
	Domestic	**International**	**Total**
		(KD thousands)	
Net interest income and net income from Islamic financing	113,545	33,999	147,544
Net operating income	150,978	44,403	195,381

	Year ended 31 December 2016		
	Domestic	**International**	**Total**
		(KD thousands)	
Net interest income and net income from Islamic financing	420,818	148,919	569,737
Net operating income	558,594	186,715	745,309

	Year ended 31 December 2015		
	Domestic	International	Total
		(KD thousands)	
Net interest income and net income from Islamic financing	395,779	134,372	530,151
Net operating income	550,457	178,300	728,757

	Year ended 31 December 2014		
	Domestic	International	Total
		(KD thousands)	
Net interest income and net income from Islamic financing	362,438	106,900	469,338
Net operating income	505,707	155,339	661,046

The following table sets forth the Group's 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		
	2016	2015	2014
		(KD thousands)	
Corporate	9,662,676	9,840,784	8,633,114
Retail	4,617,069	4,323,071	3,790,192
Less: Allowance for impairment	(668,254)	(612,889)	(514,598)
Total loans, advances and Islamic financing to customers, net	**13,611,491**	**13,550,966**	**11,908,708**

The following table sets forth the Group's 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
			(KD thousands)		
Loans and advances, net					
At 31 December 2016	13,186,562	1,093,183	14,279,745	(668,254)	13,611,491
At 31 December 2015	12,876,832	1,287,023	14,163,855	(612,889)	13,550,966
At 31 December 2014	11,466,635	956,671	12,423,306	(514,598)	11,908,708

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

	As at 31 December					
	2016		2015		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
			(KD thousands, except percentages)			
Demand of less than 3 months	4,489,373	33.0%	4,431,115	32.7%	3,824,418	32.1%
From 3 to 12 months	1,567,813	11.5%	1,987,624	14.7%	1,656,749	13.9%
Above 1 year	7,554,305	55.5%	7,132,227	52.6%	6,427,541	54.0%
Total	**13,611,491**	**100.0%**	**13,550,966**	**100.0%**	**11,908,708**	**100.0%**

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

	As at 31 December		
	2016	2015	2014
Currency		(KD thousands)	
KD	10,358,538	9,803,346	8,748,852
Other[(1)]	3,921,207	4,360,509	3,674,454
Total	**14,279,745**	**14,163,855**	**12,423,306**

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

The following table sets forth the Group's non-performing loans as at the dates indicated.

	As at 31 December			Change from prior period	
	2016	2015	2014	2016/ 2015	2015/ 2014
	(KD thousands, except percentage)				
Neither past due nor impaired[(1)]	14,007,579	13,855,954	12,173,727	151.805	1,682,227
Past due and not impaired[(2)]	88,981	117,809	63,167	(28,828)	54,642
Past due and impaired[(3)]	183,005	190,092	186,412	(7,087)	3,680
Total loans and advances	**14,279,745**	**14,163,855**	**12,423,306**	**115,890**	**1,740,549**
Less: allowance for impairment	668,254	612,889	514,598	55,365	98,291
Total	**13,611,491**	**13,550,966**	**11,908,708**	**60,525**	**1,642,258**
Allowance for loan impairment as a percentage of total loans and advances	4.7%	4.3%	4.1%	0.4%	0.2%
Allowance for loan impairment as a percentage of non-performing loans and advances	365.2%	322.4%	276.1%	42.8%	46.3%
Non-performing loans as a percentage of total loans and advances	1.3%	1.3%	1.5%	0.0%	(0.2)%

(1) Loans and advances to customers that are neither past due nor show any evidence of impairment.
(2) Loans and advances to customers between one and 90 days past due are not considered impaired, unless evidence is available to indicate the contrary.
(3) Loans and advances to customers over 90 days past due.

The following table sets out 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		
	2016	2015	2014
		(KD thousands)	
Up to 30 days past due	41,041	77,119	39,043
Past due 31-60 days	30,244	24,338	13,393
Past due 61-90 days	17,696	16,352	10,731
Total	**88,981**	**117,809**	**63,167**

The following table sets forth 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 2016, 2015 and 2014.

	As at 31 December 2016			As at 31 December 2015			As at 31 December 2014		
	Corporate	Retail	Total	Corporate	Retail	Total	Corporate	Retail	Total
					(KD thousands)				
Up to 30 days past due	4,500	36,541	41,041	41,987	35,132	77,119	11,519	27,524	39,043
Past due 31-60 days	13,261	16,983	30,244	8,295	16,043	24,338	925	12,468	13,393
Past due 61-90 days	15,078	2,618	17,696	14,081	2,271	16,352	8,441	2,290	10,731
Total	**32,839**	**56,142**	**88,981**	**64,363**	**53,446**	**117,809**	**20,885**	**42,282**	**63,167**

The following table sets forth the Group's impaired loans, advances and Islamic financing to customers by type of loan or advance 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		
	2016	2015	2014
Corporate	99,450	82,072	98,756
Retail	83,555	108,020	87,656
Total	**183,005**	**190,092**	**186,412**

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

	As at 31 December					
	2016		2015		2014	
	Amount	% of total	Amount	% of total	Amount	%of total
	(KD thousands, except percentages)					
Trading	1,564,271	11%	1,670,385	12%	1,520,786	12%
Manufacturing	902,929	6%	934,077	7%	814,360	7%
Banks and other financial institutions	705,084	5%	932,711	7%	754,574	6%
Construction	463,720	3%	534,093	4%	388,399	3%
Real estate	2,947,273	21%	2,764,914	20%	2,378,758	19%
Retail	4,617,069	32%	4,323,071	31%	3,790,193	31%
Government	6,122	0%	19	0%	589	0%
Other	3,073,277	22%	3,004,585	21%	2,775,648	22%
Total	**14,279,745**	**100%**	**14,163,855**	**100%**	**12,423,306**	**100%**

Deposits

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

	As at 31 March	As at 31 December		
	2017	2016	2015	2014
		(KD thousands)		
Customer deposits	13,151,268	12,608,092	12,059,203	11,259,736
Due to banks and other financial institutions	7,432,480	7,347,803	7,306,467	6,705,717
Certificates of deposits issued	450,335	415,989	655,257	675,065
Total deposits	**21,034,083**	**20,371,884**	**20,020,927**	**18,640,518**

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

	As at 31 March	As at 31 December		
	2017	2016	2015	2014
		(KD thousands)		
Domestic	9,896,142	9,291,013	8,465,691	7,871,249
International	3,255,126	3,317,079	3,593,512	3,388,487
Total Customer deposits	**13,151,268**	**12,608,092**	**12,059,203**	**11,259,736**

Maturity profile

The following tables set out 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.

	As at 31 March 2017			
	Up to 3 months	**3 to 12 months**	**Over 1 year**	**Total**
		(KD thousands)		
Assets				
Cash and short term funds and deposits with banks	4,755,180	217,976	53,768	5,026,924
Central Bank of Kuwait bonds	516,212	222,743	-	738,955
Kuwait Government treasury bonds	72,512	126,333	568,045	766,890
Loans, advances and Islamic financing to customers	4,209,421	1,972,954	7,866,371	14,048,746
Investment securities	416,935	680,366	2,054,830	3,152,131
Investment in associates	-	-	72,233	72,233
Land, premises and equipment	-	-	260,698	260,698
Goodwill and other intangible assets	-	-	585,940	585,940
Other assets	86,342	30,175	45,216	161,733
Total assets	**10,056,602**	**3,250,547**	**11,507,101**	**24,814,250**
Liabilities and equity				
Due to banks and other financial institutions	4,789,652	2,095,021	547,807	7,432,480
Customer deposits	10,471,430	2,173,371	506,467	13,151,268
Certificates of deposits issued	319,988	130,347	-	450,335
Subordinated Tier 2 bonds	-	-	124,709	124,709
Other liabilities	248,826	-	60,071	308,897
Share capital and reserves	-	-	2,826,950	2,826,950
Proposed cash dividend	-	-	-	-
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	308,911	308,911
Total liabilities and equity	**15,829,896**	**4,398,739**	**4,585,615**	**24,814,250**
Liquidity gap[1]	**(5,773,294)**	**(1,148,192)**	**6,921,486**	**–**
Cumulative liquidity gap	**(5,773,294)**	**(6,921,486)**	**–**	**–**

[1] 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 2016			
	Up to 3 months	**3 to 12 months**	**Over 1 year**	**Total**
		(KD thousands)		
Assets				
Cash and short term funds and deposits with banks	4,782,330	258,957	53,591	5,094,878
Central Bank of Kuwait bonds	544,722	204,167	-	748,889
Kuwait Government treasury bonds	66,871	144,012	282,218	493,101
Loans, advances and Islamic financing to customers	4,489,373	1,567,813	7,554,305	13,611,491
Investment securities	531,022	499,087	2,144,523	3,174,632
Investment in associates	-	-	73,644	73,644
Land, premises and equipment	-	-	255,086	255,086
Goodwill and other intangible assets	-	-	581,840	581,840
Other assets	89,677	34,319	46,512	170,508
Total assets	**10,503,995**	**2,708,355**	**10,991,719**	**24,204,069**
Liabilities and equity				
Due to banks and other financial institutions	4,985,624	1,509,419	852,760	7,347,803
Customer deposits	10,420,857	1,810,620	376,615	12,608,092
Certificates of deposits issued	281,566	134,423	-	415,989
Subordinated Tier 2 bonds	-	-	124,700	124,700
Other liabilities	242,830	-	59,923	302,753
Share capital and reserves	-	-	2,718,379	2,718,379
Proposed cash dividend	166,184	-	-	166,184
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	309,469	309,469
Total liabilities and equity	**16,097,061**	**3,454,462**	**4,652,546**	**24,204,069**
Liquidity gap[1]	**(5,593,066)**	**(746,107)**	**6,339,173**	**-**
Cumulative liquidity gap	**(5,593,066)**	**(6,339,173)**	**-**	**-**

[1] 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 2015			
	Up to 3 months	**3-12 months**	**Over 1 year**	**Total**
	(KD thousands)			
Assets				
Cash and short term funds and deposits with banks................	4,600,880	301,100	6,070	4,908,050
Central Bank of Kuwait bonds..	553,920	250,010	-	803,930
Kuwait Government treasury bonds	55,211	212,182	112,659	380,052
Loans, advances and Islamic financing to customers	4,431,115	1,987,624	7,132,227	13,550,966
Investment securities	491,964	580,097	1,712,273	2,784,334
Investment in associates	-	-	92,713	92,713
Land, premises and equipment	-	-	226,501	226,501
Goodwill and other intangible assets	-	-	677,594	677,594
Other assets..	87,605	38,781	47,104	173,490
Total assets	**10,220,695**	**3,369,794**	**10,007,141**	**23,597,630**
Liabilities and equity				
Due to banks and other financial institutions..........................	5,278,742	1,621,057	406,668	7,306,467
Customer deposits..	10,328,767	1,400,124	330,312	12,059,203
Certificates of deposits issued..	561,172	94,085	-	655,257
Subordinated Tier 2 bonds..	-	-	124,664	124,664
Other liabilities	200,161	-	60,754	260,915
Share capital and reserves..	-	-	2,607,496	2,607,496
Proposed cash dividend	148,443	-	-	148,443
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	224,485	224,485
Total liabilities and equity..	**16,517,285**	**3,115,266**	**3,965,079**	**23,597,630**
Liquidity gap[(1)]	**(6,296,590)**	**254,528**	**6,042,062**	**-**
Cumulative liquidity gap..	**(6,296,590)**	**(6,042,062)**	**-**	**-**

(1) 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 2014			
	Up to 3 months	**3-12 months**	**Over 1 year**	**Total**
	(KD thousands)			
Assets				
Cash and short term funds and deposits with banks................	4,496,912	679,738	5,856	5,182,506
Central Bank of Kuwait bonds..	421,054	113,634	-	534,688
Kuwait Government treasury bonds	63,656	149,809	131,064	344,529
Loans, advances and Islamic financing to customers	3,824,418	1,656,749	6,427,541	11,908,708
Investment securities	465,729	391,873	1,636,091	2,493,693
Investment in associates	-	-	119,398	119,398
Land, premises and equipment	-	-	203,414	203,414
Goodwill and other intangible assets	-	-	696,416	696,416
Other assets..	71,884	32,432	58,055	162,371
Investment in an associate held for sale.................................	138,408	-	-	138,408
Total assets	**9,482,061**	**3,024,235**	**9,277,835**	**21,784,131**
Due to banks and other financial institutions..........................	4,505,118	2,012,952	187,647	6,705,717
Customer deposits..	9,624,495	1,480,952	154,289	11,259,736
Certificates of deposits issued..	621,161	53,904	-	675,065
Other liabilities	214,814	-	58,259	273,073
Share capital and reserves..	-	-	2,511,931	2,511,931
Proposed cash dividend	141,340	-	-	141,340
Non-controlling interests	-	-	217,269	217,269
Total liabilities and equity..	**15,106,928**	**3,547,808**	**3,129,395**	**21,784,131**
Liquidity gap[(1)]..	**(5,624,867)**	**(523,573)**	**6,148,440**	**-**
Cumulative liquidity gap..	**(5,624,867)**	**(6,148,440)**	**-**	**-**

(1) 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 sets forth details of the amortised cost of the Group's held-to-maturity securities for the periods indicated.

	As at 31 March	Year ended 31 December		
	2017	2016	2015	2014
		(KD thousands)		
Debt securities – Government (Non-Kuwait)	180,177	170,958	115,042	107,512
Debt securities – Non-government	-	-	4,452	4,295
Central Bank of Kuwait bonds	738,955	748,889	803,930	534,688
Kuwait Government treasury bonds	614,230	493,101	380,052	344,529
Total	**1,533,362**	**1,412,948**	**1,303,476**	**991,024**

The following table sets forth details of the Group's available for sale securities for the periods indicated.

	As at 31 March	Year ended 31 December		
	2017	2016	2015	2014
		(KD thousands)		
Kuwait Government treasury bonds	152,660	–	–	–
Debt securities – Government (Non-Kuwait)	1,531,581	1,529,703	1,374,274	1,164,863
Debt securities – Non-government	1,202,189	1,177,727	1,007,668	919,455
Equities	81,992	85,354	96,437	111,878
Other investments	110,156	159,288	116,204	118,839
Total	**3,078,578**	**2,952,072**	**2,594,583**	**2,315,035**

For information regarding the fair value of the Group's available-for-sale investments, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition as at 31 March 2017 and 31 December 2016, 2015 and 2014 – Investment securities*".

Return on equity and assets

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

	As at 31 March	As at 31 December		
	2017	2016	2015	2014
Return on average assets[(1)]	1.41%	1.22%	1.22%	1.28%
Return on equity[(2)]	12.5%	10.2%	10.5%	10.5%
Equity payout ratio[(3)]	n/a	56.3%	52.6%	54.0%
Equity to asset ratio[(4)]	11.3%	11.3%	11.3%	12.1%

(1) Profit for the period attributable to shareholders of the Bank divided by average assets for the period, with average assets calculated as the sum of assets on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two.

(2) Profit for the period attributable to shareholders of the Bank less interest paid on Tier 1 Capital divided by average shareholders' equity for the period, with average shareholders' equity calculated as the sum of shareholders' equity on a quarterly basis divided by five. The average balances for the three months ended 31 March 2017 and 2016 were calculated based on the sum of balances at the beginning and end of each quarter divided by two.

(3) Proposed dividends for the period divided by profit for the period attributable to shareholders of the Bank.

(4) Average shareholders' equity for the period divided by average total assets for the period with average shareholders' equity calculated as the sum of shareholders' equity on a quarterly basis divided by two for the three month periods or five for the years and average assets calculated as the sum of assets on a quarterly basis divided by two for the three month periods or five for the years.

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 the information in "Selected Consolidated Financial Data" "Selected Statistical Data" and the Financial Statements which appear elsewhere in this Base Prospectus. For further information, see also "Presentation of 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 Base Prospectus, particularly under the headings "Risk Factors" and "Forward Looking Statements".

Overview

The Bank is Kuwait's largest bank in terms of total assets, total customer loans and advances and total deposits based on annual reports published by Kuwaiti banks. The Bank is primarily a regional bank lending primarily to companies and individuals in Kuwait and the wider MENA region. The Group's core businesses are conventional consumer and corporate banking, although it also owns a majority shareholding in an Islamic bank, Boubyan Bank, and offers investment banking and asset management through its subsidiary, NBK Capital.

The Group's principal focus is on defending and growing its leadership position in Kuwait whilst also diversifying its business geographically and by products offered.

As at 31 March 2017, the Group's customer loan portfolio amounted to KD 14.0 billion and its total customer deposits were KD 13.2 billion. In the three months ended 31 March 2017, the Group's net operating income was KD 195.4 million and its profit for the period was KD 89.7 million, of which KD 85.4 million was attributable to shareholders of the Bank. In the year ended 31 December 2016, the Group's net operating income was KD 745.3 million and its profit for the year was KD 312.2 million, of which KD 295.2 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.

Economic conditions

The Bank is a regional bank focused on lending to, and accepting deposits from, institutions, companies and residents in Kuwait and the wider MENA region. 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.

According to provisional figures for the year ended 31 December 2015 prepared by the Kuwait Central Statistics Bureau, Kuwait's GDP grew by 1.8 per cent., 0.5 per cent., 1.1 per cent., 6.6 per cent. and 9.6 per cent. in real terms (at constant 2010 prices) for the years ended 2015, 2014, 2013, 2012 and 2011, respectively, to reach KD 40.0 billion (U.S.$133.1 billion, assuming a KD to U.S. dollar exchange rate of U.S.$3.33). There are currently no official Government statistics available on Kuwait's GDP for the year ended 31 December 2016. However, according to the 2016 IMF Article IV Report, the IMF has estimated that real GDP grew by 3.6 per cent. for the year ended 31 December 2016. According to the World Bank, at U.S.$74,645.50, Kuwait has the sixth highest GDP (at purchasing power parity) per capita in the world for the year ended 31 December 2015.

Based on provisional figures from Kuwait's Central Statistical Bureau, while the contribution of the oil sector to Kuwait's nominal GDP decreased to KD 15.7 billion, or 39.7 per cent. of nominal GDP, for the year ended 31 December 2015, which was a decrease of 46.2 per cent. from KD 29.2 billion, or 55.8 per cent. of nominal GDP for the year ended 31 December 2014, the contribution of the non-oil sector demonstrated growth and increased as a percentage of total nominal GDP. The contribution of the non-oil sector to Kuwait's nominal GDP was KD 23.9 billion, or 60.3 per cent. of total nominal GDP for the year ended 31 December 2015, as compared to KD 23.2 billion, or 44.2 per cent. of nominal GDP, KD 22.4 billion, or 40.7 per cent. of nominal GDP, KD 21.4 billion, or 39.2 per cent. of nominal GDP and KD 19.5 billion, or 41.0 per cent. of nominal GDP for the years ended 31 December 2014, 2013, 2012 and 2011, respectively. According to the Central Statistical Bureau, for the year ended 31 December 2015, community, social and personal services activity was the largest contributor to non-oil nominal GDP at 35.7 per cent., followed by financial intermediation and insurance activity at 14.5 per cent. and real estate, renting and business services activity at 14.2 per cent. Agriculture and fishing and electricity and water grew the most at 13.7 per cent. and 12.0 per cent., respectively, for the year ended 31 December 2015 as compared to 31 December 2014, while the activity of manufacturing industries (excluding the manufacturing of coke, refined petroleum products and nuclear fuel) decreased the most at 1.9 per cent. for the year ended 31 December 2015 as compared to 31 December 2014.

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.

Factors affecting net interest income and net income from Islamic financing

The Group's net interest income and net income from Islamic financing (together, "**net financing income**") is a major contributor to its total net operating income, comprising 75.5 per cent., 76.4 per cent., 72.7 per cent. and 71.0 per cent. of net operating income in the three months ended 31 March 2017 and the years ended 31 December 2016, 2015 and 2014, respectively.

Interest income on loans and advances to customers is the major contributor to total interest income and income from Islamic financing (together, "**total financing income**"), comprising 58.7 per cent., 61.9 per cent., 62.3 per cent. and 65.0 per cent. of total financing income for the three months ended 31 March 2017 and the years ended 31 December 2016, 2015 and 2014, respectively. Interest income from debt investment securities comprised 15.2 per cent., 15.3 per cent., 16.2 per cent. and 15.0 per cent. of total financing income for the three months ended 31 March 2017 and the years ended 31 December 2016, 2015 and 2014, respectively. Interest income from Murabaha and other Islamic financing income comprised 17.6 per cent., 16.1 per cent., 15.4 per cent. and 14.5 per cent. of total financing income for the three months ended 31 March 2017 and the years ended 31 December 2016, 2015 and 2014, respectively. Interest income from deposits with banks, Central bank of Kuwait bonds and Kuwait Government treasury bonds comprised 8.4 per cent., 6.6 per cent., 6.2 per cent. and 5.4 per cent. of total financing income for the three months ended 31 March 2017 and the years ended 31 December 2016, 2015 and 2014, respectively.

Interest paid on customer deposits is the major contributor to total interest expense and Islamic financing costs (together, "**total financing expense**"), comprising 41.9 per cent., 49.6 per cent., 56.9 per cent. and 63.1 per cent. of total financing expense in the three months ended 31 March 2017 and the years ended 31 December 2016, 2015 and 2014, respectively.

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

The changes in the Group's net financing income for the three months ended 31 March 2017 compared to the three months ended 31 March 2016 have primarily been driven by increased interest income from loans and advances to customers resulting from loan growth largely attributable to increased lending in Kuwait and benchmark rate increases and increased net income from Islamic financing resulting from loan growth largely attributable to increased corporate and consumer lending. The Group's average customer loan portfolio (based on balances as at the start and end of the first quarter) was KD 13,830 million for the three months ended 31 March 2017 compared to KD 13,555 million for the three months ended 31 March 2016.

The changes in the Group's net financing income for 2016 compared to 2015 have primarily been driven by increased interest income from loans and advances to customers resulting from loan growth including the full year impact of loan growth in 2015 largely attributable to increased lending in Kuwait and benchmark rate increases and increased net income from Islamic financing resulting from loan growth largely attributable to increased corporate and consumer lending. The Group's average customer loan portfolio (based on balances as at the start and end of each year) was KD 13,581 million for 2016 compared to KD 12,730 million for 2015, an increase of KD 851 million.

The changes in the Group's net financing income for 2015 compared to 2014 have primarily been driven by increased interest income from loans and advances to customers reflecting increased volumes of loans and advances to customers and increased interest income from debt investment securities reflecting increased investment holdings. The Group's average customer loan portfolio (based on balances as at the start and end of each year) was KD-12,730 million for 2015 compared to KD-11,302 million for 2014, an increase of KD-1,428 million.

The Group's net interest margin (being its net financing income divided by its average interest income and financing income-earning assets for the period, with average interest income and financing income-earning assets calculated as the sum of interest income and financing income-earning assets on a quarterly basis divided by two for the three month periods or five for the years) increased in the three months ended 31 March 2017 to 2.55 per cent. from 2.47 per cent. in 2016, 2.42 per cent. in 2015 and 2.45 per cent. in 2014, and the Group's net interest spread (being the difference between the yield (interest income and financing income divided by average interest income and financing income-earning assets on a quarterly basis divided by two for the three month periods or five for the years)) and funding cost (interest expense and financing cost divided by the average interest expense and financing cost-bearing liabilities on a quarterly basis divided by two for the three month periods or five for the years increased in the three months ended 31 March 2017 to 2.43 per cent. from 2.35 per cent. in 2016, 2.35 per cent. in 2015 and 2.38 per cent. in 2014.

Associate held for sale

On 1 October 2014, the Group made a strategic decision to sell its 30 per cent. investment in International Bank of Qatar Q.S.C. ("**IBQ**"). The sale was completed in 2015, which had a significant impact on the Group's results of operations for the year ended 31 December 2015. The sale resulted in a one-off gain in the first quarter of 2015 of KD 21.9 million and was the major component of net investment income for the year ended 31 December 2015 of KD 32.2 million.

On a segmental basis, income generated from sale of IBQ is reflected in the net operating income of the Group Centre. Net operating income of the Group Centre for the year ended 31 December 2016 amounted to KD 15.4 million compared to KD 40.1 million for the year ended 31 December 2015 and KD 29.3 million for the year ended 31 December 2014. Excluding the impact of the sale, net operating income of the Group Centre amounted to KD 18.2 million for the year ended 31 December 2016 and the Group's total net operating income grew by 5.4 per cent. to KD 745.3 million in 2016, primarily attributable to an increase in net interest income and net income from Islamic financing.

The Group also incurred exit costs amounting to KD 4.7 million, which were included in other administrative expenses for the year ended 31 December 2015.

In addition, the sale of IBQ impacted the Group's tax results for the year ended 31 December 2015. In 2015, the Group incurred a provisional tax on the gain from the sale of IBQ contributing to an increase in the tax charge for the year to KD 33.2 million as compared to KD 28.8 million in 2016 and KD 25.6 million in 2014.

Including the impact of the sale of IBQ, profit attributable to shareholders of the bank for the year ended 31 December 2016 was KD 295.2 million compared to KD 282.2 million for the year ended 31 December 2015, an increase of 4.6 per cent. Excluding the impact of the sale of IBQ, the Group had an increase of 11.2 per cent in profit attributable to shareholders of the bank for the year ended 31 December 2016, primarily attributable to increase in net interest income and net income from Islamic financing.

The Qatari market is still of interest to the Group, however the exit aimed to enhance the Group's ability to seize new opportunities in the Qatari market through alternative channels.

Movements in provision charge for credit losses

The Group's provision charge for credit losses for the first three months ended 31 March 2017 was KD 35.1 million and for the year ended 31 December 2016 was KD 125.7 million compared to KD 130.0 million in 2015 and KD 135.5 million in 2014. In 2016, the provisioning charge comprised KD 28.6 million in specific provisioning and KD 97.0 million in general provisioning, primarily against corporate cash facilities. In 2015, the provisioning charge comprised KD 33.1 million in specific provisioning fairly split between corporate and retail facilities and KD 96.9 million in general provisions, primarily against corporate cash facilities. In 2014, the provisioning charge comprised KD 48.7 million in specific provisioning and KD 86.9 million in general provisioning, again primarily against corporate cash facilities.

The decrease in specific provisions in each year primarily reflected a decline in the level of non-performing loans. In accordance with IFRS as adopted in Kuwait and CBK regulations related to provisions, banks are permitted to make precautionary general provisions and the increase in the Group's general provisions for 2016, 2015 and 2014 reflects its policy of increasing the general provision level to levels perceived as appropriate by management at the Bank.

Current trading and prospects

Since 31 March 2017, the Group has continued to focus on expanding its customer loan portfolio and maintaining a stable source of funding and liquidity. As at 30 April 2017, the Group's loans, advances and Islamic financing to customers and deposits with banks moderately increased, in each case, compared to 31 March 2017, resulting in increased total assets. Amounts due to banks and other financial institutions, customer deposits and certificates of deposit issued also experienced in increase in line with the prior month. These increases were mainly attributable to the same trends seen in the first quarter of 2017.

Descriptions of principal income statement 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 recognized 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 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 and on the certificates of deposit which it issues and Subordinated Tier 2 bonds. Interest expense is also recognized 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 recognized 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 recognized in the income statement on the basis of the type of customer deposit. Islamic financing costs on murabaha and wakala products are recognized on an effective yield basis, which is established on initial recognition of the liability, and on other products are recognized 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 available for sale investments, net gains/(losses) from investments carried at fair value through the income statement, dividend income, share of results of associates, gain on sale of investment in an associate and net losses from investment properties.

The Group classifies its financial investments in the following categories: held to maturity, available for sale and investments carried at fair value through statement of income. Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as fair value through statement of income, held to maturity, or loans and advances. Investments are classified as "investments carried at fair value through statement of income" if they are held for trading or, upon initial recognition, are designated as fair value through statement of income. Investments are classified as held for trading when they are acquired for the purpose of selling or repurchase in the near term with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges.

The Group's available for sale and fair value through statement of income securities are 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 2016 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 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

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 assesses its financial assets for objective evidence of impairment. In particular:

- all individually significant loans and advances to customers are assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortized cost (including the Group's customer loan portfolio) are 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 is made on all credit facilities net of certain categories of collateral as mandated by the CBK, with additional general provisions being made at management's discretion with the approval of the CBK;
- impairment losses on available for sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to the income statement as a reclassification adjustment; and
- impairment losses on associates, goodwill and intangibles are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Results of operations for the three months ended 31 March 2017 compared to the three months ended 31 March 2016

The following table sets forth the Group's results of operations for the periods indicated.

	Three months ended 31 March	
	2017	**2016**
	(KD thousands) (unaudited)	
Interest income	168,231	155,722
Interest expense	(46,621)	(42,056)
Net interest income	**121,610**	**113,666**
Murabaha and other Islamic financing income	35,937	29,907
Finance cost and distribution to depositors	(10,003)	(6,950)
Net income from Islamic finance	**25,934**	**22,957**
Net interest income and net income from Islamic financing	**147,544**	**136,623**
Net fees and commissions	33,643	33,410
Net investment income	5,133	1,467
Net gains from dealing in foreign currencies	8,030	7,399
Other operating income	1,031	339
Non-interest income	**47,837**	**42,615**
Net operating income	**195,381**	**179,238**
Staff expenses	(36,523)	(33,905)
Other administrative expenses	(20,189)	(19,499)
Depreciation of premises and equipment	(4,007)	(4,049)
Amortisation of intangible assets	(792)	(1,198)
Operating expenses	**(61,511)**	**(58,651)**
Operating profit before provision for credit losses and impairment losses	**133,870**	**120,587**
Provision charge for credit losses and impairment losses	**(37,737)**	**(30,917)**
Operating profit before taxation	**96,133**	**89,670**
Taxation	(6,415)	(6,966)
Profit for the period	**89,718**	**82,704**
Attributable to:		
Shareholders of the Bank	85,355	78,935
Non-controlling interests	4,363	3,769

Net interest income

The following table sets forth the Group's interest income for the periods indicated.

	Three months ended 31 March				Variation
	2017	**% of total**	**2016**	**% of total**	**2017/2016**
	(KD thousands, except percentages) (unaudited)				*%*
Deposits with banks	12,471	7.4	12,314	7.9	1.3
Loans and advances to customers	119,919	71.3	113,148	72.7	6.0
Debt investment securities	31,090	18.5	27,209	17.5	14.3
Other	4,751	2.8	3,051	2.0	55.7
Total interest income	**168,231**	**100.0**	**155,722**	**100.0**	**8.0**

The Group's total interest income for the three months ended 31 March 2017 amounted to KD 168.2 million compared to KD 155.7 million for the three months ended 31 March 2016. The increase of KD 12.5 million, or 8.0 per cent., in 2017 was mainly attributable to an increase in interest income from loans and advances to customers resulting from the benefit of the increase in benchmark rates and growth in volume primarily attributable to increased lending in Kuwait, increases in interest income from debt investment securities resulting from growth in volume attributable to growth in the Group's non-treasury bond portfolio and the benefit from benchmark rate increases.

The following table sets forth the Group's interest expense for the periods indicated.

	Three months ended 31 March				Variation
	2017	**% of total**	**2016**	**% of total**	**2017/2016**
	(KD thousands, except percentages) (unaudited)				*%*
Due to banks and other financial institutions	19,778	42.4	15,508	36.9	27.5
Customer deposits	23,718	50.9	23,857	56.7	-0.6
Certificates of deposits issued	1,633	3.5	1,235	2.9	32.2
Subordinated Tier 2 bonds	1,492	3.2	1,456	3.5	2.5
Total interest expense	**46,621**	**100.0**	**42,056**	**100.0**	**10.9**

The Group's total interest expense for the three months ended 31 March 2017 amounted to KD 46.6 million compared to KD 42.1 million for the three months ended 31 March 2016. The increase of KD 4.6 million, or 10.9 per cent., primarily reflected an increase in interest expense on amounts owed to banks and other financial institutions as a result of benchmark interest rate increases.

Reflecting the above factors, the Group's net interest income in 2017 amounted to KD 121.6 million, an increase of KD 7.9 million, or 7.0 per cent., from the KD 113.7 million net interest income recorded in 2016.

Net income from Islamic financing

The Group's Islamic financing income for the three months ended 31 March 2017 amounted to KD 35.9 million compared to KD 29.9 million for the three months ended 31 March 2016. The increase of KD 6.0 million, or 20.2 per cent., in 2017 primarily reflected increased corporate and consumer lending.

The Group's Islamic financing costs for the three months ended 31 March 2017 amounted to KD 10.0 million compared to KD 6.9 million for the three months ended 31 March 2016. The increase of KD 3.1 million, or 4.4 per cent., in 2017 primarily reflected growth in the volume of institutional deposits.

Reflecting the above factors, the Group's net income from Islamic financing amounted to KD 25.9 million in the three months ended 31 March 2017, an increase of KD 3.0 million, or 13.0 per cent., from the KD 23.0 million net income from Islamic financing recorded in the three months ended 31 March 2016.

Net interest income and net income from Islamic financing

Net income and net income from Islamic financing (together, net financing income) for the three months ended 31 March 2017 amounted to KD 147.5 million compared to KD 136.6 million for the three months ended 31 March 2016.

The changes in the Group's net financing income for the three months ended 31 March 2017 compared to the three months ended 31 March 2016 have primarily been driven by increased interest income from loans and advances to customers resulting from loan growth largely attributable to increased lending in Kuwait and benchmark rate increases and increased net income from Islamic financing resulting from loan growth largely attributable to increased corporate and consumer lending. The Group's average customer loan portfolio (based on balances as at the start and end of each quarter) was KD 13,830 million for 2017 compared to KD 13,555 million for 2016, an increase of KD 275 million.

The Group's net interest margin increased in the three months ended 31 March 2017 to 2.55 per cent. from 2.39 per cent. in the three months ended 31 March 2016, principally reflecting the benefit of benchmark rate increases and growth in loans and advances to customers, in part offset by higher funding costs.

Net fees and commissions

The following table sets forth the Group's net fees and commissions for the periods indicated.

	Three months ended 31 March	
	2017	**2016**
	(KD thousands) (unaudited)	
Credit facilities	14,829	15,648
Other	18,814	17,762
Net fees and commissions	**33,643**	**33,410**

The Group's net fees and commissions income for the three months ended 31 March 2017 amounted to KD 33.6 million compared to KD 33.4 million for the three months ended 31 March 2016. The KD 0.2 million, or 0.7 per cent., increase was primarily attributable to other net fees and commissions resulting from brokerage, card and asset management fees, in part offset by a decline in net fees and commissions from credit facilities.

Operating expenses

The Group's operating expenses amounted to KD 61.5 million for the three months ended 31 March 2017 compared to KD 58.7 million for the three months ended 31 March 2016. The increase of KD 2.9 million, or 4.9 per cent., primarily reflected a KD 2.6 million, or 7.7 per cent, increase in staff expenses which resulted from increased headcount and salary increments.

Provision charge for credit losses and impairment losses

The table below sets forth the Group's provision charge for credit losses and impairment losses for the periods indicated.

	Three months ended 31 March	
	2017	**2016**
	(KD thousands) (unaudited)	
Specific	11,954	5,952
General	23,171	13,972
Total provision charge for credit losses	**35,125**	**19,924**
Impairment losses on investment securities	495	5,000
Impairment losses on associates	2,117	5,993
Total impairment losses	**2,612**	**10,993**
Provision charge for credit losses and impairment losses	**37,737**	**30,917**

Total provision charge and impairment loss amounted to KD 37.7 million for the three months ended 31 March 2017, compared to KD 30.9 million for the three months ended 31 March 2016. The KD 6.8 million, or 22.1 per cent., increase for the three months ended 31 March 2017 primarily resulted from a KD 15.2 million, or 76.3 per cent., increase in the provision charge for credit losses which primarily reflected an increase in customer loans, offset in part by a KD 8.4 million, or 76.2 per cent., decrease impairment losses.

Total specific provisions amounted to KD 12.0 million for the three months ended 31 March 2017, compared to KD 6.0 million for the three months ended 31 March 2016. The increase of KD 6.0 million was primarily attributable to an increase in provisions for corporate customers.

Total general provisions amounted to KD 23.2 million for the three months ended 31 March 2017, compared to KD 14.0 million for the three months ended 31 March 2016. The increase of KD 9.2 million was primarily attributable to the Group making precautionary general provisions.

Taxation

Taxation for the three months ended 31 March 2017 amounted to KD 6.4 million compared to KD 7.0 million for the three months ended 31 March 2016. The decrease of KD 0.6 million, or 7.9 per cent., in 2017 primarily reflected a decline in tax paid by the Group's overseas operations.

Segmental analysis

The Group's reporting segments comprise:

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

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

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

Islamic banking. Islamic banking represents the financial results of Boubyan Bank, the Islamic banking subsidiary of the Group;

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

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

The tables below show certain income statement line items of each of the Group's reporting segments for the three months ended 31 March 2017 and 2016.

2017

	Consumer and Private Banking	Corporate Banking	Investment Banking and Asset Management	Islamic Banking	Group Centre	International	Total
				(KD thousands)			
Net interest income and net Islamic financing income	46,089	35,147	5	25,934	6,370	33,999	147,544
Net operating income	60,651	47,628	6,846	30,271	5,582	44,403	195,381
Profit / (loss) for the period	33,912	38,553	4,084	10,547	(22,864)	25,486	89,718
Total assets	**4,252,111**	**5,578,591**	**81,828**	**3,673,149**	**2,920,815**	**8,307,756**	**24,814,250**
Total liabilities	**4,426,042**	**2,725,036**	**17,258**	**3,251,503**	**1,716,730**	**9,331,120**	**21,467,689**

2016

	Consumer and Private Banking	Corporate Banking	Investment Banking and Asset Management	Islamic Banking	Group Centre	International	Total
				(KD thousands)			
Net interest income and net Islamic financing income	44,613	31,500	29	22,957	4,933	32,591	136,623
Net operating income	58,424	42,966	5,876	26,033	3,703	42,236	179,238
Profit / (loss) for the period	34,727	31,563	3,080	9,110	(19,141)	23,365	82,704
Total assets	**4,090,596**	**5,238,105**	**62,469**	**3,260,127**	**2,161,183**	**9,859,780**	**24,672,260**
Total liabilities	**4,141,664**	**2,232,321**	**5,799**	**2,939,749**	**1,934,292**	**10,336,394**	**21,590,219**

Consumer and private banking

Net operating income for the three months ended 31 March 2017 amounted to KD 60.7 million compared to KD 58.4 million for the three months ended 31 March 2016. The increase of KD 2.2 million, or 3.8 per cent., in 2017 primarily reflected growth in net interest income from increased volumes of consumer loans and deposits in addition to higher fee income and foreign exchange income. Profit for the three months ended 31 March 2017 amounted to KD 33.9 million compared to KD 34.7 million for the three months ended 31 March 2016. The decline of KD 0.8 million, or 2.3 per cent., primarily reflected higher provisions for credit losses.

Corporate banking

Net operating income for the three months ended 31 March 2017 amounted to KD 47.6 million compared to KD 43.0 million for the three months ended 31 March 2016. The increase of KD 4.7 million, or 10.9 per cent., in 2017 primarily reflected an increase in net interest income attributable to increased volumes of loans and deposits and the benefit from benchmark rate increases. Profit for the three months ended 31 March 2017 amounted to KD 38.6 million compared to KD 31.6 million for the three months ended 31 March 2016. The increase of KD 7.0 million, or 22.1 per cent., primarily reflected higher net interest income and lower impairment losses on investment securities.

Investment banking and asset management

Net operating income for the three months ended 31 March 2017 amounted to KD 6.8 million compared to KD 5.9 million for the three months ended 31 March 2016. Profit for the three months ended 31 March 2017 amounted to KD 4.1 million compared to KD 3.1 million for the three months ended 31 March 2016. The increase of KD 1.0 million, or 32.6 per cent., in 2017 primarily reflected higher fee income attributable to higher asset management and brokerage fees.

Islamic banking

Net operating income for the three months ended 31 March 2017 amounted to KD 30.3 million compared to KD 26.0 million for the three months ended 31 March 2016. The increase of KD 4.2 million, or 16.3 per cent., in 2017 primarily reflected strong growth in net Islamic Financing income driven by increased volumes of corporate and consumer loans, higher net fee income and net investment income, in part offset by higher provisions.

Group centre

Net operating income for the three months ended 31 March 2017 amounted to KD 5.6 million compared to KD 3.7 million for the three months ended 31 March 2016. The increase of KD 1.9 million, or 50.7 per cent., in 2017 primarily reflected higher net interest income. Loss for the three months ended 31 March 2017 was KD 22.9 million compared to a loss of KD 19.1 million for the three months ended 31 March 2016. The increase in losses of KD 3.7 million, or 19.5 per cent., primarily reflected higher provisions for credit losses.

International

Net operating income for the three months ended 31 March 2017 amounted to KD 44.4 million compared to KD 42.2 million for the three months ended 31 March 2016. Profit for the three months ended 31 March 2017 amounted to KD 25.5 million compared to KD 23.4 million for the three months ended 31 March 2016. The increase of KD 2.1 million, or 9.1 per cent., in 2017 primarily reflected higher net realised gains on the sale of available for sale investments.

On 3 November 2016, The Central Bank of Egypt liberalised the Egyptian Pound exchange rate and moved to a free float mechanism. The decline in value of the Egyptian Pound negatively impacted profit for the period for the three months ended 31 March 2017 when compared with profit for the period for the three months ended 31 March 2016. This negative impact was offset by underlying business growth and changes in benchmark interest rates.

Results of operations for the years ended 31 December 2016, 2015 and 2014

The following table sets forth the Group's results of operations for the years indicated.

	Year ended 31 December		
	2016	2015	2014
		(KD thousands)	
Interest income	665,263	585,084	513,518
Interest expense	(189,653)	(139,427)	(114,046)
Net interest income	**475,610**	**445,657**	**399,472**
Murabaha and other Islamic financing income	128,000	106,369	87,061
Finance cost and distribution to depositors	(33,873)	(21,875)	(17,195)
Net income from Islamic financing	**94,127**	**84,494**	**69,866**
Net interest income and net income from Islamic financing	**569,737**	**530,151**	**469,338**
Net fees and commissions	132,826	129,802	121,846
Net investment income	6,398	32,156	40,789
Net gains from dealing in foreign currencies	35,391	33,154	27,213
Other operating income	957	3,494	1,860
Non-interest income	**175,572**	**198,606**	**191,708**
Net operating income	**745,309**	**728,757**	**661,046**
Staff expenses	(143,844)	(137,213)	(122,402)
Other administrative expenses	(87,435)	(77,168)	(72,412)
Depreciation of premises and equipment	(16,380)	(15,338)	(15,215)
Amortisation of intangible assets	(4,362)	(4,968)	(5,062)
Operating expenses	**(252,021)**	**(234,687)**	**(215,091)**
Operating profit before provision for credit losses and impairment losses	**493,288**	**494,070**	**445,955**
Provision charge for credit losses and impairment losses	**(152,317)**	**(164,397)**	**(146,695)**
Operating profit before taxation	**340,971**	**329,673**	**299,260**
Taxation	(28,811)	(33,154)	(25,606)
Profit for the year	**312,160**	**296,519**	**273,654**
Attributable to:			
Shareholders of the Bank	295,178	282,160	261,810
Non-controlling interests	16,982	14,359	11,844

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	
	2016	% of total	2015	% of total	2014	% of total	2016/2015	2015/2014
		(KD thousands, except percentages)					%	
Deposits with banks	38,910	5.8	32,613	5.6	23,192	4.5	19.3	40.6
Loans and advances to customers	490,903	73.8	430,524	73.6	390,618	76.1	14.0	10.2
Debt investment securities	121,705	18.3	111,942	19.1	90,178	17.6	8.7	24.1
Other	13,745	2.1	10,005	1.7	9,530	1.9	37.4	5.0
Total interest income	**665,263**	**100.0**	**585,084**	**100.0**	**513,518**	**100.0**	**13.7**	**13.9**

The Group's total interest income for the year ended 31 December 2016 amounted to KD 665.3 million compared to KD 585.1 million for the year ended 31 December 2015 and KD 513.5 million for the year ended 31 December 2014. The increase of KD 80.2 million, or 13.7 per cent., in 2016 primarily reflected a KD 60.4 million, or 14.0 per cent., increase in interest income from loans and advances to customers driven by loan growth including the full year impact of loan growth in 2015 and an increase in benchmark rates and a KD 9.8 million, or 8.7 per cent., increase in interest income from debt investment securities. The increase of KD 71.6 million, or 13.9 per cent., in 2015 primarily reflected a KD 40 million, or 10.2 per cent., increase in interest income from loans and advances to customers and a KD 22 million, or 24.1 per cent., increase in interest income from debt investment securities.

The following table sets forth details of the Group's interest expense for the periods indicated.

	Year ended 31 December						Variation	
	2016	% of total	2015	% of total	2014	% of total	2016/2015	2015/2014
		(KD thousands, except percentages)					%	
Due to banks and other financial institutions	68,320	36.0	44,750	32.1	30,161	26.4	52.7	48.4
Customer deposits	110,782	58.4	91,764	65.8	82,839	72.6	20.7	10.8
Certificates of deposits issued	4,637	2.4	2,222	1.6	1,046	0.9	108.7	112.4
Subordinated Tier 2 bonds	5,914	3.1	691	0.5	-	-	755.9	n/a
Total interest expense	**189,653**	**100.0**	**139,427**	**100.0**	**114,046**	**100.0**	**36.0**	**22.3**

The Group's total interest expense for the year ended 31 December 2016 amounted to KD 189.7 million compared to KD 139.4 million for the year ended 31 December 2015 and KD 114.0 million for the year ended 31 December 2014. The increase of KD 50.2 million, or 36.0 per cent., in 2016 primarily reflected a KD 23.6 million, or 52.7 per cent., increase in interest expense on amounts owed to banks and other financial institutions, a KD 19 million, or 20.7 per cent., increase in interest expense on customer deposits and a KD 5.2 million increase from the full year impact of interest expense on the Subordinated Tier 2 bonds that were issued in 2015. The increase in interest expense on due to banks and other financial institutions and customer deposits was primarily attributable to an increase in funding and an increase in benchmark interest rates. The increase of KD 25 million, or 22.3 per cent., in 2015 primarily reflected a KD 15 million, or 48.4 per cent., increase in interest expense on amounts owed to banks and other financial institutions and a KD 9 million, or 10.8 per cent., increase in interest expense on customer deposits.

Reflecting the above factors, the Group's net interest income in 2016 amounted to KD 475.6 million, an increase of KD 30.0 million, or 6.7 per cent., from the KD 445.7 million net interest income recorded in 2015 which, in turn, was a KD 46.2 million, or 11.6 per cent., increase from the KD 399.5 million net interest income recorded in 2014.

Net income from Islamic financing

The Group's Islamic financing income for the year ended 31 December 2016 amounted to KD 128.0 million compared to KD 106.4 million for the year ended 31 December 2015 and KD 87.0 million for the year ended 31 December 2014. The increase of KD 21.6 million, or 20.3 per cent., in 2016 and of KD 19 million, or 22.2 per cent., in 2015 primarily reflected growth in the volume of the Group's Islamic financing extended to customers largely attributable to increased corporate and consumer loans.

The Group's Islamic financing costs for the year ended 31 December 2016 amounted to KD 33.9 million compared to KD 21.9 million for the year ended 31 December 2015 and KD 17.2 million for the year ended 31 December 2014. The increase of KD 12.0 million, or 54.8 per cent., in 2016 and the increase of KD 4.7 million, or 27.2 per cent., in 2015 primarily reflected growth in the volume of the Group's Islamic deposits accepted.

Reflecting the above factors, the Group's net income from Islamic financing for the year ended 31 December 2016 amounted to KD 94.1 million, an increase of KD 9.6 million, or 11.4 per cent., compared to KD 84.5 million for the year ended 31 December 2015 which, in turn, was a KD 14.6 million, or 20.9 per cent., increase from the KD 69.9 million net income from Islamic financing recorded in 2014.

Net interest income and net income from Islamic financing

Net income and net income from Islamic financing (together, "**net financing income**") for the year ended 31 December 2016 amounted to KD 569.7 million compared to KD 530.2 million for the year ended 31 December 2015 and KD 469.3 million for the year ended 31 December 2014.

The changes in the Group's net financing income for 2016 compared to 2015 have primarily been driven by increased interest income from loans and advances to customers resulting from loan growth, including the full year impact of loan growth in 2015 largely attributable to increased lending in Kuwait and benchmark rate increases and increased net income from Islamic financing resulting from loan growth largely attributable to increased lend corporate and consumer lending. The Group's average customer loan portfolio (based on balances as at the start and end of each year) was KD 13,581 million for 2016 compared to KD 12,730 million for 2015, an increase of KD 851 million.

The changes in the Group's net financing income for 2015 compared to 2014 have primarily been driven by increased interest income from loans and advances to customers reflecting increased volumes of loans and advances to customers and increased interest income from debt investment securities reflecting increased investment holdings. The Group's average customer loan portfolio (based on balances as at the start and end of each year) was KD 12,730 million for 2015 compared to KD 11,302 million for 2014, an increase of KD 1,428 million.

The Group's net interest margin increased in 2016 to 2.47 per cent. from 2.42 per cent. in 2015 and 2.45 per cent. in 2014. The increase in 2016 principally reflected growth in loans and advances to customers and the full year impact in 2015 of increases in benchmark interest rates, in part offset by higher funding costs. The decrease in 2015 principally reflected an increase in holdings of lower earning assets (cash and short term funds and deposits with banks).

Net fees and commissions

The following table sets forth the Group's net fees and commissions for the years ended 31 December 2016, 2015 and 2014.

	Year ended 31 December		
	2016	2015	2014
		(KD thousands)	
Credit facilities	60,056	60,546	55,847
Other	72,770	69,256	65,999
Net fees and commissions	**132,826**	**129,802**	**121,846**

The Group's net fees and commissions income for the year ended 31 December 2016 amounted to KD 132.8 million, an increase of KD 3.0 million, or 2.3 per cent., from KD 129.8 million for the year ended 31 December 2015 which, in turn, was an increase of KD 8.0 million, or 6.5 per cent., from the KD 121.8 million net fees and commissions income recorded for 2014. The increase of KD 3.0 million in 2016 primarily reflected an increase in other fees and commissions income from card and asset management fees. The increase of KD 8.0 million in 2015 primarily reflected increases in fees and commissions income from credit facilities and other fees and commission income from card and asset management fees.

Other sources of operating income

Other sources of operating income comprises investment income, net gains from dealing on foreign currencies and other operating income.

The Group's other sources of operating income amounted to KD 42.7 million for 2016 compared to KD 68.8 million for 2015 and KD 69.9 million for 2014.

The decrease of KD 26.1 million, or 37.9 per cent., in 2016 principally reflected a KD 21.9 million one off gain on the sale of the Group's investment in IBQ included in 2015 and lower net realised gains on available for sale investments in 2016.

The decrease of KD 1.1 million, or 1.5 per cent., in 2015 principally reflected a KD 7.4 million, or 97.1 per cent., decrease in share of results from associates and a KD 1.2 million or 3.6 per cent., decrease in net investment income, which were offset in part by a KD 5.9 million, or 21.8 per cent., increase in net gains from dealing in foreign currencies. The principal driver of the fall in the Group's share of results of its associates in 2015 reflected the Group's agreement on 1 October 2014 to sell its 30 per cent. investment in IBQ, which is offset by higher contribution from its other associate, Bank Syariah Muamalat Indonesia T.B.K. The decrease in the Group's net investment income in 2015 was KD 1.2 million, or 3.6 per cent., principally reflecting significantly higher net realised gains on available for sale investments in 2014, almost fully offset by a KD 21.9 million gain on the sale of the Group's investment in IBQ in 2015. The increase in net gains from dealing in foreign currencies principally reflected higher foreign currency transactions.

Operating expenses

The Group's total operating expenses amounted to KD 252.0 million for 2016 compared to KD 234.7 million for 2015 and KD 215.1 million for 2014. The increase of KD 17.3 million, or 7.4 per cent., in 2016 primarily reflected a KD 6.6 million, or 4.8 per cent., increase in staff expenses which resulted from increased headcount and increased annual pay and a KD 10.3 million, or 13.3 per cent., increase in other administrative expenses which primarily reflected increased IT, marketing and community welfare costs. The increase of KD 19.6 million, or 9.1 per cent., in 2015 primarily reflected a KD 15 million, or 12.1 per cent., increase in staff expenses which resulted from both increased headcount and increased annual pay.

Provision charge for credit losses and impairment losses

The table below sets forth the Group's provision charge for credit losses and impairment losses for the years ended 31 December 2016, 2015 and 2014.

	Year ended 31 December		
	2016	**2015**	**2014**
		(KD thousands)	
Specific	28,635	33,052	48,686
General	97,048	96,907	86,854
Total provision charge for credit losses	**125,683**	**129,959**	**135,540**
Impairment losses on investment securities	9,027	10,557	11,155
Impairment losses on associates	12,165	18,481	-
Impairment losses on intangible assets	5,442	5,400	-
Total impairment losses	**26,634**	**34,438**	**11,155**
Provision charge for credit losses and impairment losses	**152,317**	**164,397**	**146,695**

Total provision charge for credit losses and impairment losses amounted to KD 152.3 million for the year ended 31 December 2016 compared to KD 164.4 million for the year ended 31 December 2015 and KD 146.7 million for the year ended 31 December 2014.

The KD 12.1 million, or 7.3 per cent., decrease in 2016 primarily reflected a KD 6.3 million decrease in impairment losses on associates and a KD 4.3 million decrease in the provision charge for credit losses due to subdued loan growth and lower impairment losses on investment securities of KD 1.5 million. The KD 17.7 million, or 12.1 per cent., increase in 2015 primarily reflected a KD 18.4 million impairment loss on associates and a KD 5.4 million impairment loss on intangibles (brokerage licences), which were offset by a KD 5.6 million, or 4.1 per cent., decrease in the provision charge for specific credit losses.

Taxation

Taxation for the year ended 31 December 2016 amounted to KD 28.8 million compared to KD 33.2 million for the year ended 31 December 2015 and KD 25.6 million for the year ended 31 December 2014. The decrease of KD 4.3 million, or 13.1 per cent., in 2016 was primarily attributable to provisional tax on the gain from the sale of IBQ in 2015. The KD 7.6 million, or 29.5 per cent., increase in 2015 was primarily attributable to provisional tax on the gain from the sale of IBQ and increases in the tax paid by the Group's overseas operations.

Segmental analysis

The tables below show certain income statement line items of each of the Group's reporting segments for the years ended 31 December 2016, 2015 and 2014.

2016

	Consumer and Private Banking	**Corporate Banking**	**Investment Banking and Asset Management**	**Islamic Banking**	**Group Centre**	**International**	**Total**
				(KD thousands)			
Net interest income and net income from Islamic financing	181,803	126,768	130	94,127	17,990	148,919	569,737
Net operating income	242,059	170,785	23,307	106,997	15,446	186,715	745,309
Profit / (loss) for the year	139,493	137,400	12,114	41,301	(118,106)	99,958	312,160
Total assets	**4,218,253**	**5,380,784**	**107,767**	**3,481,807**	**2,719,810**	**8,295,648**	**24,204,069**
Total liabilities	**4,171,318**	**2,287,130**	**47,754**	**3,058,654**	**2,014,183**	**9,220,298**	**20,799,337**

2015

	Consumer and Private Banking	**Corporate Banking**	**Investment Banking and Asset Management**	**Islamic Banking**	**Group Centre**	**International**	**Total**
				(KD thousands)			
Net interest income and net income from Islamic financing	171,176	121,951	142	84,494	18,016	134,372	530,151
Net operating income	229,373	162,527	23,809	94,680	40,068	178,300	728,757
Profit / (loss) for the year	134,452	129,842	12,175	35,185	(95,072)	79,937	296,519
Total assets	**4,051,853**	**5,256,655**	**62,942**	**3,132,885**	**2,163,474**	**8,929,821**	**23,597,630**

	Consumer and Private Banking	Corporate Banking	Investment Banking and Asset Management	Islamic Banking	Group Centre	International	Total
				(KD thousands)			
Total liabilities	**3,988,777**	**2,092,663**	**8,819**	**2,812,086**	**2,010,953**	**9,493,208**	**20,406,506**

2014

	Consumer and Private Banking	Corporate Banking	Investment Banking and Asset Management	Islamic Banking	Group Centre	International	Total
				(KD thousands)			
Net interest income and net income from Islamic financing	160,231	115,468	179	69,866	16,694	106,900	469,338
Net operating income	213,736	155,758	26,183	80,714	29,316	155,339	661,046
Profit / (loss) for the year	133,003	107,667	13,838	28,505	(85,154)	75,795	273,654
Total assets	**3,643,908**	**4,857,286**	**62,147**	**2,647,930**	**2,444,552**	**8,128,308**	**21,784,131**
Total liabilities	**3,834,766**	**2,044,509**	**8,288**	**2,346,828**	**2,271,658**	**8,407,542**	**18,913,591**

Consumer and private banking

Net operating income for the year ended 31 December 2016 amounted to KD 242.1 million compared to KD 229.4 million for the year ended 31 December 2015 primarily reflecting growth in net interest income from increased loans and deposits, higher net fee and commission income and higher foreign exchange income. Profit was KD 139.5 million for the year ended 31 December 2016 compared to KD 134.5 million for the year ended 31 December 2015. The increase of KD 5.0 million, or 3.7 per cent., primarily reflected growth in net operating income, offset in part by higher provisions.

Net operating income for the year ended 31 December 2015 amounted to KD 229.4 million compared to KD 213.7 million for the year ended 31 December 2014. The increase of KD 15.6 million, or 7.3 per cent., primarily reflected growth in net interest income and higher fees and commission income. Profit was KD 134.5 million for the year ended 31 December 2015 compared to KD 133.0 million for the year ended 31 December 2014, an increase of KD 1.4 million, or 1.1 per cent., primarily reflecting growth in net operating income, offset in part by higher provisions.

Corporate banking

Net operating income for the year ended 31 December 2016 amounted to KD 170.8 million compared to KD 162.5 million for the year ended 31 December 2015. The increase of KD 8.3 million, or 5.1 per cent., primarily reflected growth in net interest income and higher net fee and commission income. Profit was KD 137.4 million for the year ended 31 December 2016 compared to KD 129.8 million for the year ended 31 December 2015, an increase of KD 7.6 million, or 5.8 per cent., primarily reflecting growth in net operating income.

Net operating income for the year ended 31 December 2015 amounted to KD 162.5 million compared to KD 155.8 million for the year ended 31 December 2014. The increase of KD 6.8 million, or 4.3 per cent., primarily reflected growth in net interest income and higher net fee and commission income. Profit was KD 129.8 million for the year ended 31 December 2015 compared to KD 107.7 million for the year ended 31 December 2014, an increase of KD 22.2 million, or 20.6 per cent., primarily reflecting lower loan provisions in 2015.

Investment banking and asset management

Net operating income for the year ended 31 December 2016 amounted to KD 23.3 million compared to KD 23.8 million for the year ended 31 December 2015. Profit remained stable at KD 12.1 million for the year ended 31 December 2016 compared to KD 12.2 million for the year ended 31 December 2015.

Net operating income for the year ended 31 December 2015 amounted to KD 23.8 million compared to KD 26.2 million for the year ended 31 December 2014. Profit was KD 12.2 million for the year ended 31 December 2015 compared to KD 13.8 million for the year ended 31 December 2014, a decrease of KD 1.7 million, or 12.0 per cent., primarily reflecting lower investment income.

Islamic banking

Net operating income for the year ended 31 December 2016 amounted to KD 107.0 million compared to KD 94.7 million for the year ended 31 December 2015. Profit was KD 41.3 million for the year ended 31 December 2016 compared to KD 35.2 million for the year ended 31 December 2015, an increase of KD 6.1 million, or 17.4 per cent., primarily reflecting growth in net Islamic Financing income and higher net fee and commissions income, offset in part by higher provisions.

Net operating income for the year ended 31 December 2015 amounted to KD 94.7 million compared to KD 80.7 million for the year ended 31 December 2014. Profit was KD 35.2 million for the year ended 31 December 2015 compared to KD 28.5 million for the year ended 31 December 2014, an increase of KD 6.7 million, or 23.4 per cent., primarily reflecting growth in net Islamic Financing income and higher net fee and commissions income, offset in part by higher provisions.

Group centre

Net operating income for the year ended 31 December 2016 amounted to KD 15.4 million compared to KD 40.1 million for the year ended 31 December 2015. The decrease of KD 24.6 million, or 61.5 per cent., primarily reflected the gain on the sale of the Group's investment in IBQ included in 2015 and lower investment income. Loss was KD 118.1 million in 2016 compared to a KD 95.1 million loss in 2015, an increase of KD 23 million, or 24.2 per cent., primarily reflecting lower net operating income and higher costs.

Net operating income for the year ended 31 December 2015 amounted to KD 40.1 million compared to KD 29.3 million for the year ended 31 December 2014. The increase of KD 10.8 million, or 36.7 per cent., primarily reflected the gain on the sale of the Group's investment in IBQ. Loss was KD 95.1 million in 2015 compared to a loss of KD 85.2 million in 2014, an increase in loss of KD 9.9 million, or 11.6 per cent., primarily reflecting impairment losses on associates and intangible assets.

International

Net operating income for the year ended 31 December 2016 amounted to KD 186.7 million compared to KD 178.3 million for the year ended 31 December 2015, an increase of KD 8.4 million, or 4.7 per cent., primarily reflecting growth in net interest income. Profit was KD 100.0 million for the year ended 31 December 2016 compared to KD 79.9 million for the year ended 31 December 2015, an increase of KD 20.0 million, or 25.0 per cent., primarily reflecting lower provisions for credit losses and higher net operating income.

Net operating income for the year ended 31 December 2015 amounted to KD 178.3 million compared to KD 155.3 million for the year ended 31 December 2014, an increase of KD 23.0 million, or 14.8 per cent., primarily reflecting growth in net interest income and net fees and commissions income. Profit was KD 79.9 million for the year ended 31 December 2015 compared to KD 75.8 million for the year ended 31 December 2014, an increase of KD 4.1 million, or 5.5 per cent., reflecting higher net operating income, which was offset by higher costs and provisions.

Financial Position

Total assets

The following table sets forth data regarding the Group's total assets as at the dates indicated.

	As at 31 March		As at 31 December					
	2017	% of total	2016	% of total	2015	% of total	2014	% of total
			(KD thousands, except percentages)					
	(unaudited)							
Assets:								
Cash and short term funds	2,705,067	10.9	2,686,963	11.1	3,481,371	14.8	3,131,991	14.4
Central Bank of Kuwait bonds	738,955	3.0	748,889	3.1	803,930	3.4	534,688	2.5
Kuwait Government treasury bonds	766,890	3.1	493,101	2.0	380,052	1.6	344,529	1.6
Deposits with banks	2,321,857	9.4	2,407,915	9.9	1,426,679	6.0	2,050,515	9.4
Loans, advances and Islamic financing to customers	14,048,746	56.6	13,611,491	56.2	13,550,966	57.4	11,908,708	54.7
Investment securities	3,152,131	12.7	3,174,632	13.1	2,784,334	11.8	2,493,693	11.4
Investment in associates	72,233	0.3	73,644	0.3	92,713	0.4	119,398	0.5
Land, premises and equipment	260,698	1.1	255,086	1.1	226,501	1.0	203,414	0.9
Goodwill and other intangible assets	585,940	2.4	581,840	2.4	677,594	2.9	696,416	3.2
Other assets	161,733	0.7	170,508	0.7	173,490	0.7	162,371	0.7
Investment in an associate held for sale	–	–	-	-	-	-	138,408	0.6
Total assets	**24,814,250**	**100.0**	**24,204,069**	**100.0**	**23,597,630**	**100.0**	**21,784,131**	**100.0**

The Group's total assets increased by 2.5 per cent. to KD 24.8 billion as at 31 March 2017 from KD 24.2 billion as at 31 December 2016. The increase in total assets was primarily attributable to increases in loans, advances and Islamic financing to customers and Kuwait Government treasury bonds.

The Group's total assets increased by 2.6 per cent. to KD 24.2 billion as at 31 December 2016 from KD 23.6 billion as at 31 December 2015. The increase in total assets was primarily attributable to an increase in deposits with banks and investment securities, subdued growth in loans, advances and Islamic financing to customers reflecting the wider macroeconomic environment and an increased level of loan repayments in the corporate sector. This increase was offset in part by a decrease in cash and short term funds. In addition, the Group's balance sheet was negatively impacted on translation of NBK Egypt's balance sheet in 2016 following the liberalisation of the Egyptian pound exchange rate.

The Group's total assets increased by 8.3 per cent. to KD 23.6 billion as at 31 December 2015 from KD 21.8 billion as at 31 December 2014. The increase in total assets was primarily attributable to an increase in loans, advances and Islamic financing to customers.

Cash and short term funds

The table below sets forth the Group's cash and short term funds as at 31 March 2017 and 31 December 2016, 2015 and 2014.

	As at 31 March		As at 31 December						Variation	
	2017	% of total	2016	% of total	2015	% of total	2014	% of total	2016/ 2015	2015/ 2014
	(KD in thousands, except percentages) (unaudited)		*(KD in thousands, except percentages)*						*(percentages)*	
Cash on hand	191,700	7.1	179,298	6.7	187,571	5.4	220,349	7.0	(4.4)	(14.9)
Current account with other banks	804,381	29.7	1,140,983	42.5	1,361,545	39.1	1,300,426	41.5	(16.2)	4.7
Money at call	309,923	11.5	260,366	9.7	190,562	5.5	250,400	8.0	36.6	(23.9)
Balances with the Central Bank of Kuwait	266,533	9.9	190,830	7.1	5,442	0.2	38,767	1.2	3,406.6	(86.0)
Deposits and Murabaha with banks maturing within seven days	1,132,530	41.9	915,486	34.1	1,736,251	49.9	1,322,049	42.2	(47.3)	31.3
Total cash and short term funds	**2,705,067**	**100.0**	**2,686,963**	**100.0**	**3,481,371**	**100.0**	**3,131,991**	**100.0**	**(22.8)**	**11.2**

The Group's cash and short term funds, consisting of cash on hand, current account with other banks, money at call, balances with the Central Bank of Kuwait and deposits and Murabaha with banks maturing within seven days, was KD 2.7 billion as at 31 March 2017, which was broadly in line with cash and short term funds as at 31 December 2016.

The Group's cash and short term funds decreased by 22.8 per cent. to KD 2.7 billion as at 31 December 2016 from KD 3.5 billion as at 31 December 2015. The decrease was primarily attributable to a decrease in deposits and Murabaha with banks maturing within seven days and a decrease in current accounts with other banks. The Group's cash and short term funds increased by 11.2 per cent. to KD 3.5 billion as at 31 December 2015 from KD 3.1 billion as at 31 December 2014. The increase was primarily attributable to deposits and Murabaha with banks maturing within seven days.

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 14.0 billion as at 31 March 2017.

The table below shows the Group's customer loan portfolio, provisions and loan to deposit ratio as at 31 December 2016, 2015 and 2014.

	As at 31 December		
	2016	**2015**	**2014**
	(KD in thousands, except percentages)		
Gross loans[(1)]	14,279,745	14,163,855	12,423,306
Less: provisions	(668,254)	(612,889)	(514,598)
Net loans[(2)]	**13,611,491**	**13,550,966**	**11,908,708**
Net loans/customer and financial institution deposits	80.0%	82.8%	78.1%
Net loans/total deposits[(3)]	66.8%	67.7%	63.9%

(1) Gross loans comprise total loans, advances and Islamic financing provided to customers.
(2) Net loans comprise gross loans less provisions.
(3) Total deposits comprise customer deposits, due to banks and other financial institutions and certificates of deposits 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 permitting it 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.

The Group may also, from time to time, enter into interest rate swaps to manage its interest rate exposure.

(a) *Distribution of customer loans by maturity*

The table below shows the distribution of the Group's customer loan portfolio by maturity (based on contractual cash flows and maturity dates) as at 31 December 2016, 2015 and 2014.

	Up to 3 months	**3 to 12 months**	**Over 1 year**	**Total**
		(KD thousands)		
31 December 2016	4,489,373	1,567,813	7,554,305	13,611,491
31 December 2015	4,431,115	1,987,624	7,132,227	13,550,966
31 December 2014	3,824,418	1,656,749	6,427,541	11,908,708

(b) *Distribution of customer loans by geographical region and customer segment*

The table below shows the distribution of the Group's customer loan portfolio by geographical region as at 31 December 2016, 2015 and 2014.

	MENA	**North America**	**Europe**	**Asia**	**Other**	**Total**
			(KD thousands)			
31 December 2016	12,533,231	269,013	343,165	174,628	291,454	13,611,491
31 December 2015	12,279,672	255,331	361,192	271,914	382,857	13,550,966
31 December 2014	10,963,327	186,669	306,332	180,808	271,572	11,908,708

(c) *Distribution of customer loans by geographical region and customer segment*

The table below shows the distribution of the Group's customer loan portfolio by customer segment as at 31 December 2016, 2015 and 2014.

	Gross exposure	Specific provisions	Exposure net of provisions
		(KD thousands)	
31 December 2016			
Corporate	9,662,676	(44,248)	9,618,428
Retail	4,617,069	(57,138)	4,559,931
Customer loan portfolio	**14,279,745**	**(101,386)**	**14,178,359**
Less general provision			(566,868)
Total			**13,611,491**
31 December 2015			
Corporate	9,840,784	(60,431)	9,780,353
Retail	4,323,071	(82,541)	4,240,530
Customer loan portfolio	**14,163,855**	**(142,972)**	**14,020,883**
Less general provision			(469,917)
Total			**13,550,966**
31 December 2014			
Corporate	8,633,114	(68,712)	8,564,402
Retail	3,790,192	(70,052)	3,720,140
Customer loan portfolio	**12,423,306**	**(138,764)**	**12,284,542**
Less general provision			(375,834)
Total			**11,908,708**

(d) *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 2016, 2015 and 2014.

	As at 31 December		
	2016	2015	2014
		(KD thousands)	
Trading	2,267,693	2,323,127	2,197,751
Manufacturing	1,748,422	1,713,148	1,231,318
Banks and other financial institutions	9,107,707	8,861,239	7,966,606
Construction	1,304,291	1,515,697	1,211,222
Real estate	2,947,829	2,798,090	2,448,022
Retail	4,507,414	4,191,243	3,676,187
Government	2,484,846	2,157,018	1,817,585
Others	3,263,795	3,184,555	3,022,412
Total	**27,631,997**	**26,744,117**	**23,571,103**

The Group seeks to limit its credit risk through diversification of its assets by geography and industry sector. As at 31 December 2016, the Group's exposure to banks and other financial institutions, before taking into account any collateral held or credit enhancements, accounted for 33.0 per cent. of its total exposure compared to 33.1 per cent. at 31 December 2015. Approximately 50.5 per cent. of the Group's 33.0 per cent. exposure to banks and other financial institutions as at 31 December 2016 was in the form of short-dated inter-bank placements (49.8 per cent. as of 31 December 2015) and approximately 20.8 per cent. was in the form of trade finance exposures (18.7 per cent. as of 31 December 2015).

The Group's second major sector of credit exposure is the retail segment, which accounted for 16.3 per cent. of the Group's total credit exposure at 31 December 2016, 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 real estate sector constituted 10.7 per cent. of the Group's exposure at 31 December 2016. 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 Bank'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) and a portfolio of available for sale debt and equity securities. The Group invests in these securities both to generate returns and to provide an additional source of liquidity when needed.

The table below sets forth the Group's investment securities portfolio as at 31 March 2017 and 31 December 2016, 2015 and 2014.

	As at 31 March	**As at 31 December**		
	2017	**2016**	**2015**	**2014**
		(KD thousands)		
	(unaudited)			
CBK bonds (held to maturity)	738,955	748,889	803,930	534,688
Kuwait government treasury bonds				
Held to maturity	614,230	493,101	380,052	344,529
Available for sale	152,660	-	-	-
Non Kuwaiti government debt securities				
Held to maturity	180,177	170,958	115,042	107,512
Available for sale	1,531,581	1,529,703	1,374,274	1,164,863
Non-government debt securities				
Held to maturity	-	-	4,452	4,295
Available for sale	1,202,189	1,177,727	1,007,668	919,455
Equities				
Available for sale	81,992	85,354	96,437	111,878
Fair value through statement of income	2,987	2,987	2,560	2,995
Other investments				
Available for sale	110,156	159,288	116,204	118,839
Fair value through statement of income	43,049	48,615	67,697	63,856
Total	**4,657,976**	**4,416,622**	**3,968,316**	**3,372,910**

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 54 per cent. of non–Kuwait government debt, 37 per cent. of non–government debt, 3 per cent. of equities and 6 per cent. of other investments as at 31 December 2016, of which 93 per cent. were available for sale, 5 per cent. were held to maturity and 2 per cent. were held at fair value.

Total liabilities

The following table presents data regarding the Group's liabilities as at 31 March 2017 and 31 December 2016, 2015 and 2014.

	As at 31 March		As at 31 December					
	2017	% of total	2016	% of total	2015	% of total	2014	% of total
			(KD thousands, except percentages)					
	(unaudited)							
Liabilities								
Due to banks and other financial institutions	7,432,480	34.6%	7,347,803	35.3	7,306,467	35.8	6,705,717	35.5
Customer deposits	13,151,268	61.3%	12,608,092	60.6	12,059,203	59.1	11,259,736	59.5
Certificates of deposit issued	450,335	2.1%	415,989	2.0	655,257	3.2	675,065	3.6
Subordinated Tier 2 bonds	124,709	0.6%	124,700	0.6	124,664	0.6	-	-
Other liabilities	308,897	1.4%	302,753	1.5	260,915	1.3	273,073	1.4
Total liabilities	**21,467,689**	**100.0**	**20,799,337**	**100.0**	**20,406,506**	**100.0**	**18,913,591**	**100.0**

The Group's total liabilities increased by 3.2 per cent. to KD 21.5 billion as at 31 March 2017 from KD 20.8 billion at 31 December 2016. The increase was primarily due to an increase in customer deposits.

The Group's total liabilities increased by 1.9 per cent. to KD 20.8 billion as at 31 December 2016 from KD 20.4 billion as at 31 December 2015 primarily due to an increase in customer deposits. The Group's total liabilities increased by 7.9 per cent. to KD 20.4 billion as at 31 December 2015 compared to KD 18.9 billion as at 31 December 2014. The increase was primarily due to an increase in customer deposits as well as an increase in amounts due to banks and other financial institutions.

Due to banks and other financial institutions

Amounts due to banks and other financial institutions remained relatively stable at KD 7.4 billion as at 31 March 2017 compared to KD 7.3 billion as at 31 December 2016.

Amounts due to banks and other financial institutions remained relatively stable at KD 7.3 billion as at 31 December 2016 and KD 7.3 billion as at 31 December 2015. Amounts due to banks and other financial institutions increased by 9.0 per cent. to KD 7.3 billion as at 31 December 2015 compared to KD 6.7 billion as at 31 December 2014. The increase was primarily attributable to increased liquidity levels and longer term deposits.

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 sets forth customer deposits of the Group by location as at 31 March 2017 and 31 December 2016, 2015 and 2014.

	As at 31 March	As at 31 December		
	2017	2016	2015	2014
		(KD thousands)		
	(unaudited)			
Domestic	9,896,142	9,291,013	8,465,691	7,871,249
International	3,255,126	3,317,079	3,593,512	3,388,487
Total customer deposits	**13,151,268**	**12,608,092**	**12,059,203**	**11,259,736**

Customer deposits increased by 4.3 per cent. to KD 13.2 billion as at 31 March 2017 from KD 12.6 billion at 31 December 2016. The increase was primarily attributable to increases in time, sight and Islamic deposits.

Customer deposits increased by 4.6 per cent. to KD 12.6 billion as at 31 December 2016 from KD 12.1 billion as at 31 December 2015. The increase was primarily attributable to an increase in Islamic deposits. Customer deposits increased by 7.1 per cent. to KD 12.1 billion as at 31 December 2015 from KD 11.3 billion as at 31 December 2014. The increase was primarily attributable to increases in time, sight and Islamic 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 following table sets forth the composition of the Group's liquid assets at the dates indicated.

	As at 31 March		As at 31 December					
	2017		2016		2015		2014	
	KD	%	KD	%	KD	%	KD	%
			(KD thousands, except percentages)					
	(unaudited)							
Cash and short term funds	2,705,067	28.5%	2,686,963	28.8%	3,481,371	39.8%	3,131,991	37.1%
CBK Bonds	738,955	7.8%	748,889	8.0%	803,930	9.2%	534,688	6.3%
Kuwait Government Treasury bonds	766,890	8.1%	493,101	5.3%	380,052	4.3%	344,529	4.1%
Deposits with banks	2,321,857	24.4%	2,407,915	25.8%	1,426,679	16.3%	2,050,515	24.3%
Investment securities[(1)]	2,971,954	31.3%	3,003,674	32.2%	2,664,840	30.4%	2,381,886	28.2%
Total liquid assets	**9,504,723**	**100.0%**	**9,340,542**	**100.0%**	**8,756,872**	**100.0%**	**8,443,609**	**100.0%**

(1) Excludes investment securities held to maturity.

As at 31 March 2017, the Group's customer deposits accounted for 62.2 per cent. of its total funding.

Capital expenditure

As at 31 March 2017, the Group had commitments in respect of capital expenditure amounting to KD 73.9 million, primarily reflecting commitments for a new head office building. The Group's 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, in addition to its cash balances and placements with central banks and other financial institutions.

The Group's customer deposits were KD 13.2 billion, or 61.3 per cent. of its total liabilities, as at 31 March 2017. Deposits from the Kuwaiti government and its related agencies have approximated 25 to 30 per cent. of the Group's total funding over the period from 31 December 2014 to 31 March 2017.

The Group has no material outstanding borrowings from banks. Outstanding debt in the form of Subordinated Tier 2 bonds at 31 March 2017 was KD 125 million. Short-term certificates of deposit issued by the Bank, at 31 March 2017 were KD 450 million. Perpetual Tier 1 securities of KD 211 million (US$ 700 million) issued in 2015 forms part of the Group's equity funding.

The table below sets forth the Group's funding in the form of customer deposits, due to banks and other amounts due to financial institutions, certificates of deposits issued and Subordinated Tier 2 bonds as at 31 March 2017 and 31 December 2016, 2015 and 2014.

	As at 31 March		**As at 31 December**					
	2017		**2016**		**2015**		**2014**	
	KD	**%**	**KD**	**%**	**KD**	**%**	**KD**	**%**
	(KD thousands and as a percentage of total funding)							
	(unaudited)							
Customer deposits....................	13,151,268	62.2	12,608,092	61.5	12,059,203	59.9	11,259,736	60.4
Due to banks and other financial institutions	7,432,480	35.1	7,347,803	35.8	7,306,467	36.3	6,705,717	36.0
Certificates of deposits issued...	450,335	2.1	415,989	2.0	655,257	3.3	675,065	3.6
Subordinated Tier 2 bonds........	124,709	0.6	124,700	0.6	124,664	0.6	-	-
Total funding..........................	**21,158,792**	**100.0**	**20,496,584**	**100.0**	**20,145,591**	**100.0**	**18,640,518**	**100.0**

Maturity profile of the Group's total deposits, certificates of deposit issued and Subordinated Tier 2 bonds

The table below shows the maturity profile of the Group's total funding as at 31 March 2017 and 31 December 2016, 2015 and 2014. This analysis is based on contractual cash flows and maturity date.

	Up to 3 months	**3 to 12 months**	**Over 1 year**	**Total**
	(KD thousands)			
As at 31 March 2017				
Due to banks and other financial institutions......................	4,789,652	2,095,021	547,807	7,432,480
Customer deposits...	10,471,430	2,173,371	506,467	13,151,268
Certificates of deposit issued..	319,988	130,347	-	450,335
Subordinated Tier 2 bonds..	-	-	124,709	124,709
Total..	**15,581,070**	**4,398,739**	**1,178,983**	**21,158,792**
As at 31 December 2016				
Due to banks and other financial institutions......................	4,985,624	1,509,419	852,760	7,347,803
Customer deposits...	10,420,857	1,810,620	376,615	12,608,092
Certificates of deposit issued..	281,566	134,423	-	415,989
Subordinated Tier 2 bonds..	-	-	124,700	124,700
Total..	**15,688,047**	**3,454,462**	**1,354,075**	**20,496,584**
As at 31 December 2015				
Due to banks and other financial institutions......................	5,278,742	1,621,057	406,668	7,306,467
Customer deposits...	10,328,767	1,400,124	330,312	12,059,203
Certificates of deposit issued..	561,172	94,085	-	655,257
Subordinated Tier 2 bonds..	-	-	124,664	124,664
Total..	**16,168,681**	**3,115,266**	**861,644**	**20,145,591**
As at 31 December 2014				
Due to banks and other financial institutions......................	4,505,118	2,012,952	187,647	6,705,717
Customer deposits...	9,624,495	1,480,952	154,289	11,259,736
Certificates of deposit issued..	621,161	53,904	-	675,065
Total..	**14,750,774**	**3,547,808**	**341,936**	**18,640,518**

Given the state-run and oil-driven nature of the Kuwait economy, the Group's deposit base is, at least in the near future, expected to remain concentrated by depositor type, namely Kuwaiti government and government-related entities. Significant time deposits from large customers are, with the customers' agreement, divided into smaller deposits with varying maturities, thereby partly mitigating the risks associated with single party deposit concentration.

Capital Adequacy

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are also governed by guidelines of the Basel Committee on Banking Supervision (the "**Basel Committee**") as adopted by the CBK.

In June 2014, the CBK issued directives on the adoption of capital adequacy standards under the Basel III framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier Basel II requirements. The Basel III reforms strengthen the quality of capital and introduce several buffer requirements in line with proposals made by the Basel Committee. The CBK 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 emphasizes the importance of the Internal Capital Adequacy Assessment Process (ICAAP) performed by banks; and
- Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

The Basel III framework raises both the quality and quantity of the capital base and increases capital requirements for certain positions. The 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 for the Group is to maximize 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 that pro-active action is taken where necessary and a strategy that ensures that 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.

Minimum Capital Requirement*	**CET 1**	**Tier 1**	**Total**
31 December 2016**	11.5%	13.0%	15.0%
31 December 2015	9.0%	10.5%	12.5%
31 December 2014	8.5%	10.0%	12.0%

* Includes a CET 1 Capital Conservation Buffer of 2.5 per cent.
** Includes a CET1 Domestic Systemically-Important Bank (D-SIB) buffer of 2 per cent.

From 31 December 2016, the minimum capital requirement for the Kuwait banking sector as a whole was raised to 13 per cent. from 12.5 per cent. The Bank, having been designated as a Domestic Systemically-Important Bank (D-SIB), is required to maintain an additional minimum capital of 2 per cent. As at the date of this Base Prospectus and for the years ended 31 December 2016, 2015 and 2014, 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 will be required. To the extent such buffer is required, Basel Committee guidelines provide a lead period of 12 months to comply.

In 2015, the Group strengthened its capital base with the issuance of U.S.$700 million additional Tier 1 securities and the issuance of KD 125 million Subordinated Tier 2 bonds in accordance with the CBK requirements under the Basel III framework.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 31 March 2017 and 31 December 2016, 2015 and 2014 (determined in accordance with Basel III as implemented in Kuwait).

	31 March	31 December		
	2017	2016	2015	2014
		(KD thousands, except percentages)		
	(unaudited)			
Risk-weighted assets:				
Credit risk-weighted assets	14,173,173	14,101,733	13,398,845	11,864,694
Operational risk-weighted assets	1,291,147	1,272,941	1,201,167	1,192,644
Market risk-weighted assets	246,798	256,642	242,117	407,338
Total risk-weighted assets[(1)]	15,711,117	15,631,316	14,842,129	13,464,676
Capital required[(2)]	2,356,668	2,344,697	1,855,266	1,615,761
Capital available				
CET 1 capital[(3)]	2,227,658	2,202,176	1,965,705	1,782,908
Additional Tier 1 capital[(4)]	249,769	247,904	221,245	8,893
Tier 1 capital[(5)]	2,477,427	2,450,080	2,186,950	1,791,801
Tier 2 capital[(6)]	324,972	323,471	310,531	163,176
Total capital	**2,802,399**	**2,773,552**	**2,497,481**	**1,954,977**
CET 1 capital adequacy ratio[(7)(8)]	14.2%	14.1%	13.2%	13.2%
Tier 1 capital adequacy ratio[(7)(9)]	15.8%	15.7%	14.7%	13.3%
Total capital adequacy ratio[(7)(10)]	17.8%	17.7%	16.8%	14.5%

(1) Risk-weighted assets are calculated under the standardised approach.
(2) Capital required comprises the minimum total capital requirement for 2014 of 12 per cent., for 2015 of 12.5 per cent and for 2016 of 15 per cent.
(3) CET 1 capital comprises share capital, share premium, eligible reserves, retained earnings and eligible non-controlling interests net of regulatory adjustments.
(4) Additional Tier 1 capital comprises Perpetual Tier 1 Capital Securities classified as equity and certain additional eligible portion of non-controlling interests.
(5) Tier 1 capital comprises CET 1 capital and Additional Tier 1 capital which includes eligible portions of non-controlling interests.
(6) Tier 2 capital comprises Subordinated Tier 2 Bonds classified as debt, the allowed portions of general provisions and certain additional eligible non-controlling interests.
(7) 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.
(8) CET 1 capital adequacy ratio is defined as CET 1 capital divided by risk-weighted assets at a given date.
(9) Tier 1 capital adequacy ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date.
(10) 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 leverage ratio requirement of 3 per cent. The Group's leverage ratio was 9.1 per cent. at 31 March 2017 and 9.2 per cent. at 31 December 2016.

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 March 2017 and 31 December 2016, 2015 and 2014.

	As at 31 March	As at 31 December		
	2017	2016	2015	2014
		(KD thousands)		
	(unaudited)			
Irrevocable commitments to extend credit	705,861	786,888	755,668	644,854
Acceptances	187,978	115,668	118,367	116,379
Letters of credit	274,279	319,459	320,673	302,231
Guarantees	3,614,618	3,638,537	3,466,160	2,457,116
Total	**4,782,736**	**4,860,552**	**4,660,868**	**3,520,580**

Irrevocable commitments to extend credit amounted to KD 705.9 million as at 31 March 2017. This includes 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 Bank on behalf of a corporate customer authorising a third party to draw drafts on the Bank 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.

Guarantees issued represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its performance-related or financial obligations to third parties and thus carry the same credit risk as loans.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The table below sets forth the Group's other credit-related and commercial commitments by maturity as at 31 March 2017 and 31 December 2016, 2015 and 2014:

	Up to 3 months	3 to 12 months	Over 1 year	Total
		(KD thousands)		
	(unaudited)			
As at 31 March 2017				
Contingent liabilities	676,530	1,272,769	2,127,576	4,076,875
Irrevocable commitments	105,433	163,328	437,100	705,861
Total	**781,963**	**1,436,097**	**2,564,676**	**4,782,736**
As at 31 December 2016				
Contingent liabilities	817,517	1,065,384	2,190,763	4,073,664
Irrevocable commitments	82,921	309,724	394,243	786,888
Total	**900,438**	**1,375,108**	**2,585,006**	**4,860,552**
As at 31 December 2015				
Contingent liabilities	802,261	991,311	2,111,628	3,905,200
Irrevocable commitments	119,367	227,979	408,322	755,668
Total	**921,628**	**1,219,290**	**2,519,950**	**4,660,868**
As at 31 December 2014				
Contingent liabilities	733,514	862,203	1,280,009	2,875,726
Irrevocable commitments	100,800	174,884	369,170	644,854
Total	**834,314**	**1,037,087**	**1,649,179**	**3,520,580**

In addition to the foregoing, the Group has commitments in respect of capital expenditure amounting to KD 73.9 million as at 31 March 2017 compared to KD 105.4 million as at 31 December 2016.

Cash flow

The following table sets forth certain information about the consolidated cash flows of the Group for the periods indicated.

	Three months ended 31 March		Year ended 31 December		
	2017	**2016**	**2016**	**2015**	**2014**
			(KD thousands)		
	(unaudited)				
Net cash (used in)/from operating activities	157,532	994,464	(150,356)	349,852	984,817
Net cash (used in)/from investing activities	32,156	(12,592)	(688,917)	(183,424)	(130,436)
Net cash (used in)/from financing activities	(171,584)	(152,738)	44,865	182,952	(134,449)
Net increase/decrease in cash and short term funds	**18,104**	**829,134**	**(794,408)**	**349,380**	**719,932**
Cash and short term funds at the beginning of the period	2,686,963	3,481,371	3,481,371	3,131,991	2,412,059
Cash and short term funds at the end of the period	**2,705,067**	**4,310,505**	**2,686,963**	**3,481,371**	**3,131,991**

Net cash (used in)/from operations

Net cash from operations for the three months ended 31 March 2017 was KD 157.5 million as compared to net cash inflows from operations of KD 994.5 million for the three months ended 31 March 2016. The decrease in cash from operating activities primarily reflected increases in customer loans and Kuwait government treasury bonds.

Net cash flows used in operating activities for 2016 was KD 150.4 million compared to cash inflows of KD 349.9 million for 2015 and KD 984.8 million for 2014. In 2016, the Group's net cash outflows from operating activities principally reflected increasing deposits with banks. In 2015, the decrease in the Group's net cash inflows from operating activities principally reflected an increase in customer loans.

Net cash (used in)/from investing activities

Net cash from investing activities for the three months ended 31 March 2017 was KD 32.2 million compared to net cash used in investing activities of KD 12.6 million for the three months ended 31 March 2016. The increase in cash from investing activities primarily reflected lower purchases of investment securities compared to the prior period.

Net cash used in investing activities for 2016 was KD 688.9 million compared to KD 183.4 million in 2015 and KD 130.4 million in 2014. In each year, the principal investment activities were acquisitions and sales or redemptions of investment securities with significantly more purchases made in 2016 compared to those made in 2015 and 2014. Net cash used in investing activities in 2015 was partially offset by the receipt of proceeds on the disposal of IBQ amounting to KD 157.9 million.

Net cash from financing activities

Net cash used in financing activities for the three months ended 31 March 2017 was KD 171.6 million compared to KD 152.7 million for the three months ended 31 March 2016, primarily reflecting increased dividend payments.

Net cash from financing activities for 2016 was KD 44.9 million, principally reflecting net proceeds from the issuance of rights shares and from the issue of Perpetual Tier 1 Sukuk by a subsidiary, in part offset by dividends paid during the year.

Net cash from financing activities for 2015 was KD 183 million, principally reflecting net proceeds on issue of Perpetual Tier 1 Capital Securities and Subordinated Tier 2 bonds, in part offset by dividends paid during the year

Net cash used in financing activities for 2014 was KD 134.4 million, principally reflecting the dividend paid by the Group during the year.

Related party transactions

The Group's principal related party transactions are with its directors and executive officers, 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 directors 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, renewed or modified only at the Board level and this authority cannot be delegated to a committee of other body;
- the approval, 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

Further credit extensions to related parties are also subject to adherence to the overall CBK limits which include that the total related party exposures should not exceed 50 per cent. of a bank's capital.

Further information on the Group's related party transactions is set out in note 28 to the 2016 Financial Statements.

As of the date of this Base Prospectus, the Group is not expecting nor in the process of concluding any potential transactions of material nature to be made with its related parties, other than those activities conducted in the normal course of business. Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group.

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 on obligation. 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 March 2017 was 16 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 loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25 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— The Group's business, results of operations and "financial condition have historically been adversely affected by credit risks and may again be affected by credit risks if economic conditions do not improve"* and "*Risk Management—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:

Category	Criteria
Watchlist	Irregular for a period up to 90 days (inclusive)
Substandard	Irregular for a period between 91 and 180 days (inclusive)
Doubtful	Irregular for a period between 181 days and 365 days (inclusive)
Bad	Irregular for a period exceeding 365 days

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 sets forth the Group's loan portfolio by category based on the Group's credit rating system as at 31 December 2016.

	Corporate		Retail		Total	
	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired
			(KD thousands)			
Up to 30 days	4,500	2,793	36,541	-	41,041	2,793
31-60 days	13,261	-	16,983	-	30,244	-
61-90 days	15,078	-	2,618	-	17,696	-
91-180 days	-	37,984	-	20,138	-	58,122
More than 180 days	-	58,673	-	63,417	-	122,090

The Group's impaired loans as a percentage of total gross loans fell from 1.50 per cent. as at 31 December 2014 to 1.28 per cent. as at 31 December 2016 and 1.27 per cent. as at 31 March 2017.

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— The Group's business, results of operations and financial condition could be adversely affected by liquidity risks",* "*Risk Management—Liquidity risk*" and "*—Liquidity, funding and capital—Liquidity"* above.

Interest rate risk

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

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

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

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

		2016		2015		2014	
		Effect on profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity
				(KD thousands)			
Currency	**Movement in Basis points**						
KWD	+25	5,969	-	4,546	-	5,904	-
USD	+25	2,137	(114)	2,064	(859)	199	(1,783)
EUR	+25	915	(5)	164	(8)	(205)	(13)
GBP	+25	827	-	11	-	(66)	-
EGP	+25	30	-	623	(882)	403	(614)

For further information regarding the Group's interest rate risk, including its interest sensitivity position, see note 29 to the 2016 Financial Statements and "*Risk Management—Liquidity risk*".

Market risk

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

For additional information on market risk, see "*Risk Management—Market 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—Foreign exchange risk*" and note 29 to the 2016 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—Market risk—Equity price risk".*

Derivatives

In the ordinary course of its business, the Group enters into a range of transactions that involve derivative 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 and stop loss parameters. 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 as at 31 March 2017 are set out at note 10 to the Interim Financial Statements and their fair values as at 31 December 2016 and 2015 are set out at note 27 and note 26 to the Year-End Financial Statements, respectively.

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— The Group's business, results of operations and "financial condition could be adversely affected by operational risks*" and "*Risk Management—Operational Risk*".

Critical Accounting Policies

The 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 2016 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 2.37 to the 2016 Financial Statements.

Recent Accounting Pronouncements

As of the date of this Base Prospectus, the following standards and interpretations that we expect may have an effect on our future financial statements were in issue but either not yet effective or not yet reflected in our financial statements as they are effective for the ongoing financial period:

- *IFRS 9: Financial Instrument*. The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

- *IFRS 15: Revenue from Contracts with customers*. IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the impact of IFRS 15 but does not expect any significant effect on adoption of this standard.

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

For a description of these standards and interpretations and other standards and interpretations that were in issue but not yet effective, see note 2.2 to the 2016 Financial Statements.

DESCRIPTION OF THE ISSUER

General

The Issuer was incorporated in the Dubai International Financial Centre on 30 April 2017 as a special purpose company under the Companies Law, DIFC Law No. 3 of 2006 and the Special Purpose Company Regulations and with registered number 2462.

Registered Office

The Issuer's registered office is c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, 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 Notes under the Programme and to undertake any ancillary activities. The Issuer is a newly formed DIFC entity and, as at the date of the Base Prospectus, has not commenced business and does not have any substantial assets or liabilities save for rights under the Transaction Documents.

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 1 May 2017 entered into between the Issuer and the Corporate Service Provider (the "**Corporate Services Agreement**"), the Corporate Service Provider has agreed to perform in the United Arab Emirates, 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 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 a copy to the DIFC Registrar of Companies. Furthermore, the Corporate Service Provider has the right to terminate such agreements in the event that there is a change in the shareholding of the Issuer or the Issuer has breached, or is unable to satisfy, any of its obligations under the Notes or the relevant Transaction Documents to which it is a party.

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 Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. 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:

Name	Principal Occupation
Aaron Bennett	Vice President of Maples Fund Services (Middle East) Limited
Andrew Millar	Regional Head of Fiduciary, Middle East of 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, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. 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 Base Prospectus. The Issuer is a wholly-owned subsidiary of the Guarantor.

DESCRIPTION OF THE GROUP

Overview

The Group was the first local 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.

As at 31 March 2017, and based on the Interim Financial Statements and the publicly available financial statements of the Group's main domestic competitors for the three months ended 31 March 2017, the Group was the largest bank in Kuwait in terms of: (i) total assets (KD 24,814 million, as compared to KD 24,204 million as at 31 December 2016); (ii) total loans, advances and Islamic financing to customers (KD 14,049 million, as compared to KD 13,611 million as at 31 December 2016); and (iii) total customer deposits (KD 13,151 million, as compared to KD 12,608 million as at 31 December 2016). As at 31 March 2017, its equity attributable to shareholders of the Bank was KD 2,827 million.

The Group's core businesses are consumer and private banking, corporate banking, Islamic banking (offered through its majority-owned subsidiary, Boubyan Bank K.S.C.P. ("**Boubyan Bank**")) and investment banking and asset management (offered through its majority-owned subsidiary, Watani Investment Company K.S.C.C. (known as "**NBK Capital**")). The Group is primarily a regionally focussed 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 offers its clients a wide range of banking and financial services through the largest branch network in Kuwait, comprising 68 branches, a network of 281 automated teller machines ("**ATMs**") and approximately 10,700 point of sale ("**POS**") terminals, tele-banking, internet banking and mobile banking. As at 31 March 2017, the Bank served more than 3,000 wholesale customers in its domestic Kuwait market.

The Group currently operates its principal areas of business through six distinct financial reporting segments for the purposes of strategic decision making, resource allocation and performance assessment:

- ***Consumer and private banking***: consumer banking 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 three months ended 31 March 2017, KD 60.7 million, or 31.0 per cent., of the Group's net operating income was attributable to the consumer and private banking segment (31 December 2016: KD 242.1 million or 32.5 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 three months ended 31 March 2017, KD 47.6 million, or 24.4 per cent., of the Group's net operating income was attributable to the corporate banking segment (31 December 2016: KD 170.8 million or 22.9 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, brokerage and research services. This segment represents the financial results of NBK Capital. For the three months ended 31 March 2017, KD 6.8 million, or 3.5 per cent., of the Group's net operating income was attributable to the investment banking and asset management segment (31 December 2016: KD 23.3 million or 3.1 per cent.);

- ***Islamic banking***: the Group's Islamic banking segment represents the financial results of Boubyan Bank, the Group's Islamic banking subsidiary. For the three months ended 31 March 2017, KD 30.3 million, or 15.5 per cent., of the Group's net operating income was attributable to the Islamic banking segment (31 December 2016: KD 107.0 million or 14.4 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 segment also includes any residual in respect of transfer pricing and inter-segment allocations. For the three months ended 31 March 2017, KD 5.6 million, or 2.9 per cent., of the Group's net operating income was attributable to the Group centre segment (31 December 2016: KD 15.4 million or 2.1 per cent.); and

- ***International***: the international reporting segment comprises the activities of all branches, subsidiaries and associates of the Group outside Kuwait. For the three months ended 31 March 2017, KD 44.4 million, or 22.7 per cent., of the Group's net operating income was attributable to the international segment (31 December 2016: KD 186.7 million or 25.0 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 at Abdullah Al Ahmad Street, P.O. Box 95, Safat 13001, State of Kuwait and its telephone number is +965 2242 2011.

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 March 2017, the Group had total assets of KD 24,814 million, total loans, advances and Islamic financing to customers of KD 14,049 million and total customer deposits of KD 13,151 million (31 December 2016: KD 24,204 million, KD 13,611 million and KD 12,608 million, respectively), making it 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 wholesale customers as at 31 March 2017, the Group has one of the largest customer bases in Kuwait and 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 March 2017, the Group had the largest branch network in Kuwait, comprising 68 branches, a network of 281 ATMs and approximately 10,700 POS terminals, 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, creation of innovative products and services, its established track record in both consumer and corporate banking, its targeted marketing to consumer, 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 three months ended 31 March 2017, the Group generated net income from Islamic financing of KD 26 million as compared to KD 23 million in the three months ended 31 March 2016.

In 2011, an exception to the general prohibition on Kuwaiti banks offering mortgages of 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 loan portfolios. By virtue of its majority stake in Boubyan Bank, the Group is able to leverage these advantages through its access to the Islamic banking sector.

As discussed under "*Strategy—Geographic and product and service diversification—Strengthening its Islamic 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 March 2017, Boubyan Bank had made available KD 2,671 million of Islamic financing to customers and KD 3,144 million in customer deposits across its 37 branches.

A strong regional and international network

Within the MENA region, the Bank's subsidiary, National Bank of Kuwait – Egypt S.A.E., operates 43 branches in Egypt while the Bank'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 three branches, respectively. The Bank itself has two branches in Bahrain, three in Jordan, one in Saudi Arabia and two in the United Arab Emirates and an associate, Turkish Bank A.S., which has 13 branches in Turkey, whilst Boubyan Bank has investments of 22.0 per cent., 26.4 per cent. and 21.7 per cent., respectively in associated companies in Indonesia (Bank Syariah Muamalat Indonesia T.B.K.), the United Kingdom (Bank of London and the Middle East) and Sudan (United Capital Bank).

Internationally, the Bank has subsidiaries in London (National Bank of Kuwait (International) plc) and Geneva (NBK Banque Privée (Suisse) S.A.), as well as branches in Paris, New York, Singapore and Shanghai.

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 off the Group's well established domestic operations.

Strong 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 Bank's brokerage subsidiary, Watani Financial Brokerage Co. K.S.C. 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 and research team provides high quality and broad company coverage as well as professional execution to its clients. The investment team's strong alternative investment platform and fund raising 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. See "*Strategy—Geographic and product and service diversification— Building a leading regional investment bank*".

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 that 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 minimal 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

As at 31 March 2017, the Group had a total capital adequacy ratio of 17.8 per cent. and a Tier 1 capital adequacy ratio of 15.8 per cent., calculated in accordance with Basel III methodology as adopted by the CBK

(31 December 2016: 17.7 per cent. and 15.7 per cent.). The Group's leverage ratio was 9.1 per cent as at 31 March 2017 (31 December 2016: 9.2 per cent.). The Group's strong capital base has been bolstered by the issuance by the Bank of U.S.$700 million perpetual Tier I capital securities in April 2015, which are accounted for as equity in accordance with IAS 32: Financial Instruments – Presentation. As at 31 March 2017, the Group had cash and short term funds of KD 2,705 million (31 December 2016: KD 2,687 million).

As part of the Basel III reforms, as adopted by the CBK, banks operating in Kuwait have been required to report their LCR to the CBK with effect from 1 January 2015, in accordance with the requirements of CBK Circular number 2/RB/345/2014, dated 23 December 2014. As part of its LCR reporting to the CBK, the Group is required to maintain a portfolio of HQLAs which is sufficient to survive a significant stress scenario, lasting for period of up to 30 days. The Group monitors and reports its LCR at three organisational levels: (i) at the local level (being the Bank, 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 Bank.

The Group has maintained a strong liquidity position with an LCR ratio of between 120 per cent. and 160 per cent., since reporting the LCR was introduced by the CBK on 1 January 2015. The Group believes that its adherence to the LCR criteria will ensure that it is well equipped to absorb any unanticipated systemic shocks to the Kuwaiti or MENA economies or banking sectors. See "*Risk Factors – 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 March 2017, the Group held a portfolio of HQLAs valued at KD 5,293 million and had an LCR ratio of 155.0 per cent. (31 December 2016: HQLAs valued at KD 5,537 million and LCR ratio of 160.2 per cent. and 31 December 2015: HQLAs valued at KD 5,244 million and LCR ratio of 130.5 per cent.).

Sound and consistent financial performance

The Group has a long history of profitability and remained profitable throughout the global financial crisis. Between 2014 and 2016, the Group's operating surplus (being its operating profit before provisions for credit losses and impairment losses) grew by 10.6 per cent., its total assets grew by 11.1 per cent. and net profit attributable to shareholders of the Bank grew by 12.7 per cent. In addition, the Group benefits from low-cost funding due to its strong liquidity position and believes that its asset quality is strong, as evidenced by its relatively low levels of non-performing loans.

As at 31 March 2017, the Group's impaired loans ratio (defined as impaired loans as a percentage of total gross loans) was 1.27 per cent. As at 31 December 2016, the Group had KD 183 million of impaired loans and carried impairment allowances of KD 668 million to cover potential loan losses (31 December 2015: KD 190 million of impaired loans and impairment allowances of KD 613 million). As at 31 March 2017, provision covered 348.2 per cent. of the Group's impaired loans (31 December 2016: 365.2 per cent.).

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 A+ from Standard and Poor's and AA- from Fitch, each with a stable outlook, and Aa3 from Moody's with a negative outlook. The Group has consistently been ranked among the 50 safest banks in the world by Global Finance and, in 2017, was named as the most valuable banking brand in Kuwait by Brand Finance for the third consecutive year, with a brand value of U.S.$1.59 billion as at 31 December 2016 (up from a brand value of U.S.$1.39 billion as at 31 December 2015 and U.S.$1.04 billion as at 31 December 2014).

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.

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 at least 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 that 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 through the provision of online trade finance services 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 also targets cost containment and staff efficiencies whilst investing in retaining and recruiting new talent and developing its IT 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, with its latest overall customer satisfaction index being 91 per cent. in 2016, according to the Bank's annual Kuwaiti customer satisfaction survey; and
- maintaining the lowest cost of funds among Kuwaiti conventional banks.

The Group intends to expand its consumer banking customer base by focusing on profitable 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. To assist the Kuwait government in achieving its social objective, the Group intends to partner with the Kuwait SME Fund in granting credit facilities to SMEs. It has also developed innovative multi-channel distribution solutions, including new internet, mobile banking and call centre services and is focusing on improving cross-selling and product penetration by using the latest available tools and technologies.

The Group intends to increase its focus and reach on digital marketing, including social media, to enhance customer satisfaction and meet demand. The Group also intends to capitalise on its brand equity by cascading the NBK corporate brand down to the consumer banking level and developing a consistent level and form of communication across NBK consumer banking product and service campaigns.

Private banking

Within the private banking sector in Kuwait, the Group's aims include:

- continuing to provide a unique 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 a leading regional investment bank.

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 of the other 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.

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. Boubyan Bank is a relatively small Islamic bank, with estimated market shares of total banking sector assets and customer deposits in Kuwait of 5.1 per cent. and 6.1 per cent., respectively, as at 31 December 2016 (according to the audited consolidated financial statements of Boubyan Bank as at and for the financial year ended 31 December 2016).

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 leading regional investment bank

The Group's strategy in relation to its investment banking and asset management business is to establish the business as a leading regional investment banking, asset management, brokerage and research 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.

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 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 Bank 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 Bank made the strategic decision to expand its presence in the MENA region in markets which it viewed as offering high growth potential. The Bank accordingly made a series of acquisitions in Qatar, Iraq, Egypt and 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.

Following the political instability in several countries in the MENA region, the Group's strategy focused on growing its operations in some of the 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 between 2009 and 2012, the Group's ownership reached its current level of 58.4 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.

Capital Structure and Shareholders

The Bank has been listed on the Kuwait Stock Exchange ("**KSE**") since 29 September 1984. As at 31 March 2017, 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 5.53 per cent. holding in the Group as at 31 March 2017).

The Bank's total market capitalisation as at 31 March 2017 was KD 3.84 billion (31 December 2016: KD 3.60 billion and 31 December 2015: KD 3.96 billion). As at 31 March 2017, the Bank's authorised share capital comprised 6,000,000,000 shares (31 December 2016: 6,000,000,000) of KD 0.1 each, giving it an authorised share capital of KD 600 million (31 December 2016: KD 600 million).

The annual general assembly meeting of the Group's shareholders held on 11 March 2017 approved an increase of KD 28 million in the issued and fully paid share capital of the Bank by issuing 281,783,215 bonus shares representing 5 per cent. of the Group's total share capital. The issued and fully paid up share capital of the Bank as at 31 March 2017 was comprised of 5,917,447,518 shares (31 December 2016: 5,635,664,303 shares) of KD 0.1 each, giving it an issued and fully paid up share capital of KD 592 million (an increase from KD 564 million as at 31 December 2016). The change in the Bank's share capital, which was approved at the Group's annual general assembly meeting on 11 March 2017, was recorded in the commercial register on 19 March 2017.

The Group believes that it benefits from a strong shareholder base, with the Bank's original founding families still controlling the majority of its share capital.

As at 31 March 2017, the Group had a total capital adequacy ratio of 17.8 per cent. and a Tier 1 capital adequacy ratio of 15.8 per cent., calculated in accordance with Basel III methodology as adopted by the CBK (31 December 2016: 17.7 per cent. and 15.7 per cent.). The Group's leverage ratio was 9.1 per cent as at

31 March 2017 (31 December 2016: 9.2 per cent.). The Group's strong capital base has been bolstered by the issuance by the Bank of U.S.$700 million perpetual Tier 1 capital securities in April 2015 and by the Bank's issuance of KD 125 million subordinated Tier 2 bonds in November 2015.

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, 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 turnover of less than KD 1 million. At the same time, the Group aims to leverage its credit and risk infrastructure to expand its expatriate segment and offer new asset classes, including new types of unsecured lending.

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, offshore services designed to preserve customers' capital without restricting capital growth and an extensive range of international banking products and services offered through the Group's international branches and subsidiaries, including NBK Banque Privée (Suisse) S.A.

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 – over the three years to 31 December 2016, the number of the Group's clients have grown at a compound annual growth rate ("**CAGR**") of 2.7 per cent.;
- increasing its "share of wallet" of existing clients – over the three years to 31 March 2017, the Group's assets under management have grown at a CAGR of 4 per cent.; 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*: The Group has the largest branch network in Kuwait, with 68 branches across the country, and the largest ATM and customer deposit-machine network, with more than 281 ATM machines and approximately 10,700 POS terminals. The Group operates a 24/7 self-service facility at its major branches where customers can conduct a range of banking services, such as cash deposits and withdrawals, balance enquiries and statement printing, ordering of cheque books, internet and telebanking access. The Group also recently opened its first 24/7 branch located at the Kuwait

International Airport and introduced 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. The Group has recently extended this distribution channel to also serve as a telemarketing tool through which the Group sells products to customers directly or refers them to their channel of choice. In 2016, the Group's call centre handled approximately 2.2 million calls.

- *Online banking*: The Group commenced offering online banking to its consumer banking customers in 1998 and, as at 31 December 2016, had approximately 310,000 registered online banking customers with around 2.1 million transactions executed in 2016. 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 mobile banking services that provide regular account updates and SMS alerts to registered 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. The Group's "Mobile First" 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 140,000 registered mobile banking subscribers as at 31 March 2017 with approximately 650,000 transactions executed in 2016.

- *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 six 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. 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 near-field communication ("**NFC"**) technology and allows customers to make payments of up to KD 10 at approximately 3,400 point-of-sale systems 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

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 current, savings and time deposit accounts. In addition it offers a draw account, named Al-Jawhara', which is non-interest bearing but features weekly, monthly and quarterly draws to allow customers to win cash prizes with a total of KD 2.2 million annually. In addition, there are various deposit products for young Kuwaitis and expatriate salaried customers. For example, the 'Zeina' account is tailored towards Kuwaiti and expatriate children from birth to 15 years of age and features weekly, monthly and quarterly draws to allow customers to win cash prizes of between KD 5,000 and KD 250,000. The 'Shabab' account is targeted at Kuwaiti and expatriate children between 15 and 23 years old and offers benefits such as 50 per cent. of weekend cinema tickets and weekly, monthly and quarterly cash prize draws. The Group is also developing bancassurance products in the form of long-term fixed savings plans (for example, for education or retirement) 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 instalment 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 through the internet. 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 Bank'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.

  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. The Group has also recently launched its Miles Loyalty Premium credit card which allows the customer to earn air miles and use them across 800 airlines and 150,000 hotels and to access more than 500 airport lounges.

- *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 turnover of up to KD 1 million through its expanded network of dedicated branches. The Group has three business banking hubs established at strategic locations in Kuwait. The Group focuses on three priority sectors: SMEs engaged in importing, contracting and manufacturing; SMEs engaged in the domestic retail trading sector; and SMEs in typically high-margin service sectors, including the professional services industry. Each SME has an assigned relationship manager. A range of payment, account and foreign exchange services and, subject to credit approval, working capital, term finance and trade finance services tailored to meet the customer's needs are available to the Group's SME customers.

- *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 its Group centre reporting segment. See "*—Group centre reporting segment—Investments*" below.

The Group's consumer banking division was awarded the 'Operational Excellence Award for 2016' by MasterCard, while the private banking group was named 'Best Private Bank in Kuwait for 2016' by 'Euromoney Magazine' and by 'Global Finance'.

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 corporate cash management 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 uses a corporate internet banking tool, known as Watani Online Corporate Banking. As at 31 March 2017, the Group had approximately 2,500 active corporate online banking customers who generated approximately 100,000 transactions in 2016.

The Group's corporate banking reporting segment comprises:

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 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 that 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.

The Group's corporate banking division was named "Best Trade Finance Service Provider for 2016" 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 170 professionals and operates from four centres: Kuwait, Dubai, Istanbul and Cairo. NBK Capital focuses on four primary lines of business:

- *Asset Management*: where it had KD 3,614 million (U.S.$11.9 billion) in assets under management as at 31 December 2016 in regional and international funds across various asset classes, including money market, Islamic leasing, global equity, global fixed-income and real estate;

- *Investment Banking*: where it offers clients a range of investment banking services, such as debt and equity capital markets and mergers and acquisitions advice;
- *Alternative Investments*: where it manages more than KD 266 million (approximately U.S.$875 million) across 23 private equity and mezzanine investments, seeking mid-market growth and proactive value-creation across a variety of industry sectors; and
- *Brokerage and Research*: NBK Capital's brokerage professionals are based in Kuwait and Egypt and offer brokerage services across key MENA regional markets and major international markets and are supported by regional equity research analysts covering more than 70 companies.

Asset Management

NBK Capital's Asset Management division comprises four sub-units:

- *MENA Equities*: invests in public equities throughout the MENA region on behalf of institutional and high-net-worth individuals. The department offers three equity funds, including NBK Gulf Equity Fund, NBK Kuwait Equity Fund and NBK Qatar Equity Fund;
- *Product Development*: structures, launches and markets an array of investment products for the Group as a whole and for NBK Capital. The department offers a range of products classified under six asset classes, including money market funds, equity funds, ijara funds, multi-asset funds, and real estate securities funds;
- *Investment Advisory*: provides the Group's private and corporate banking clients with tailored investment solutions and services; and
- *Business Development*: promotes capital markets products and services through a multi-disciplinary approach to corporations, financial institutions and high-net-worth individuals.

Investment Banking

NBK Capital's Investment Banking division comprises two sub-units:

- *Financial Advisory and Equity Capital Markets Department*: provides strategic financial advice to middle-market and blue chip companies across the MENA region, and offers public and private placement, IPO and listing advisory services; and
- *Debt Capital Markets Department*: is a leading arranger of fixed-income securities for companies in the MENA region. The department structures innovative conventional and Shari'a compliant debt solutions to address the unique capital requirements of each client.

Alternative Investments

NBK Capital's Alternative Investments division is predominantly engaged in making mid-market growth capital investments across the MENA region, with a focus value creation. The Alternative Investments division makes both private equity and mezzanine investments (both for growth capital and buyout purposes) with a particular focus on the consumer, education and healthcare sectors.

As at the date of this Base Prospectus, the Alternative Investments division has established and manages four private equity and mezzanine funds, with a total value of KD 266 million (approximately U.S.$875 million) across 23 distinct investments. Additionally, the Alternative Investments division has raised capital for two co-investment opportunities with a total value of KD 14 million (approximately U.S.$46 million).

Brokerage

NBK Capital's Brokerage division offers a wide range of brokerage services and execution capabilities with access to Kuwait, GCC and major international capital markets. Customers can trade and transfer funds easily and quickly across markets through the Brokerage division's online brokerage facility. The Brokerage division provides institutional and high net-worth individuals bespoke brokerage and trading services, in addition to offering a 24-hour call centre for its clients.

In 2016, 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 Bank had a 58.4 per cent. holding, The Commercial Bank of Kuwait had an 11.6 per cent. holding and the remaining shares were publically held as at the date of this Base 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 and private banking, corporate banking and investment 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 entities in the United Kingdom and Indonesia. Boubyan Bank offers its clients a wide range of banking and financial services through one of the fastest growing branch networks in Kuwait, comprising 37 branches as at 31 March 2017, a network of 201 ATMs and approximately 1,280 POS terminals, telebanking, internet banking and mobile banking.

Boubyan Bank's short-term strategy is to build on robust 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.

In relation to its consumer banking operations, Boubyan Bank aims to expand its market share through focusing on private banking and affluent and mass affluent customers and has been working on positioning itself as the bank of choice for affluent customers. 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 a shareholding in 2009, Boubyan Bank grew its branch network from 15 to 37 branches, more than doubled the number of ATMs and quadrupled its sales force. 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 mid-size companies while continuing to capture market share in the larger company 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. For example, Boubyan Bank has introduced automated credit approvals to reduce approval times and also introduced new staff training and development programmes, new leadership programmes and a comprehensive performance management framework.

As at 31 March 2017, Boubyan Bank's total assets (on an unconsolidated basis) were KD 3,673 million (31 December 2016: KD 3,482 million) and its equity attributable to shareholders of the Bank was KD 344 million as at 31 March 2017 (31 December 2016: KD 345 million).

Boubyan Bank's customer financing portfolio was KD 2,671 million as at 31 March 2017 (31 December 2016: KD 2,517 million) and its aggregate customer deposits and deposits from financial institutions were KD 3,217 million as at the same date (31 December 2016: KD 3,021 million). In the three months ended 31 March 2017, Boubyan Bank's net profit attributable to shareholders of the bank was KD 10.5 million and, for the financial year ended 31 December 2016, Boubyan Bank's net profit attributable to shareholders of the bank was KD 41 million.

In 2016, Boubyan Bank received a number of awards including being named "Best Islamic Bank in Kuwait" at the "Banker Middle East" awards, in addition to being named "Best Islamic Financial Institution in Kuwait" and "Best Global Islamic Digital Bank", 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 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.

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 2016, the Group's treasury function was awarded the 'Best Foreign Exchange Provider in Kuwait and the Middle East' by 'Treasury Awards 2016'.

Investments

The Group's investment 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 hard currencies and carry investment-grade ratings.

International reporting segment

The Group has a presence in eight countries in the MENA region in addition to Kuwait and six additional international markets, which the Group believes provides it with a diversified platform for sustainable growth in the future.

The Group's international operations are principally wholesale in nature although in certain locations, such as Egypt and Iraq, the Group also provides consumer banking services.

The Group has a presence in Turkey through its 34.3 per cent. owned associate (Turkish Bank A.S.) and, through its 58.4 per cent. holding in Boubyan Bank, the Group also has a presence in Indonesia (by virtue of the Group's 30.5 per cent. holding in Bank Syariah Muamalat Indonesia T.B.K.) and Sudan (through Boubyan Bank's 21.7 per cent. holding in United Capital Bank).

Within the international network, the Group is focusing on streamlining and, in some cases, reducing activities to improve efficiency and achieve long-term cost savings and productivity gains. These actions included limited branch and staff reductions in Lebanon, Jordan and Iraq in 2013 and 2014 and standardising and automating processes and upgrading IT infrastructure and distribution channels.

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 its international locations, the Group's focus is on servicing its corporate customers who are active internationally and growing its business with international companies that are active in select MENA region markets.

Across the international banking business, the Group's approach is to leverage its existing capabilities, develop an integrated regional approach for corporate, consumer and private banking, capture revenue and cost synergies, enhance standardisation of its operating model and focus on establishing a robust risk management and governance model.

In the affluent GCC, the Group believes that it is well-positioned to leverage its presence for future growth. The Group currently operates in Abu Dhabi, Bahrain, Dubai and Jeddah, where it 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 such as personal loans and the Bank's "Thahabi" account. The Group increased its presence in the GCC in 2013 by opening a new branch in Abu Dhabi and by extending online banking services to Bahrain and Dubai.

In recent years and reflecting a prolonged period of unrest in Egypt, the Group has not sought to expand the operations of its subsidiary, NBK – Egypt. However, as the outlook in Egypt has become more positive, supported by improving market sentiment and gradually improving macro-economic fundamentals, the Group has begun to implement a more aggressive execution plan in Egypt. The Group believes that Egypt could potentially become one of its most profitable markets in the MENA region, with a particular focus around growth of NBK Egypt's retail business offering a significant opportunity for it to leverage its presence there.

The Group's operations in key international cities, such as Geneva, London, New York, Paris and Singapore, typically experience strong inflows of capital and deposits from high net worth individuals, financial institutions, oil companies, correspondent banks and government agencies.

Competition in Kuwait

The Bank 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 Bank's main domestic competitors as at and for the three months ended 31 March 2017 and as at and for the financial year ended 31 December 2016.

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 11 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 Bank's subsidiary, Boubyan) are also licensed to operate in Kuwait.

The tables below show rankings for the six largest Kuwaiti banks by total assets, by customer deposits and by customer loans and advances as at 31 March 2017 and as at 31 December in each of 2016 and 2015.

	As at 31 March	At 31 December	
	2017	**2016**	**2015**
		(KD million)	
Ranking by total assets[(1)]			
The Group	24,814	24,204	23,598
Kuwait Finance House	16,445	16,499	16,495
Burgan Bank[(2)]	-	7,269	6,825
Gulf Bank	5,586	5,467	5,438
Al Ahli Bank of Kuwait K.S.C.P.	4,311	4,285	4,359
Commercial Bank of Kuwait[(2)]	-	4,125	4,037

Source: 31 March 2017 interim financial statements and 31 December 2016 annual financial statements, respectively for each bank.

(1) Total assets are based on consolidated figures and include international assets.

(2) As at the date of this Base Prospectus, Burgan Bank and Commercial Bank of Kuwait had not published their 31 March 2017 interim financial statements.

As at 31 December 2016, the Group's total assets represented 53 per cent. of the total assets of the Kuwaiti conventional commercial banking sector.

	As at 31 March	At 31 December	
	2017	**2016**	**2015**
		(KD million)	
Ranking by customer deposits[(1)]			
The Group	13,151	12,608	12,059
Kuwait Finance House	10,914	10,662	10,709
Burgan Bank[(2)]	-	3,737	3,874
Gulf Bank	3,595	3,395	3,837
Al Ahli Bank of Kuwait K.S.C.P.	2,917	2,900	2,496
Commercial Bank of Kuwait[(2)]	-	2,222	2,546

Source: 31 March 2017 interim financial statements and 31 December 2016 annual financial statements, respectively for each bank.

(1) Customer deposits are based on consolidated figures and include international customer deposits.

(2) As at the date of this Base Prospectus, Burgan Bank and Commercial Bank of Kuwait had not published their 31 March 2017 interim financial statements.

As at 31 December 2016, the Group's customer deposits represented 51 per cent. of the total customer deposits of the Kuwaiti conventional commercial banking sector.

	As at 31 March	At 31 December	
	2017	**2016**	**2015**
		(KD million)	
Ranking by customer loans and advances[(1)]			
The Group	14,049	13,611	13,551
Kuwait Finance House	8,461	8,176	8,095
Burgan Bank[(2)]	-	4,276	4,012
Gulf Bank	3,386	3,446	3,634
Al Ahli Bank of Kuwait K.S.C.P.	3,052	3,029	3,047
Commercial Bank of Kuwait[(2)]	-	2,250	2,297

Source: 31 March 2017 interim financial statements and 31 December 2016 annual financial statements, respectively for each bank.

(1) Customer loans and advances are based on consolidated figures and include international customer loans and advances. Figures for the Group include Islamic financing.

(2) As at the date of this Base Prospectus, Burgan Bank and Commercial Bank of Kuwait had not published their 31 March 2017 interim financial statements.

As at 31 December 2016, the Group's customer loans, advances and Islamic financing to customers represented approximately 34 per cent. of the total customer loans and advances of the Kuwaiti 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 mortgages of private residences in Kuwait was introduced in 2008. However, in 2011 an exception 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. 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 loan portfolios. The Group is currently the only conventional banking group to offer Islamic banking services in Kuwait. Although Boubyan 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—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 source 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 that 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 and 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 projects to enhance stability and customer experience, including upgrading its branch network and data storage capacity and increasing the stability and availability of its online banking and ATM systems.

Technology

The Group focuses on stability and increased availability 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 networks (microwave and multi-protocol label switching) upgrades and enhanced tiered storage. The Group's disaster recovery site has automated orchestration improving the cut-over between its data centres from 8 to 4 hours. The Group also hopes to adopt enhanced metrics where both infrastructure and business applications can be fine-tuned with performance-monitoring tools. All Group businesses have measurable service level agreements which will be used to benchmark key performance indicators with a view to further continuous improvements.

Data security

The Group has an offsite IT operations centre and a disaster recovery site located at Jleeb Al Sheyokh that can be activated when required. This is to ensure that all critical systems are fully operational in line with the Group's business continuity plan, in order to provide essential services to its customers. The Group carries out daily and other periodic data back-ups which are stored in the main data centre and replicated online (in real time) to the disaster recovery centre.

Additionally, the Group provides 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. The Group's information security office carries out various security assessments using external agencies and has adopted the latest technologies to assist in mitigating cyber threats. Whilst the Group has experienced cyber threats, the controls and incident response procedures in place have minimised any adverse impact on the service provided by the Group.

Litigation

As at the date of this Base 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 March 2017 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 and Bahrain. 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 March 2017, the Group employed 5,937 full-time staff, compared to 5,974 full-time staff as at 31 December 2016, 5,800 full-time staff as at 31 December 2015 and 5,627 full-time staff as at 31 December 2014.

The Bank is committed to identifying, attracting and developing Kuwaiti nationals in its workforce. The Kuwaiti government's recommended policy is that 64 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2016 was 66.4 per cent. and it is currently in compliance with all other applicable employment regulations.

MANAGEMENT

Corporate governance framework

The Group 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 during June 2012. The core principles and standards of the Group's corporate governance framework are embedded into the day-to-day business and practices of the Group, with particular oversight at the Group'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 that the framework is implemented through policies and procedures, and employees are required to follow the corporate governance requirements in accordance with the governance manual.

The Group is committed to providing timely, consistent and accurate information to its stakeholders and has adopted a disclosure and transparency policy to ensure that 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 Base Prospectus, the Board comprises nine non-executive members. 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 12 times in 2016.

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 and in the terms of reference of the Board 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 considered and approved by the Board's nomination and remuneration committee ("**BNRC**"). Decisions of the Board are, with limited exceptions, made by majority votes of those present (in person) at the meeting.

The table below shows the names of the members of the Board as at the date of this Base Prospectus.

Name	***Position***
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 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. Louay Jassem Al Kharafi	Board Member
Mr. Emad Mohammed Abdulrahman Al-Bahar	Board Member

Detailed below is brief biographical information about each member of the Board as at the date of this Base 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), and the Finance and Investment Committee of the Kuwait Chamber of Commerce and Industry between 2003 and June 2012. Mr. Al-Sayer has considerable experience in banking, investment, strategic planning and governance in both the private and public sectors. Mr. Al-Sayer was also deputy General Manager of the Kuwait Fund for Arab Economic Development between 1971 to 1978 and a board member for the fund between 1994 to 2000.

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 committee and the BNRC.

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 is 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 the National University of 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 audit committee and a member of the BNRC.

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 Board credit committee, the BCGC 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 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 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 Global 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. Loay Jassem Al-Kharafi – Board Member

Mr. Al-Kharafi has been a Board member since 2011. He is a member of the Board audit committee and the Board risk committee.

Mr. Al-Kharafi served as the Vice-Chairman of the Industrial Bank of Kuwait from 1999 until 2003 and, from 2005 until 2008, was also the Chairman of the bank’s Board audit committee at the Industrial Bank during the same periods. He has held a number of advisory and commercial positions within the Al-Kharafi Group of companies. He is also the founder and Managing Partner of Al-Kharafi law office and legal consulting. Mr. Al-Kharafi has extensive experience in regulatory compliance and legal matters.

Mr. Al-Kharafi holds a Bachelor of Law degree 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 late Chairman's 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-Ahlia Insurance Company Kuwait and of other companies abroad.

Mr. Al-Bahar holds a Management Degree from the American University of Washington, United States.

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, Abdullah Al Ahmad Street, 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 Conditions 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 Group 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 and 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 2016:

Director	**31 December 2016**
Mr. Nasser Musaed Abdulla Al-Sayer	1,828,861
Mr. Ghassan Ahmed Saoud Al-Khalid	5,800,686
Mr. Hamad Abdul Aziz Al-Sager	40,502,161
Mr. Yacoub Yousef Al-Fulaij	3,100,708
Mr. Hamad Mohammed Abdulrahman Al-Bahar	47,732,458
Mr. Muthana Mohammed Ahmed Al-Hamad	3,407,456
Mr. Haitham Sulaiman Al-Khaled	149,251
Mr. Louay Jassem Al Kharafi	149,251
Mr. Emad Mohammed Abdulrahman Al-Bahar	49,568,366

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 on a periodic basis and submits any recommendations for amendments or updates to the Board for approval. The Board committees also submit reports to the Board's Chairman 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 Base Prospectus, the members of the BAC are: Mr. Hamad Mohammed Al-Bahar (BAC Chairman), Mr. Haitham Sulaiman Humoud Al-Khaled and Mr. Loay Jassem Mohammed Al-Khorafi.

  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.

  The BAC is required to hold a minimum of 4 meetings per year and provides regular reports to the Board. In 2016, the BAC sat 5 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 committee.

  As at the date of this Base Prospectus, the members of the BCC are: Mr. Hamad Abdul Aziz Al Hamad Al-Sager (BCC Chairman), Mr. Yacoub Yousef Abdulaziz Al-Fulaij, Mr. Muthana Mohammed Ahmed Al-Hamad and Mr. Emad Mohammed Al-Bahar.

  The quorum for any meeting of the BCC is a minimum of two members. All members of the Board. the GCEO, the Deputy GCEO, and the CEO-Kuwait attend BCC meetings without exercising voting power.

  The BCC is required to meet on a weekly basis and provides regular reports to the Board. In 2016, the BCC sat 51 times.

- *Board Risk Committee.* The Board risk committee ("**BRC**") is responsible for reviewing and monitoring the Group's risk profile, risk strategy, risk appetite and risk controls. It also administers and manages the Group's capital requirements by ensuring that the Group maintains an appropriate level and quality of capital and liquidity in line with its activities. The BRC also reviews the Group's internal capital adequacy assessment process, its stress test scenarios and the Group's risk appetite and key risks. In addition, the BRC reviews the Group's compliance risk processes, anticipates the impact of regulatory change, ensures accountability of risk management, and flags any high-risk actions or transactions as required internally and by regulators. The BRC is also responsible for the recruitment, dismissal, performance evaluation and remuneration recommendation of the Group Chief Risk Officer.

As at the date of this Base Prospectus, the members of the BRC are: Mr. Ghassan Ahmed Saoud Al-Khaled (BRC Chairman), Mr. Haitham Sulaiman Humoud Al-Khaled and Mr. Loay Jassem Mohammed Al-Kharafi.

A quorum of two is required to convene a meeting of the BRC. Only members of the BRC, the Secretary of the BRC and the Group CRO are entitled to attend the committee's meetings.

The BRC is required to hold a minimum of 4 meetings per year and provides regular reports to the Board. In 2016, the BRC sat 4 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 Base 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 Humoud Al-Khaled.

  A quorum of two 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 2 meetings per year and provides regular reports to the Board. In 2016, 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 Base Prospectus, the members of the BNRC are: Mr. Ghassan Ahmed Saoud Al-Khaled (BNRC Chairman), Mr. Hamad Mohammed Al-Bahar, Mr. Muthana Mohamed Al-Hamad and Mr. Emad Mohammed Al-Bahar.

  The quorum for BNRC meetings is two 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 provides regular reports to the Board. In 2016, the BNRC sat 2 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.

Detailed below is brief biographical information about each member of the Group's executive management team as at the date of this Base 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 National Bank of Kuwait – Egypt. He also serves on the board of directors of NBK (International) PLC; 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 Chairperson of 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 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 2007.

Mr. Al-Fulaij serves on the board of NBK Capital and Watani Financial Brokerage Company K.S.C.C.

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 – General Manager – Group Treasury

Mr. Al-Marzouq joined the Group's Treasury team in 2002 where he held several positions until moving to the CBK, as head of the Department of Foreign Operations, between 2012 and 2015. In 2015, Mr. Al-Marzouq returned to the Group as General Manager of Group Treasury.

Mr. Al-Marzouq has extensive experience in investment and wealth management in addition to his experience in treasury and banking operations. Mr. Al-Marzouq is also a board member of Hayat Investment Company and during his time with the CBK, served as a board member at the Industrial Bank of Kuwait and Kuwait Credit Bank.

Mr. Al-Marzouq holds a bachelor degree in Economics from Portland State University, United States.

Mr. George Richani – General Manager – International Banking Group

Mr. Richani joined the Bank in 1987 and has been the General Manager of the International Banking Group since 2012.

Former appointments within the Bank include Head of the Group Treasury and Asset Liability Management functions. He has extensive experience in treasury, funding and liquidity management, balance sheet management and market risk management (in particular, foreign exchange and interest rate risks) in addition to experience in investment management and capital markets, including global fixed-income markets.

Mr. Richani holds a Bachelor of Science degree from the American University of Beirut, Lebanon and a Master's degree in Business Administration in Finance from the City of London Business School. He has participated in a number of executive programmes at Harvard Business School, Stanford Graduate School of Business and Duke University.

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. Jim Murphy – Group Chief Financial Officer

Mr. Murphy joined the Bank in 1999 and has been the Group Chief Financial Officer since 2010.

Prior to joining the Bank, Mr. Murphy was Head of Management Accounting for Ireland and the UK at a leading Irish bank. He has extensive experience in finance and banking.

Mr. Murphy is a Chartered Management Accountant (UK) and Chartered Secretary (UK), and holds a graduateship in Marketing from the Marketing Institute of Ireland.

Dr. Elias Bikhazi – Group Chief Economist

Dr. Bikhazi joined the Bank in 2008 and has been the Group Chief Economist since early 2013. He is also a Deputy General Manager within the Bank and heads the Bank's Economic Research Department.

Dr. Bikhazi has extensive experience in economic analysis and financial markets, including over 20 years' experience covering US markets.

Dr. Bikhazi holds a Bachelor of Arts degree in Economics from the American University of Beirut and a Master of Arts degree and a Ph.D. (both in Economics) from the University of Southern California, United States.

Dr. Soliman Abdel-Meguid – General Counsel – Head of Legal Affairs Group

Dr. Abdel-Meguid joined the Bank in 2001, as General Counsel and Head of the Legal Affairs Group of the Bank.

He has more than 35 years' experience in legal affairs at Kuwaiti banks.

He holds a Ph.D. in Law from Cairo University and has authored several publications in the legal field.

Mr. Mustafa El-Gendi – General Manager – Domestic Corporate Banking Group

Mr. El-Gendi joined the Bank in 1979 and has been the General Manager of Domestic Corporate Banking at the Bank since 2013.

Mr. El-Gendi has extensive experience in all aspects of credit and corporate banking management.

Mr. El-Gendi holds a Bachelor of Science degree in Accounting from Ain Shams University, Egypt and has attended training courses and seminars at London Business School and Harvard 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.

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. Suresh Bajpai – General Manager – Consumer Banking Group

Mr. Bajpai joined the Group in 2016 in his current role as General Manager – Consumer Banking Group. He is also a member of various executive management committees.

Mr. Bajpai has extensive experience in commercial and retail banking, digital and mobile banking payment systems, and credit and risk. Prior to his appointment with the Group, Mr. Bajpai has previously served in a number of roles for a regional bank based in Qatar and a leading global bank in both the United Kingdom and the United States, including serving as head of the retail banking group, as managing director and global head of commercial banking and enterprise payments and as the regional director of customer management.

Mr. Bajpai holds a Master of Business Administration (MBA) Degree from Jamnalal Bajaj Institute of Management, India, as well as a Bachelor of Engineering in Electronics from Bangalore University, India.

Mr. Dimitrios Kokosioulis – General Manager – IT & Operations Group

Mr. Kokosioulis joined the Bank in 2013 as the General Manager, Operations Group.

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, 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 – General Manager – Private Banking Group

Mr. Khalife joined the Bank in 2005 and has been the General Manager, Private Banking Group –Kuwait at the Bank since 2008. He is also a member of various executive management committees.

Mr. Khalife's last role prior to his current position at the Bank was as Director of Private Banking, Representative Office at an American bank in Lebanon. He has over 31 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. Carl Ainger – Group Chief Internal Auditor

Mr. Ainger joined the Bank in 2009 and has been the Group Chief Internal Auditor since 2012.

Mr. Ainger's former appointments include Deputy Chief Internal Auditor at the Bank and Head of Internal Audit at a regional bank in Bahrain. He has extensive experience in internal audit (across the international banking industry) as well as external audit and consulting experience in the United Kingdom.

Mr. Ainger holds a Master's degree in Business Administration from the University of Strathclyde, United Kingdom.

Mr. Emad Al-Ablani – General Manager – Human Resources Group

Mr. Al-Ablani joined the Bank in March 2003 and was appointed as the General Manager, Human Resources in 2014. He is also a member of various executive management committees.

His previous roles with the Bank include Deputy General Manager, Head of Human Resources -Kuwait and Assistant General Manager of Recruitment and HR Operations. His experience in human resources spans over 23 years.

Mr. Al-Ablani holds an Executive Master's degree in Business Administration from the American University of Beirut and a Bachelor of Arts degree in Educational Psychology from Kuwait University.

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, Abdullah Al Ahmad Street, Sharq, State of Kuwait.

No member of the Bank's executive management has any actual or potential conflict of interest between his duties to the Bank and his 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 General Manager – Group Treasury.

Executive management committees

The Group's executive management committees include the credit committees described under "*Risk Management—Credit risk—Corporate credit risk management*", the Group Executive Committee (the "**EC**") and the Group Asset Liability Executive Committee (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 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;
- 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; and
- monitoring and reporting to the Board the Group's operating results.

As at the date of this Base Prospectus, the EC has 13 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 once a month and as often as it deems appropriate to carry out its responsibilities. In 2016, the EC sat 15 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 that 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; 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 Base Prospectus, the ALEC has 17 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 2016, the ALEC sat 24 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 function is conducted by an external audit firm 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 consumer credit, treasury, financial control, information technology, risk management, human resources and administration, internal audit, legal affairs and anti-money laundering.

The external review reports for each of the years ended 31 December 2016, 2105 and 2014 have not highlighted any significant issues with the Group's internal control function.

Notwithstanding the above, internal controls are subject to inherent limitations. Please see "*Risk Factors – 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 2016, the total compensation paid to the executive management amounted to KD 10.5 million, as compared with KD 9.8 million for the year ended 31 December 2015 and KD 8.6 million for the year ended 31 December 2014.

Board members do not receive any compensation in the form of fees, salaries or bonuses for their services rendered to the Group.

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 effective management of risks and efficient allocation of capital towards achieving the ultimate objective of protecting the Group's asset values and income streams in order to protect the interests of its shareholders and external fund providers, increase shareholder value and achieve a return on equity that is commensurate with the risks assumed. Management of these inherent risks is critical to ensuring the Group's financial soundness and profitability.

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

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

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

- the Board provides overall risk management direction and oversight;
- the Group's risk appetite is reviewed by the BRC and ultimately approved by the Board;
- risk management is embedded in the Group as an intrinsic process and is a core competency of all its employees;
- the Group manages its credit, market, liquidity and operational risks in a co-ordinated manner within the organisation; and
- the Group's internal audit function reports to the 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 and Compliance Function

The Group risk management and compliance function, which is headed by the Group Chief Risk Officer ("**GCRO**"), reports directly to the BRC 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; and
- monitoring and assessing major decisions related to risk-taking.

The Group risk management and compliance function is also responsible for ensuring that the Group adheres to all applicable rules and regulations issued by regulators, including the CBK, the CMA and other applicable regulatory authorities.

The Group risk management and compliance function comprises the following departments:

- domestic credit risk management;

- international credit risk management;
- operational risk management;
- market risk management;
- portfolio risk management and control; and
- compliance.

Risk Strategy

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

- balancing performance across the Group's functions;
- maintaining stability and business continuity during stress situations;
- aligning the risk framework with the overall business strategy of the Group;
- ensuring effective and adequate compliance with regulatory capital requirements, in keeping with the Group's strategy;
- effective planning of risk 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 BRC to the Board for final approval. This ensures the risk appetite statements are consistent with the Group's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Group, determined in a manner which meets the objectives of shareholders, depositors and regulators.

The Group risk management and compliance function aims to identify early warnings of risk limit and risk appetite breaches, and is responsible for notifying them to the BRC and the Board.

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.

The CBK requires all Kuwaiti banks to perform semi-annual stress tests under three scenarios: mild, medium and severe. These tests must be based on two sets of assumptions: one based on CBK-prescribed parameters, which are essentially shocks on Pillar 1 risks and the other based on the Bank's own assumptions, which are generally required to be more comprehensive (by including Pillar 2 risks) than those prescribed by the CBK.

These 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. The Group conducts these stress tests semi-annually, as stipulated by the CBK, and also undertakes scenario testing at periodic intervals to quantify potential inherent risks that the Group faces.

The Group regularly assesses the adequacy and effectiveness of its 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 Notes issued under the Programme and/or the Guarantee – The Group's business, results of operations, financial condition and prospects have been adversely affected by credit risks and will likely continue to be affected by credit risks if economic conditions do not improve*".

- **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 Notes issued under the Programme and/or the Guarantee – The Group's business, results of operations, financial condition and prospects could be affected by market risks*".

- **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 Notes issued under the Programme and/or the Guarantee – The Group's business, results of operations, financial condition and prospects could be adversely affected by 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 Notes issued under the Programme and/or the Guarantee – The*

Group's business, results of operations, financial condition and prospects could be adversely affected by operational risks".

Credit Risk

Credit risk management strategy

Executive management implements the credit risk strategy approved by the Board following the recommendations of the BRC and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The Group's executive management executive committee, 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.

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 BRC. 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, externally-produced data on the country (where available) as well as through the application of local business and market knowledge. All country-limit exposures are subject to periodic review and approval by the Board or the BCC.

The Group risk management committee, chaired by the GCEO and comprising senior executives from business divisions and key operational/support functions, meets regularly to review salient risks throughout the Group, and advises the Board appropriately. These committee meetings are led and conducted by Group Risk Management.

Corporate credit risk management

Corporate credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer group.

Internal credit-rating models are regularly reviewed by the Group risk management and compliance function in co-ordination with management and the BRC and are periodically 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 CEO, the Kuwait CEO, the GCRO, 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' or '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 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 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 Chief Credit Officer, the Head of the International Banking Group, the Head of International Credit Risk 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 compliance function and works with the consumer banking business. Consumer credit risk management functional areas are aligned with key concepts of risk management, namely governance, control and measurement and reporting.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers. Within this framework, all credit exposure limits are approved within a defined credit approval authority framework. Policies and procedures specific to each business/product line are approved by the executive committee and significant policies are ratified by the Board.

Credit 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 is also implementing risk-rating modules for commercial real estate, high net-worth individuals ("**HNWIs**") and project finance facilities.

The Group also has an approved framework for FRRs. While the ORR does not take into consideration factors such as the availability of collateral and support, the FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in the FRR.

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

The Group classifies its exposure in accordance with the North American Industry Classification System Code in addition to the classification based on purpose codes as defined by the CBK. This additional classification helps to improve the accuracy of ORRs through peer group analysis in respect of performance and financial indicators and also allows the Group to classify its portfolio into sub-segments which facilitate analysis and improve 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 and potential bilateral transaction history and 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 consumer banking customers. Applicant scoring models are customer-centric models which incorporate CBK regulatory guidelines and Group policies related to consumer credit facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from credit bureaus, particularly Ci-Net (the Kuwait credit bureau) statistics, to assist in assessing an applicant's ability to repay and the probability of default. These models are reviewed and refined on a continual basis.

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 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 risk management 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 2016, 2015 and 2014 and has been extracted from note 29.1.3 to the 2016 Financial Statements and note 28.1.3 to the 2015 Financial Statements.

	Neither past due nor impaired				
	High[(1)]	**Standard[(2)]**	**Past due but not impaired[(3)]**	**Past due and impaired**	**Total gross customer loan portfolio**
			(KD thousands)		
31 December 2016......................	11,626,334	2,381,425	88,981	183,005	14,279,745
31 December 2015......................	11,936,161	1,919,793	117,809	190,092	14,163,855
31 December 2014......................	10,445,249	1,728,478	63,167	186,412	12,423,306

(1) 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.

(2) Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired.

(3) 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 2016, 31 December 2015 and 31 December 2014, 80.2 per cent. 86.1 per cent. and 83.0 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 2016 was KD 75.6 million (31 December 2015: KD 55.6 million and 31 December 2014: KD 59.1 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 Bank's regulatory capital. This does not apply to government and quasi-government entities, agencies and departments in the GCC countries that do not work on a commercial basis or to banks. The Group also measures its concentration levels across sectors, geographies and products to ensure and enhance the portfolio oversight and diversification.

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

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. Furthermore, 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 eligibility of commercial real estate for capital adequacy purposes is being gradually phased-out as part of the CBK Basel III framework.

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 previous three financial years ended 31 December 2016, 31 December 2015 and 31 December 2014, respectively, approximately 50.0 per cent. of the Group's loans, advances and Islamic financing to customers portfolio (net of provisions) was 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.

Loan provisioning and write-off

Impairment of financial assets

The Group assesses, at each reporting date, if there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "**loss event**") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

In relation to the Group's customer loans and advances, which are typically carried at amortised cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be connected objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income. In addition, in accordance with CBK instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) in respect of which no specific provision has been made.

Past-due and impairment provisions

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

A credit facility is 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;
- Substandard, irregular for a period from and including 91 days and up to and including 180 days;
- Doubtful, irregular for a period from and including 181 days and up to and including 365 days; and
- 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.

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.

The general provision has to be maintained at minimum levels of 1 per cent. for cash facilities and 0.5 per cent. for non-cash facilities (net of certain categories of collateral) for all facilities in respect of which no specific provision has been made.

Market Risk

Market risk management

The Group's market risk management framework governs its trading and non-trading related market risk. Market risk stemming from trading activities is managed by the Group Treasurer. The management and oversight of market risk inherent within the Group's non-trading activities is managed by the Group's ALEC, supported by the regional asset and liability committees. All activities giving rise to market risk are conducted within a structure of Board approved credit and position limits.

The Group's strategy for controlling market risk involves:

- stringent controls and limits;
- strict segregation of "front" and "back" office duties;
- regular reporting of positions;
- regular independent review of all controls and limits; and
- rigorous testing of pricing, trading and risk management systems.

Market risk arising from trading activities

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

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

In addition to VaR, the Group uses a structure of 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. The analysis of scenarios showed an impact in the banking book as follows:

	+5 bps	**-5 bps**	**+10 bps**	**-10 bps**
		(KD millions)		
31 December 2016	2.0	(2.0)	4.0	(4.0)
31 December 2015	1.5	(1.5)	3.0	(3.0)
31 December 2014	1.2	(1.2)	2.4	(2.4)

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 reverse cumulative interest rate gap is monitored on a daily basis and adjusted where necessary to reflect changing market conditions.

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 of equity is the impact arising from changes in interest rate on the fair value of available-for-sale investments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held as at 31 December 2016, 31 December 2015 and 31 December 2014, 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 (as extracted from note 29.3.1 to the 2016 Financial Statements and note 28.3.1 to the 2015 Financial Statements):

		2016		2015		2014	
Currency	**Movement in Basis points**	**Effect on profit**	**Effect on equity**	**Effect on profit**	**Effect on equity**	**Effect on profit**	**Effect on equity**
				(KD thousands)			
KWD	+25	5,969	—	4,546	—	5,904	—
USD	+25	2,137	(114)	2,064	(859)	199	(1,783)
EUR	+25	915	(5)	164	(8)	(205)	(13)
GBP	+25	827	—	11	—	(66)	—
EGP	+25	30	—	623	(882)	403	(614)

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 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 following table, which has been extracted from note 29.3.2 to the 2016 Financial Statements and note 28.3.2 to the 2015 Financial Statements, depicts the sensitivity of fair valuations in the trading and non-trading portfolios to hypothetical, instantaneous changes in the level of foreign currency exchange rates against the Kuwaiti dinar – with other market risks held constant – which would have an impact on the Group's consolidated statement of income:

Currency	**2016**	**2015**	**2014**
		(KD thousands)	
	+5%	*+5%*	*+5%*
U.S.$	(412)	(174)	393
GBP	40	58	(202)
EUR	214	165	244
EGP	(127)	56	205
Other	(42)	5	182

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 equity price risk through diversification of investments in terms of geographic distribution and industry concentration.

The Group's investments unit is responsible for managing its investment securities portfolio. In accordance with IAS 39, the equity investments are typically classified as available-for-sale securities, which means that they are expected to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These investments are initially recognised at fair value and subsequent unrealised gains or losses arising from changes in fair value on each balance sheet date are recognised in comprehensive income. When an investment is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

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 Group treats its available-for-sale equity instruments as impaired when there has been a significant or prolonged decline in the fair value below the cost of the investment or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment by management. See note 2.37 to the 2016 Financial Statements.

The table below, which has been extracted from note 29.3.3 to the 2016 Financial Statements and note 28.3.3 to the 2015 Financial Statements, analyses 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 the consolidated statement of income) and on the Group's equity (as a result of changes in the fair value of equity investments held as 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.

	2016		2015		2014	
Stock Exchange	**Profit**	**Equity**	**Profit**	**Equity**	**Profit**	**Equity**
			(KD thousands)			
Kuwait Stock Exchange	—	949	—	944	—	930
Saudi Stock Exchange	—	475	—	468	—	546
UAE/Doha* Stock indices	—	309	—	184	—	271*

* 2014 data shows the effect of equity price risk on the Group's profit and on the Group's equity based on an assumed 5 per cent. change in the Doha Stock index, with the data for 2015 and 2016 showing the impact based on an assumed 5 per cent. change in the UAE Stock indices.

All revaluation gains or losses during the year relating to available for sale equity investments were recorded in the consolidated statement of comprehensive income. For additional details of the accounting policies related to the valuation of equity holdings, see notes 2.19 and 2.20 to the 2016 Financial Statements.

Liquidity Risk

Liquidity risk can be caused by market disruptions or credit rating downgrades which may restrict the availability of certain sources of the Group's funding. To address this risk, executive management has sought to maintain a diversified liabilities profile and to manage its assets with liquidity in mind, including maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

The Group's liquidity management is guided by its internal liquidity policy, which is reviewed annually and approved by the Board. 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 management aims to ensure that sufficient funds are available to meet its known cash funding requirements and any unanticipated needs that may arise. At all times, the Group aims to hold what it considers to be adequate levels of liquidity to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

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 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).

As at 31 March 2017, the Group held a portfolio of HQLAs valued at KD 5,293 million and had an LCR ratio of 155.0 per cent. (31 December 2016: HQLAs valued at KD 5,537 million and LCR ratio of 160.2 per cent. and 31 December 2015: HQLAs valued at KD 5,244 million and LCR ratio of 130.5 per cent.). See "*Risk Factors – Factors that may affect the Bank's ability to fulfil its obligations in respect of Notes issued under the Programme and/or the Guarantee – The Group's business, results of operations, financial condition and prospects could be adversely affected by 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*" for more information.

The ALEC monitors compliance to these ratios internally at least on a monthly basis.

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 Bank, 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 Base Prospectus, the Group was fully compliant with the CBK's liquidity requirements set out above.

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 29.2 to the 2016 Financial Statements, included elsewhere in this Base Prospectus, 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

The Group enters into various types of transactions that involve derivative financial instruments in the ordinary course of its business. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instruments, reference rates or indices. The Group 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 its positions in these instruments are set out in note 27 to the 2016 Financial Statements.

Counterparty credit risk

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. Potential counterparties are examined according to historical financial performance and current ranking with comparable banks. Information from reputable credit agencies is taken into consideration when evaluating potential counterparties. The location of potential counterparties is also taken into account in order to mitigate against excessive geographical risk. Using this data, credit limits are allocated for all counterparties to limit any potential risks. These credit limits are reviewed at least once a year. Credit exposure is actively monitored on a regular basis and any excesses are escalated in accordance with established governance thresholds.

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 quickly resolved. The Group uses an internal model to estimate potential future exposure, which includes the mitigating effects of netting and collateral in valuing over-the-counter contracts.

Additional collateral requirements due to credit rating downgrade

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

Counterparty credit risk from derivatives transactions

The Group Risk Management and Compliance function independently monitors credit risk exposure arising from derivatives transactions using the concept of Potential Future Exposure ("**PFE**"). PFE is defined as the maximum credit exposure over a specified period of time calculated at a 99 per cent. confidence level. Counterparty credit risk is further mitigated through the use of standard form International Swaps and Derivatives Association credit support annex contracts entered into with the majority of the Group's derivatives counterparties.

Exposure-at-default methodology

The Group uses PFE to estimate counterparty exposure at future time horizons. This maximum is an upper bound at a confidence interval for future credit exposure. The simulation model projects potential values of various risk factors which affect the Group's counterparty portfolio under a large number of simulation paths, and then determines possible changes in counterparty exposure for each path by re-pricing transactions with that counterparty under the projected risk factor values.

The PFE incorporates the effects of legally-enforceable netting and collateral agreements when estimating counterparty exposure. For the year ended 31 December 2016, the Group's PFE on its derivatives transactions amounted to KD 22.1 million (as compared to KD 19.6 million for the year ended 31 December 2015 and KD 17.1 million for the year ended 31 December 2014).

Operational Risk

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

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

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

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

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

The capture and reporting of operational risk incidents and losses 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 BRC to ensure comprehensive oversight and review is conducted by relevant members of the Board and executive management.

Compliance

Overview

The Group's compliance function is an independent function which reports to the BRC on a quarterly basis. The function is responsible for overseeing and managing internal compliance matters across the Group through a robust compliance framework.

The compliance framework consists of compliance policies and procedures to which all employees are required to adhere. In addition, a risk and compliance matrix is used across the Group to assess and monitor the effectiveness of regulatory compliance self-assessment tools that are used by the various business units.

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.

The Group's internal audit department also ensures that the compliance framework is being consistently implemented across the Group through periodic reviews.

Anti-money laundering ("AML") and counter-terrorism financing ("CTF")

The Group applies an integrated AML/CTF policy and procedures which take account of 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 AML-related laws and regulations.

The Group's CFT policies apply customer due diligence principles for applicants and customers which include the following:

- all new customers being identified and verified;
- all customers being screened against all prohibited lists to ensure full compliance with international sanctions lists; and
- all outward and inward transfers being screened to comply with all sanctions lists.

Customer transactions are monitored on a daily basis under a risk-based approach to ensure no money laundering transactions are conducted. In addition, the Group conducts enhanced due diligence in relation to high-risk customers.

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 31 December 2016 were KD 9.1 billion, an increase of 15.0 per cent. as compared to KD 7.9 billion as at 31 December 2015. This increase was primarily a result of an increase in foreign assets held by the CBK. Total foreign assets as at 31 December 2016 were KD 8.9 billion, an increase of 14.0 per cent. as compared to KD 7.8 billion as at 31 December 2015.

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 the KSE 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. 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.

New 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 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 has also introduced, in 2014, the LCR and, later in 2015, the NSFR guidelines, which are aimed to improve banks' capacity to withstand liquidity stress and to make their funding structure stable. See "*—Soundness of the Banking System—Capital Adequacy*" *and* "*—Liquidity*" below.

In addition, the CBK has also issued comprehensive guidelines around strong internal controls, prudent risk management and meticulous compliance to make Kuwaiti banks' corporate governance more robust.

Moreover, the CBK Board of Directors has resolved, in its session held on 20 December 2016, to issue instructions on "Shariah Supervisory Governance for Kuwaiti Islamic Banks". The issuance of these instructions is in line with the continuing CBK efforts to promote Islamic banking activities in Kuwait and, accordingly, to develop Shariah supervisory regulations for Islamic banks as per applicable best practices.

Liquidity Regulations

Kuwaiti banks are restricted by the CBK from lending amounts in excess of a prescribed percentage of qualifying deposits. With effect from October 2016, the prescribed percentage is 90 per cent., irrespective of the maturity profile of such deposits.

The CBK requires banks to maintain 18 per cent. of their KD 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.

Credit Risk Regulations

- *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*: The CBK's circular on Buy Out and Top Up issued in July 2015 provides that consumer and instalment loans granted to a bank's customers can be utilised for the purpose of repaying an existing loan with another bank in Kuwait. In general, the maximum limit on consumer loans is 15 times the net monthly salary (or continuous monthly income) of the consumer, or KD 15,000, whichever is higher, and the maximum tenor for consumer loans is five years. An "instalment" loan is a long-term personal loan intended for non-commercial purposes, in particular for repair or purchase of a private residence. The maximum limit on instalment loans is KD 70,000 (which is inclusive of the maximum limit on any "consumer" loans advanced to the same customer). The maximum tenor for instalment loans is 15 years. A customer's total consumer and instalment loans must not exceed 40 per cent. of that customer's net annual salary.

- *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.

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

During June 2012, the CBK issued the "Rules and Standards of Corporate Governance in Kuwaiti Banks" (the "**Corporate Governance Rules**") which apply to all banks in Kuwait and were required to be implemented by 1 July 2013. The Corporate Governance Rules provide principles that should be applied by Kuwaiti banks in order to ensure proper governance. These include, amongst other things, the independence of the board of directors, risk management controls, 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 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 internal and external audit committee, and any other committees that have an active role in the business of the bank.

The Board of Directors of the Bank 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.

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 the KSE. 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 12 June 2020. 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 was conducted during 2016. The final inspection report was issued by the CBK on 20 December 2016 and contained no material issues.

Alongside the CBK, the Bank is also regulated by the CMA due to it being a publically traded company with shares listed on the KSE, and conducts some of the "Securities Activities" listed in Module 5 article 1-2 of the CMA Bylaws.

Banking System

Kuwait has a well-developed financial sector, which is predominantly bank-centric. The CBK supervises a whole network of banking and financial institutions that are comprised of: 11 Kuwaiti banks**,** branches of 12 foreign banks, 70 investment companies (with regards to their financing portfolio), 42 exchange companies and two financing companies.

The following table sets forth the developments in the local bank structure as at 31 December 2016, 2015, 2014, 2013 and 2012, respectively.

	As at 31 December				
	2016	**2015**	**2014**	**2013**	**2012**
Number of head offices	23	23	23	22	22
Number of local branches	420	401	419	400	384
Number of external branches	16	16	16	16	16
Number of representative offices	4	4	4	3	3
Total branches/representative offices............	**440**	**421**	**439**	**419**	**403**

Source: Central Bank of Kuwait

As at 31 December 2016, there were 11 Kuwaiti banks of which there are:

- 5 conventional banks (National Bank of Kuwait, Burgan Bank, Gulf Bank, Commercial Bank of Kuwait and Al Ahli Bank of Kuwait);

- 5 Islamic banks (Kuwait Finance House, Boubyan Bank, Kuwait International Bank, Ahli United Bank and Warba Bank); and
- 1 specialised bank (Industrial Bank of Kuwait), which was established by the Kuwait government with an emphasis on financing and enhancing industrial development in Kuwait.

The key performance indicators of the conventional Kuwaiti banks as at 31 December 2016 are set out below (source: annual reports published on the company website of each bank listed below).

	Cost to income ratio	Return on assets	Return on equity	Earnings per share
		(per cent.)		*(fils*)*
National Bank of Kuwait	33.8	1.2	10.2	52
Burgan Bank	48.5	0.9	10.5	28
Gulf Bank	37.5	0.8	7.5	15
Commercial Bank of Kuwait	27.9	1.2	8.4	34
Al-Ahli Bank of Kuwait	39.4	0.8	5.9	20

* 1000 fils equals one Kuwaiti dinar.

In addition, 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, Union National Bank and Industrial and Commercial Bank of China Limited.

Additionally, several Kuwaiti banks have sizeable presences in numerous other countries, with total assets of their subsidiaries and branches abroad accounting for 22.3 per cent. of the total assets of the Kuwaiti banking system as at 31 December 2016.

The following table sets forth the aggregate balance sheet of all 11 Kuwaiti banks and their subsidiaries (the "**local banks**") as at 31 December 2016, 2015, 2014, 2013 and 2012, respectively.

	As at 31 December				
	2016	2015	2014	2013	2012
			(KD millions)		
Assets					
Cash	1,452	1,599	1,638	1,537	749
Due from CBK	4,187	3,307	4,294	3,808	2,725
Due from Banks	7,561	8,290	7,618	5,388	4,790
Due from Other Financial Institutions	—	—	—	—	38
Investments in Government Securities	5,995	5,227	5,157	4,678	4,365
Investments in Other Fixed Income Securities	2,308	2,079	1,922	1,835	1,291
Equity Investments	2,188	2,418	2,474	2,708	2,680
Real Estate Investments	880	903	833	948	919
Net Loans	41,775	41,522	38,824	34,744	31,881
Fixed Assets	732	751	1,340	1,238	1,152
Goodwill	556	657	797	809	872
Other Assets	1,767	1,389	1,503	1,504	1,437
Total Assets	**69,400**	**68,141**	**66,399**	**59,195**	**52,899**
Liabilities					
Due to CBK	1	1	0	0	0
Due to Banks	6,157	7,000	6,993	4,657	3,678
Due to Other Financial Institutions	9,845	8,820	8,341	7,483	6,369
Deposits (Private and Governmental)	40,541	40,372	39,419	36,810	33,477
Securities Issued	634	322	226	83	111
Other Borrowed Funds	1,574	1,561	1,466	959	704
Other Liabilities and Payables	1,823	1,462	1,589	1,524	1,421
Shareholder's Equity	8,825	8,603	8,366	7,679	7,139
Total Liabilities and Shareholders' Equity	**69,400**	**68,141**	**66,399**	**59,195**	**52,899**

Source: Central Bank of Kuwait

As at 31 December 2016, total assets in the Kuwaiti banking system, including Kuwaiti banks' branches abroad, were KD 69.4 billion, representing an increase of 1.8 per cent. compared to KD 68.1 billion as at 31 December 2015. Net loans as at 31 December 2016 were KD 41.8 billion, representing 60.2 per cent. of the total assets.

Bank Deposits

According to the CBK, total deposits in local banks (in both KD and foreign currency) were KD 50.4 billion as at 31 December 2016, an increase of 2.4 per cent., from KD 49.2 billion as at 31 December 2015. Retail deposits accounted for 46.9 per cent. of total deposits in local banks as at 31 December 2016, as compared to 48.6 per cent. as at 31 December 2015.

Soundness of the Banking System

Despite the low oil price environment since mid-2014, the Kuwaiti banking system has remained stable. Results from the CBK's quarterly stress testing exercise have revealed that Kuwaiti banks, individually and collectively, have been able to broadly withstand various shocks in credit, market and liquidity simulated under a wide range of micro and macro-economic scenarios, in part due to the CBK's conservative policies. See "—*Capital Adequacy*", "—*Asset Quality*" and "—*Liquidity*" below.

The following table sets forth certain key financial soundness indicators as at 31 December 2016, 2015, 2014, 2013 and 2012, respectively.

	As at 31 December				
	2016	**2015**	**2014**	**2013**	**2012**
			(%)		
Capital Adequacy					
Regulatory capital to Risk Weighted Assets[(1)]	18.6	17.5	16.9	18.9	18.5
Regulatory Tier 1 capital to Risk Weighted Assets	16.7	16.1	15.6	17.1	16.4
Capital to assets	12.8	11.8	11.1	12.2	12.4
Asset Composition and Quality					
Gross NPLs to total loans	2.2	2.4	2.9	3.6	5.2
Total provisions to gross NPLs	236.9	204.8	163.9	134.6	95.1
Large exposures to Tier 1 capital	94.7	101.1	97.1	87.2	97.8
Profitability					
Return on average assets	1.1	1.1	1.1	1.0	1.2
Return on average equity	8.5	8.8	8.7	7.4	9.1
Liquidity					
Core liquid assets to total assets	24.1	24.3	24.7	22.5	21.0
Deposits to assets	58.4	59.2	59.4	62.2	63.3
Loans to deposits[(2)]	108.9	108.3	103.6	99.5	100.5
Loans to liabilities	72.9	73.5	70.4	71.7	73.5
Net loans to available sources of funds[(3)]	**76.8**	**78.7**	—	—	—

(1) Capital adequacy numbers are based on Basel III for 2014 onwards and on Basel II for all the previous years.

(2) The ratio of gross loans (including loans to banks) to private and government deposits (excluding other financial institutions deposits).

(3) CBK has amended its maximum lending limit regulation, through setting a certain percentage on amounts that can be lent by local banks to be 90 per cent. of qualifying sources of funds. Where qualifying sources of funds are private sector deposits, government deposits, financial institutions deposits (excluding banks), medium and long-term loans, deposit certificates issued and issued bonds.

Source: Central Bank of Kuwait

Capital Adequacy

Kuwaiti banks maintain high capital levels, given the CBK's strong focus on ensuring a stable financial system where a robust capital adequacy plays a critical role.

In June 2014, the CBK issued directives on the adoption of capital adequacy standards under the Basel III framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier Basel II requirements. The Basel III reforms strengthen the quality of capital and introduce several buffer requirements in line with proposals made by the Basel Committee. The CBK 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 above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

The Basel III framework raised both the quality and quantity of the capital base and increased capital requirements for certain positions. The 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.

As at 31 December 2016, local banks' capital adequacy ratio ("**CAR**") on a consolidated basis improved from 17.5 per cent. as at 31 December 2015 to 18.6 per cent. Despite experiencing a decline in CAR in 2014 due to the implementation of Basel III capital adequacy standards, banks were able to expand their capital base in 2015 and 2016, even in a challenging economic environment. At 18.6 per cent. as at 31 December 2016, local banks' CAR stood at a high level and above the CBK's requirement of 13.0 per cent., applicable with effect from 31 December 2016.

The improvement in CAR was essentially due to relatively stronger growth in banks' total capital (up by 10.3 per cent.) compared to the growth in their Risk Weighted Assets of 4.0 per cent. in 2016. The breakdown of total capital reveals that both Tier 1 capital and Tier 2 capital posted positive growth, increasing by 7.7 per cent. and 39.4 per cent., respectively, for the year ended 31 December 2016. Local banks' strong CAR levels, which are driven largely by high quality Tier 1 capital underscores the strength of the Kuwaiti banking system in weathering major stress scenarios. The overall leverage ratio of local banks was 10.1 per cent. as of December 2016, which is also substantially higher than the 3 per cent. global benchmark.

Asset Quality

The NPL ratio of local banks has continued its steady decline over the last seven years to reach 2.2 per cent. by 31 December 2016, a historically low level. At the same time, the coverage ratio (provisions to gross NPLs) has climbed to a record high of 236.9 per cent., substantially greater than the pre-2008 financial crisis ratio of 87.0 per cent. that was observed in 2007.

Liquidity

In line with CBK policy to implement the full package of Basel III reforms, the CBK issued its LCR regulations in 2014 and the CBK board of directors approved, in its session held on 25 October 2015, the NSFR guidelines for both conventional and Islamic banks, including the branches of foreign banks operating in Kuwait.

The CBK has introduced LCR in a phased manner, setting a benchmark of 70 per cent. in 2016 which will later reach 100 per cent. by 2019. 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 that should not be less than 100 per cent. This requirement is effective from the beginning of 2018. Banks have been required, since January 2016, to start reporting their NSFR to the CBK. However, until the official implementation of NSFR in 2018, banks will have sufficient time to upgrade their systems, revise their methodologies of asset/liability management and make relevant changes to their sources and uses of fund structures in accordance with the new guidelines.

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.

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 2016 Annual Statistical Bulletin (the "**OPEC 2016 Bulletin**"), Kuwait has the fifth largest oil reserves in the world estimated at around 101.5 billion barrels (accounting for 6.8 per cent. of the world's total oil reserves). According to the OPEC 2016 Bulletin, Kuwait was the world's eighth largest oil producer and exporter for the year ended 31 December 2015, accounting for 3.8 per cent. of the world's total oil production and 4.7 per cent. of the world's total oil exports for the year ended 31 December 2015, respectively. According to the same source, Kuwait's production levels were 2.9 million bpd on average for the year ended 31 December 2015. As a founding member of OPEC, Kuwait's oil production is subject to any agreements that are reached to limit oil production. Most recently, in November 2016, OPEC reached an agreement to limit oil production for six months by 1.2 million bpd, which started in January 2017. According to this agreement, Kuwait has agreed to reduce output by 131,000 bpd until July 2017. OPEC's next scheduled meeting is in May 2017, where this agreement will be re-evaluated.

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 was published by the Public Authority for Civil Information as at 31 December 2016. The population was estimated to be approximately 4.4 million, of which approximately 1.3 million were Kuwaiti nationals (30.3 per cent.) and approximately 3.1 million were non-Kuwaiti nationals (69.7 per cent.). As at 31 December 2016, 98.6 per cent. of the Kuwaiti population lived in cities with more than 10,000 inhabitants.

Based on data from the Public Authority for Civil Information, Kuwait's estimated population increased each year since 2011, growing year-on-year by 3.2 per cent. in 2011, 3.4 per cent. in 2012, 3.3 per cent. in 2013, 3.6 per cent. in 2014, 3.6 per cent. in 2015 and 4.1 per cent. in 2016. Growth in the number of non-Kuwaiti nationals exceeded growth in the population of Kuwaiti nationals during these years, a fact reflected in the rise in their share of Kuwait's total estimated population, which has increased each year, from 68.0 per cent. as at 31 December 2011, to 68.3 per cent. as at 31 December 2012, to 68.7 per cent. as at 31 December 2013, to 68.8 per cent. as at 31 December 2014, to 69.2 per cent. as at 31 December 2015 and to 69.7 per cent. as at 31 December 2016.

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 for the year ended 31 December 2015 prepared by Kuwait's Central Statistical Bureau, Kuwait's GDP grew by 1.8 per cent., 0.5 per cent., 1.1 per cent., 6.6 per cent. and 9.6 per cent. in real terms (at constant 2010 prices) for the years ended 2015, 2014, 2013, 2012 and 2011, respectively, to reach KD 40.0 billion (U.S.$ 133.1 billion, assuming a KD to U.S. dollar exchange rate of U.S.$ 3.33). There are currently no official Government statistics available on Kuwait's GDP for the year ended 31 December 2016. However, according to the 2016 IMF Article IV Report, the IMF has estimated that real GDP grew by 3.6 per cent. for the year ended 31 December 2016. According to the World Bank, at U.S.$74,645.50, Kuwait has the sixth highest GDP (at purchasing power parity) per capita in the world for the year ended 31 December 2015.

Based on provisional figures from Kuwait's Central Statistical Bureau, while the contribution of the oil sector to Kuwait's nominal GDP decreased to KD 15.7 billion, or 39.7 per cent. of nominal GDP, for the year ended 31 December 2015, which was a decrease of 46.2 per cent. from KD 29.2 billion, or 55.8 per cent. of nominal GDP for the year ended 31 December 2014, the contribution of the non-oil sector demonstrated growth and increased as a percentage of total nominal GDP. The contribution of the non-oil sector to Kuwait's nominal GDP was KD 23.9 billion, or 60.3 per cent. of total nominal GDP for the year ended 31 December 2015, as compared to KD 23.2 billion, or 44.2 per cent. of nominal GDP, KD 22.4 billion, or 40.7 per cent. of nominal GDP, KD 21.4 billion, or 39.2 per cent. of nominal GDP and KD 19.5 billion, or 41.0 per cent. of nominal GDP for the years ended 31 December 2014, 2013, 2012 and 2011, respectively. According to Kuwait's Central Statistical Bureau, for the year ended 31 December 2015, community, social and personal services activity was the largest contributor to non-oil nominal GDP at 35.7 per cent., followed by financial intermediation and insurance activity at 14.5 per cent. and real estate, renting and business services activity at 14.2 per cent. Agriculture and fishing and electricity and water grew the most at 13.7 per cent. and 12.0 per cent., respectively, for the year ended 31 December 2015 as compared to 31 December 2014, while the activity of manufacturing industries (excluding the manufacturing of coke, refined petroleum products and nuclear fuel) decreased the most at 1.9 per cent. for the year ended 31 December 2015 as compared to 31 December 2014.

According to data from Kuwait's Ministry of Finance, oil revenues comprised 88.6 per cent. of total Government revenues for the fiscal year ended 31 March 2016. According to the Central Statistical Bureau, oil and oil products represented 89.6 per cent. of total exports for the year ended 31 December 2016. 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 and 2016. The monthly average OPEC Reference Basket price per barrel in June 2014 was U.S.$107.90, which has dropped to a monthly average price of U.S.$50.32 in March 2017. 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 and oil products accounting for 52.4 per cent. of real GDP for the year ended 31 December 2015 according to provisional figures from Kuwait's Central Statistical Bureau), 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 Kuwait's Central Statistical Bureau, the non-oil sector of the economy contributed 47.6 per cent. of Kuwait's real GDP in the year ended 31 December 2015 and grew by 1.3 per cent. in real terms in the same time period. For the year ended 31 December 2015, community, social and personal services activity was the largest contributor to non-oil real GDP at 34.5 per cent., followed by financial intermediation and insurance activity at 14.9 per cent. and real estate, renting and business services activity at 13.1 per cent. The activities of hotels and restaurants and construction grew the most in real terms at 9.5 per cent. and 8.4 per cent., respectively, for the year ended 31 December 2015 as compared to 31 December 2014, while the activity of electricity, gas and water decreased the most in real terms at 9.8 per cent. for the year ended 31 December 2015 as compared to 31 December 2014.

Kuwait's public finances benefit from one of the world's largest sovereign wealth funds. Based on third party public sources, as at 30 June 2016, the KIA was ranked as the world's fifth largest sovereign wealth fund with more than U.S.$500 billion in assets. 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, by law, a minimum of 10 per cent. of all Government revenues are transferred to the FGF. 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.

Inflation

The following table sets forth the consumer price index ("**CPI**") and annual inflation rate in Kuwait for the years ended 31 December 2016, 2015, 2014, 2013 and 2012, respectively.

	Average for the year ended 31 December				
	2016	**2015**	**2014**	**2013**	**2012**
Consumer Price Index (base year 2007=100)	141.7	137.3	133.0	129.2	125.8
Inflation (percentage change, year on year)	3.2	3.3	2.9	2.7	3.3

Source: Central Statistical Bureau

For the year ended 31 December 2016, average annual inflation, as measured by the consumer price index, was 3.2 per cent. Inflation rose to 6.4 per cent. for housing services and to 10.5 per cent. for transport. The rise in the inflation rate for transport can be primarily attributed to cuts to fuel subsidies that were introduced in September 2016. These increases in inflation were offset by lower inflation in other categories; inflation fell to 0.7 per cent. for food and beverages and to 1.5 per cent. for clothing and footwear.

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 Sabah Al-Ahmed Al-Jaber Al-Sabah (87), who acceded to the throne in January 2006. 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. The Emir's half-brother, His Highness Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah (79), 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 current National Assembly was elected in November 2016 with a heavy concentration of opposition members which could potentially have a disruptive effect on future deliberations regarding various reforms being put into place due to the low oil price environment, such as the National Program for Fiscal and Economic Sustainability. The next National Assembly election is scheduled for 2021, although the Emir retains the power to dissolve the National Assembly before that time if the current arrangement ultimately proves to be ineffective.

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 Jaber Al-Mubarak Al-Hamad Al-Sabah who was appointed in 2011. The Council of Ministers is composed of all Ministers who comprise 22 ministerial functions.

Kuwait's legal system is primarily modelled on the French civil law system, Egyptian civil code and elements of Islamic Shariah 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's foreign policy is governed by its belief in mutual respect, equality and non-interference in the internal affairs of other nations. Kuwait is a strong advocate of resolving international disputes amicably by peaceful means and in compliance with principles enshrined in international treaties and laws. Kuwait strongly believes in maintaining the independence and sovereignty of its lands, wealth and its people and accords the same respect to other sovereign nations. Kuwait maintains strong bilateral relations with the United States, China, India, the EU and its member states, including among others, the United Kingdom of Great Britain and Northern Ireland, the Federal Republic of Germany, the Italian Republic and the French Republic.

Kuwait is a member of the United Nations and some of its specialised and related agencies, including the World Bank, the International Monetary Fund (the "**IMF**") and the World Trade Organisation. Regionally, Kuwait is a member of the GCC, the League of Arab States, the Organisation of Islamic Cooperation and OPEC.

BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Guarantor nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Book-Entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "**banking organisation**" within the meaning of the New York Banking Law, a "**clearing corporation**" within the meaning of the New York Uniform Commercial Code and a "**clearing agency**" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**"). More information about DTC can be found at www.dtcc.com and www.dtc.org.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC 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 the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished 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 DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes 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 DTC 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.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Restricted Global Certificate, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Notes purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Notes by causing the Direct Participant to transfer the Participant's interest in the DTC Notes, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Notes to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Notes at any time by giving reasonable notice to the Issuer or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Note certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Note certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. 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 participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

Book-Entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Global Certificate accepted in its book-entry settlement system. Upon the issue of any such Global Certificate, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Global Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Unrestricted Global Certificate, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Global Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Certificate accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Certificate in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Fiscal Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Global Certificates

Transfers of any interests in Notes represented by a Global Certificate within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Global Certificate to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Global Certificate accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Global Certificate accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other hand, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian ("**Custodian**") with whom the relevant Global Certificates have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Global Certificates will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Guarantor, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The following summary of certain State of Kuwait, United States, Dubai International Financial Centre and United Arab Emirates (excluding the Dubai International Financial Centre) tax consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Base Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the acquisition, ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Base Prospectus, and of any actual changes in applicable tax laws after such date.

State of Kuwait

This summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955 (the "**Decree**"), 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 Ministry of Finance (the "**MOF**") (together, the "**Taxation Laws**") as interpreted and implemented by the MOF's Department of Income Tax ("**DIT**") as at the date of this Base 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

The Taxation Laws do not contain a clear definition of "*permanent establishment*". 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 Base 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 Base Prospectus as non-GCC corporate entities) which, for the avoidance of doubt, include 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.

It is worth noting that pursuant to Law No. 22 of 2015 amending Law No. 7 of 2010 (the "**CMA Amendment**"), yields of securities, bonds, finance sukuk and all other similar securities regardless of the issuer thereof shall be exempted from taxation. Additionally, the tax exemptions provided under the CMA Amendment were acknowledged by a recent administrative resolution, Administrative Resolution No. 2028 of 2015, issued by the Minister of Finance (the Administrative Resolution, and the CMA Amendments, collectively the "**Tax Exemptions**"). Although the Tax Exemptions are yet to be tested, they appear to clearly provide for a tax exemption to the Noteholders.

It is worth noting that the explanatory memorandum in relation to the exemption provisions in the CMA Amendment (the Explanatory Memorandum) provides that the exemption only relates to issuers which are corporate entities listed on the Kuwait Stock Exchange regardless of whether the listed company is a Kuwaiti or non-Kuwaiti entity. The intention behind the foregoing is, according to the Explanatory Memorandum, to encourage issuers of securities to apply for listing on the Kuwait Stock Exchange.

However, given the lack of precedent in this regard, it is not possible to state definitively how the DIT and/or the Kuwaiti courts may implement or enforce the Tax Exemptions.

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 five 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 profit payments.

Although payments made by a Guarantor would likely not be subject to retention because of the Tax Exemptions, there is a lack of guidance on this issue currently from the DIT, and as such, there is a remote possibility that retention could apply. Accordingly, a Guarantor could be required to deduct five per cent. from every payment made by it to a Noteholder, which amount would be released by the relevant Guarantor upon presentation to it by the Noteholder of a tax clearance certificate from the DIT.

The Tax Exemptions do not address the issue of whether or not there remains an obligation to effect a retention as specified above.

However, the Issuer and/or the Guarantor(s), as the case may be, shall be able to rely on the provisions in the terms and conditions of the Notes, which requires the Issuer and/or the Guarantor(s), as the case may be, to gross up each payment by an amount equal to any retention, irrespective of whether a tax clearance certificate is presented or not.

Other taxes

Save as described above, all payments in respect of the Notes 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 Notes in connection with the issue or any transfer of the Notes.

Certain United States Federal Income Taxation Considerations

The following summary discusses certain U.S. federal income tax consequences of the ownership and disposition of the Notes. Except as specifically noted below, this discussion applies only to:

- Notes purchased on original issuance at their "**issue price**" (as defined below) or additional Notes purchased from the Issuer pursuant to an offering described under Condition 18 (*Terms and Conditions of the Notes – Further Issues*) that qualifies as a "qualified reopening" for U.S. federal income tax purposes;
- Notes held as capital assets; and
- U.S. Holders (as defined below).

This discussion assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

Prospective investors should note, however, that the classification of an instrument as debt or equity is highly factual, and it is possible that Notes might be issued that might be classified as equity for U.S. federal income tax purposes. No rulings have been or will be sought from the U.S. Internal Revenue Service (the "**IRS**") with respect to the classification of the Notes in general or with respect to any particular Notes. Prospective investors should consult their own advisors with respect to the proper classification of the Notes and the consequences of investing in any Notes that are not classified as debt for U.S. federal income tax purposes, including whether any such Notes might be considered to be interests in a passive foreign investment company for U.S. federal income tax purposes, which could have materially adverse consequences for U.S. taxable investors.

This discussion does not describe all of the tax consequences that may be relevant in light of a holder's particular circumstances or to Noteholders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- persons holding Notes as part of a hedging transaction, "straddle," conversion transaction or other integrated transaction;
- former citizens or residents of the United States;
- U.S. Holders whose functional currency is not the U.S. dollar; or
- partnerships or entities or arrangements classified as partnerships for U.S. federal income tax purposes.

This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, as of the day hereof, changes to any of which subsequent to the date of this Base Prospectus may affect the tax consequences described below. Persons considering the purchase of the Notes should consult the relevant Final Terms for any additional discussion regarding U.S. federal income taxation and should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations (including the application of the alternative minimum tax and the Medicare tax on net investment income) as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

This summary does not discuss Bearer Notes. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Notes. U.S. Holders should consult their tax advisors regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of Bearer Notes.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partners of such entities or arrangements holding Notes should consult with their tax advisers regarding the tax consequences of an investment in the Notes.

Payments of Stated Interest

Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the Holders of a Note's method of accounting for U.S. federal income tax purposes, *provided that* the interest is "**qualified stated interest**" (as defined below).

Interest income (including original issue discount, as discussed below) earned by a U.S. Holder with respect to a Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. Holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisors about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to original issue discount notes and foreign currency notes are described under "*–Original Issue Discount*," "*–Contingent Payment Debt Instruments*," and "*–Foreign Currency Notes*."

Original Issue Discount

A Note that has an "**issue price**" that is less than its "stated redemption price at maturity" will be considered to have been issued with original issue discount for U.S. federal income tax purposes (and will be referred to as an "**original issue discount Note**") unless the Note satisfies a *de minimis* threshold (as described below) or is a short-term Note (as defined below). The "issue price" of a Note generally will be the first price at which a substantial amount of the Notes are sold to the public (which does not include sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Note generally will equal the sum of all payments required to be made under the Note other than payments of "qualified stated interest." "Qualified stated interest" is stated interest unconditionally payable (other than in debt instruments of the Issuer) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest. In addition, qualified stated interest includes, among other things, stated interest on a "variable rate debt instrument" that is unconditionally payable (other than in debt instruments of the issuer) at least annually at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Note is denominated.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., 1/4 of 1 per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity or, in the case of a Note that provides for payments, other than qualified stated interest, before maturity, the weighted average maturity, the Note will not be considered to have original issue discount. U.S. Holders of Notes with a *de minimis* amount of original issue discount will include this original issue discount in income, as capital gain, on a *pro rata* basis as principal payments are made on the Note.

A U.S. Holder of original discount Notes will be required to include any qualified stated interest payments in income in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes. U.S. Holders of original issue discount Notes that mature more than one year from their date of issuance will be required to include original issue discount in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including stated interest, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium) in accordance with a constant yield method based on the compounding of interest, and may revoke such election only with the permission of the IRS (a "**constant yield election**").

A Note that matures one year or less from its date of issuance (a "**short-term Note**") will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest. In general, a cash method U.S. Holder of a short-term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. U.S. Holders who so elect and certain other U.S. Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder who is not required and who does not elect to include the discount in income currently, any gain realized on the sale, exchange, or retirement of the short-term Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Notes in an amount not exceeding the accrued discount until the accrued discount is included in income.

The Issuer may have an unconditional option to redeem, or U.S. Holders may have an unconditional option to require the Issuer to redeem, a Note prior to its stated maturity date. Under applicable regulations, if the Issuer has an unconditional option to redeem a Note prior to its stated maturity date, this option will be presumed to be exercised if, by utilizing any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, the yield on the Note would be lower than its yield to maturity. If the U.S. Holders have an unconditional option to require the Issuer to redeem a Note prior to its stated maturity date, this option will be presumed to be exercised if making the same assumptions as those set forth in the previous sentence, the yield on the Note would be higher than its yield to maturity. If this option is not in fact exercised, the Note would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new Note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date. The adjusted issue price of an original issue discount Note is defined as the sum of the issue price of the Note and the aggregate amount of previously accrued original issue discount, less any prior payments other than payments of qualified stated interest.

Market Discount

If a U.S. Holder purchases a Note (other than a short-term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an original issue discount Note, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. Holder will be required to treat any principal payment (or, in the case of an original issue discount Note, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of a Note, including disposition in certain non-recognition transactions, as foreign source ordinary income to the extent of the market discount accrued on the Note at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. Holder pursuant to an election by the U.S. Holder to include market discount in income as it accrues, or pursuant to a constant yield election by the U.S. Holder (as described under "*—Original Issue Discount*"). In addition, the U.S. Holder may be required to defer, until the maturity of the Note or its earlier disposition (including certain non-taxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Note.

If a U.S. Holder makes a constant yield election (as described under "*—Original Issue Discount*") for a Note with market discount, such election will result in a deemed election for all market discount bonds acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies.

Acquisition Premium and Amortisable Bond Premium

A U.S. Holder who purchases a Note for an amount that is greater than the Note's adjusted issue price but less than or equal to the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest will be considered to have purchased the Note at an acquisition premium. Under the acquisition premium rules, the amount of original issue discount that the U.S. Holder must include in its gross income with respect to the Note for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. Holder purchases a Note for an amount that is greater than the amount payable at maturity, or on the earlier call date, in the case of a Note that is redeemable at the Issuer's option, the U.S. Holder will be considered to have purchased the Note with amortisable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The U.S. Holder may elect to amortize this premium, using a constant yield method, over the remaining term of the Note (where the Note is not optionally redeemable prior to its maturity date). If the Note may be optionally redeemed prior to maturity after the U.S. Holder has acquired it, the amount of amortisable bond premium is determined by substituting the call date for the maturity date and the call price for the amount payable at maturity only if the substitution results in a smaller amount of premium attributable to the period before the redemption date. A U.S. Holder who elects to amortize bond premium must reduce his tax basis in the Note by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the IRS.

If a U.S. Holder makes a constant yield election (as described under "—*Original Issue Discount*") for a Note with amortisable bond premium, such election will result in a deemed election to amortize bond premium for all of the U.S. Holder's debt instruments with amortisable bond premium.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note increased by the amount of OID and market discount included in the U.S. Holder's gross income and decreased by any amortisable bond premium previously amortised and the amount of any payment received from the Issuer other than a payment of qualified stated interest. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. Holder's foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued but unpaid interest on the Note. Amounts attributable to accrued but unpaid interest are treated as interest as described under "—*Payments of Interest*."

Except as described below, gain or loss realized on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. Exceptions to this general rule apply to the extent of any accrued market discount or, in the case of a short-term Note, to the extent of any accrued discount not previously included in the U.S. Holder's taxable income. See "—*Original Issue Discount*" and "—*Market Discount.*" In addition, other exceptions to this general rule apply in the case of foreign currency Notes, and contingent payment debt instruments. See "*–Foreign Currency Notes*" and "*–Contingent Payment Debt Instruments.*" The deductibility of capital losses is subject to limitations.

Contingent Payment Debt Instruments

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments (including Notes with a variable rate or rates that do not qualify as "variable rate debt instruments" for purposes of the original issue discount rules) they will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Notes qualifies as qualified stated interest. Rather, a U.S. Holder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on the Note and the Note's "**projected payment schedule**" as described below. The comparable yield is determined by the Issuer at the time of issuance of the Notes. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Notes. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, we will be required to construct a "**projected payment schedule**" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuer regarding the actual amount, if any, that the contingent payment debt instrument will pay.

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by us in determining interest accruals and adjustments in respect of an optionally exchangeable Note, unless the U.S. Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of the U.S. Holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment instrument (as set forth below).

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year:

- will first reduce the amount of interest in respect of the contingent payment debt instrument that a Noteholder would otherwise be required to include in income in the taxable year; and
- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:
    - the amount of all previous interest inclusions under the contingent payment debt instrument over
    - the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the two per cent. floor limitation imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realized on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. Holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a contingent payment debt instrument, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the U.S. Holder's adjusted basis in the contingent payment debt instrument. A U.S. Holder's adjusted basis in a Note that is a contingent payment debt instrument generally will be the acquisition cost of the Note, increased by the interest previously accrued by the U.S. Holder on the Note under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Note. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations.

A U.S. Holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument including in satisfaction of a conversion right or a call right equal to the fair market value of the property, determined at the time of retirement. The U.S. Holder's holding period for the property will commence on the day immediately following its receipt.

Special rules apply to contingent payment debt instruments that are denominated, or provide for payments, in a currency other than the U.S. dollar ("**Foreign Currency Contingent Debt Instruments**"). Very generally, these instruments are accounted for like a contingent debt instrument, as described above, but in the currency of the Foreign Currency Contingent Debt Instruments. The relevant amounts must then be translated into U.S. dollar equivalents. The rules applicable to Foreign Currency Contingent Debt Instruments are complex and U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of such instruments.

Foreign Currency Notes

The rules applicable to Notes that are denominated in a specified currency other than the U.S. dollar or the payments of interest or principal on which are payable in a currency other than the U.S. dollar ("**foreign currency Notes**") could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Note to be recharacterised as ordinary income or loss. The rules applicable to foreign currency Notes are complex and may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Notes.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a foreign currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency. A cash method U.S. Holder who receives a payment of qualified stated interest in U.S. dollars pursuant to an option available under such Note will be required to include the amount of this payment in income upon receipt.

An accrual method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount or market discount, but reduced by acquisition premium and amortisable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a foreign currency Note during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Holder will recognise ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period (or, where a U.S. Holder receives U.S. dollars, the amount of the payment in respect of the accrual period) and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required to currently accrue original issue discount or market discount.

An accrual method U.S. Holder may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Original issue discount, market discount, acquisition premium and amortisable bond premium on a foreign currency Note are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realized with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above.

If an election to amortize bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realized on amortized bond premium with respect to any period by treating the bond premium amortized in the period in the same manner as on the sale, exchange or retirement of the foreign currency Note. Any exchange gain or loss will be ordinary income or loss as described below.

If the election is not made, any loss realized on the sale, exchange or retirement of a foreign currency Note with amortisable bond premium by a U.S. Holder who has not elected to amortize the premium will be a capital loss to the extent of the bond premium.

Gain or loss realized upon the sale, exchange or retirement of a foreign currency Note by a U.S. Holder will equal the difference between: (i) the U.S. dollar value of the proceeds from the sale, exchange or retirement of the foreign currency note and (ii) the U.S. Holder's tax basis in the foreign currency Note, including the amount of any subsequent adjustment to the U.S. Holder's tax basis. In the case of a foreign currency Note treated as traded on an established securities market, the U.S. dollar value of the foreign currency amount paid or received by a cash method U.S. Holder (and an electing accrual method U.S. Holder, as discussed below) will be computed by translating the units of foreign currency paid into U.S. dollars at the spot rate on the settlement date of the purchase or the sale, exchange or retirement. In the case of a foreign currency Note that is either purchased by a non-electing accrual method U.S. Holder or that is not treated as traded on an established securities market, the U.S. dollar value of the foreign currency amount paid or received will be computed by translating the units of foreign currency paid into U.S. dollars at the spot rate on the date the foreign currency Note is treated as acquired or disposed of, as applicable.

Gain or loss realized upon the sale, exchange or retirement of a foreign currency Note that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between: (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of; and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Notes described above. The foreign currency gain or loss (including with respect to payments attributable to accrued interest received on the sale, exchange or retirement) will be recognised only to the extent of the total gain or loss realized by the U.S. Holder on the sale, exchange or retirement of the foreign currency Note. The source of the foreign currency gain or loss will be determined by reference to the residence of the U.S. Holder or the "qualified business unit" of the U.S. Holder on whose books the Note is properly reflected. Any gain or loss realized by these U.S. Holders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of short-term Note, to the extent of any discount not previously included in the U.S. Holder's income. U.S. Holders should consult their own tax advisor with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Note accrue.

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a foreign currency Note equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. Because, as discussed above, a cash method U.S. Holder (or an electing accrual method U.S. Holder) who buys or sells a foreign currency Note that is treated as traded on an established securities market is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale, exchange or retirement, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale, exchange or retirement. An election by an accrual method taxpayer to have the same treatment for all purchases and sales of foreign currency obligations as a cash method taxpayer with respect to foreign currency Notes treated as traded on an established securities market cannot be changed without the consent of the IRS. Where a U.S. Holder determines the U.S. dollar value based on the spot rate on a different date than the settlement date, the U.S. Holder generally will recognise foreign currency gain or loss with respect to the difference in value of such currency between the settlement and trade dates of their purchase or sale.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle them to a refund, *provided that* the required information is timely furnished to the IRS.

U.S. Holders should consult their tax advisors about any additional reporting obligations that may apply as a result of the acquisition, holding or disposition of the Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

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 Dubai International Financial Centre 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 Dubai International Financial Centre. 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 Notes are subject to any Dubai International Financial Centre tax, whether by withholding or otherwise.

United Arab Emirates (excluding Dubai International Financial Centre)

The following summary of the anticipated tax treatment in the United Arab Emirates in relation to the payments on the Notes is based on the taxation law and practice in force at the date of this Base Prospectus and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Notes and the receipt of any payments with respect to such Notes under the laws of the jurisdictions in which they may be liable to taxation.

There is currently in force in the Emirate of Dubai legislation establishing a general corporate taxation regime (the Dubai Income Tax Decree 1969 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE or Dubai taxation in respect of payments of interest or principal on debt securities (including the Notes) or payments made under the Guarantee.

The Constitution of the UAE specifically reserves to the UAE federal government the right to raise taxes on a federal basis for the purposes of funding its budget. It is not known whether this right will be exercised in the future.

As at the date of this Base Prospectus, the UAE does not impose VAT on the sale of goods or services. However, there is a possibility that this situation will not continue. On 24 February 2016, the UAE Minister of State for Financial Affairs announced that, pursuant to a GCC-wide framework agreement on the implementation of value added tax ("**VAT**"), the UAE will implement VAT at the rate of 5 per cent. from 1 January 2018. The GCC-wide framework agreement for VAT and the UAE national legislation implementing this framework agreement have yet to be made available and no details of the regime, including whether or not it will apply to companies located in a free zone, such as the Issuer, have been released.

The UAE has entered into "Double Taxation Arrangements" with certain other countries, but these are not extensive in number.

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 Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's proposal, 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 Notes 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: (i) by transacting with a person established in a participating Member State; or (ii) 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 Notes are advised to seek their own professional advice in relation to the FTT.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and Section 4975 of the Code, prohibit certain transactions involving: (a) employee benefit plans or other plans, including individual retirement accounts or Keogh plans which are subject to Title I of ERISA or as defined in and subject to Section 4975 of the Code, or any entities whose underlying assets include plan assets of such employee benefit plans or other plans for the purposes of Title I of ERISA or Section 4975 of the Code ("**Plans**") (together with Plans, the "**Benefit Plan Investors**"); and (b) persons who have certain specified relationships to such Plans ("**parties in interest**" under ERISA and "disqualified persons" under the Code; collectively, "**Parties in Interest**"). A violation of these "prohibited transaction" rules may result in the imposition of an excise tax, the rescission of the transaction or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless relief is available under an applicable statutory or administrative exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA (relating to certain transactions between a plan and a non-fiduciary service provider), Prohibited Transaction Class Exemption (PTCE) 95-60 (relating to investments by insurance company general accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by an in-house asset manager). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

Employee benefit plans which are not Benefit Plan Investors, including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non-U.S. plans (as described in Section 4(b)(4) of ERISA)), may be subject to U.S. federal, state or local, or non-U.S., laws which are substantially similar to the prohibited transaction provisions of ERISA or Section 4975 of the Code ("**Similar Law**"). Fiduciaries of such plans should consult with their counsel before they purchase any of the Notes or any interest therein.

Under Section 3(42) of ERISA and regulations issued by the U.S. Department of Labor, when a Benefit Plan Investor (collectively "**Plan Asset Regulations**") acquires 25 per cent. or more of any class of equity in an entity, the underlying assets owned by that entity will be treated as if they were plan assets of such Benefit Plan Investors, unless an exception otherwise applies. If the assets of the Issuer were deemed to be plan assets of such Benefit Plan Investors, the Issuer would be subject to certain fiduciary obligations under ERISA, and certain transactions that the Issuer might enter into, or may have entered into, in the ordinary course of business might constitute or result in non-exempt prohibited transactions under ERISA and Section 4975 of the Code.

Although no assurance can be given, the Notes issued should not be considered "equity interests" for purposes of the Plan Assets Regulation and the Issuer intends to treat the Notes as indebtedness. Nevertheless, prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the Notes are acquired by a Benefit Plan Investor with respect to which the Issuer is a Party in Interest. Accordingly, unless otherwise stated in the applicable Final Terms, each purchaser and transferee of any Note will be deemed to represent and agree that either: (i) it is not, is not using the assets of and shall not at any time hold such Note for or on behalf of a Benefit Plan Investor or a governmental, church or non-U.S. plan which is subject to Similar Law; or (ii) its acquisition, holding and disposition of such Note or of any interest therein, will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan, a violation of any applicable Similar Law. Any purported purchase or transfer of such a Note that does not comply with the foregoing shall be null and void *ab initio*.

This Base Prospectus is not directed to any particular purchaser, nor does it address the needs of any particular purchaser. None of the Issuer, the Guarantor or Dealers or any of their respective affiliates shall provide any advice or recommendation with respect to the management of any purchase of Notes or the advisability of acquiring, holding, disposing or exchanging of any Notes.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement (the "**Programme Agreement**") dated 11 May 2017, agreed with the Issuer and the Guarantor a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer and the Guarantor have agreed to reimburse the Dealers for certain of their expenses in connection with any update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under United Kingdom laws and regulations, stabilising activities may only be carried on by the Stabilisation Manager named in the relevant subscription agreement (or persons acting on its behalf) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes who are in the United States or who are U.S. persons are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Global Certificate with a view to holding it in the form of an interest in the same Global Certificate) or person wishing to transfer an interest from one Global Certificate to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Global Certificate with a view to holding it in the form of an interest in the same Global Certificate will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A; or (b) it is outside the United States and is not a U.S. person;

(ii) that it, and each account for which it is purchasing, will hold and transfer at least the minimum denomination of the Notes;

(iii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and, accordingly, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iv) that, unless it holds an interest in an Unrestricted Global Certificate and is a non-U.S. person located outside the United States, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so prior to the expiration of the applicable required holding period pursuant to Rule 144A only: (a) to the Issuer or any affiliate thereof; (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs in a transaction meeting the requirements of Rule 144A; (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act; (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(v) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iv) above, if then applicable;

(vi) that Notes initially offered in the United States to QIBs will be represented by one or more Restricted Global Certificates and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Unrestricted Global Certificates;

(vii) unless otherwise stated in the relevant Global Certificate: (i) it is not using the assets of, and shall not at any time hold such Note for or on behalf of, an "**employee benefit plan**" within the meaning of, and subject to, Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), a plan as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), an entity whose underlying assets include plan assets of any such employee benefit plan or other plan for the purposes of Title I of ERISA or Section 4975 of the Code or a governmental, church or non-U.S. plan which is subject to any U.S. federal, state or local, or non-U.S., law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"); or (ii) its acquisition, holding and disposition of such Note or of any interest therein, will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan, a violation of any applicable Similar Law;

(viii) that the Notes in registered form, other than the Unrestricted Global Certificates, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"NEITHER THIS SECURITY NOR THE GUARANTEE THEREOF HAS BEEN OR WILL 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, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS 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) ("**QIB**") PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS IN A MINIMUM PRINCIPAL AMOUNT OF U.S.$200,000 (OR THE EQUIVALENT AMOUNT IN A FOREIGN CURRENCY); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND OTHER THAN: (1) TO THE ISSUER OR ANY AFFILIATE THEREOF; (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT; (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS 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 144 FOR RESALES OF THE SECURITY. EACH TRANSFEROR OF THIS SECURITY WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT TO ITS TRANSFEREE.

THIS SECURITY (OR ANY INTEREST HEREIN) MAY BE PURCHASED BY OR OTHERWISE ACQUIRED BY AN "**EMPLOYEE BENEFIT PLAN**" WITHIN THE MEANING OF AND SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"); A "**PLAN**" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"); ANY PERSON OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE (OR ARE DEEMED TO INCLUDE) FOR PURPOSES OF ERISA OR THE CODE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF 29 C.F.R. 2510.3-101 (AS MODIFIED BY SECTION 3(42) OF ERISA) (ANY OF THE FOREGOING, A "**BENEFIT PLAN INVESTOR**") OR AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR AND IS SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL, OR NON-U.S., LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), EACH PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR SO LONG AS IT HOLDS THIS SECURITY OR INTEREST THEREIN THAT EITHER IT IS NOT: (A) AN EMPLOYEE BENEFIT PLAN WITHIN THE MEANING OF AND SUBJECT TO TITLE I OF ERISA; A PLAN AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE; A BENEFIT PLAN INVESTOR; OR AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR AND IS SUBJECT TO ANY SIMILAR LAW; OR (B) THE PURCHASE, HOLDING AND SUBSEQUENT DISPOSITION OF THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF ANY EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR, WILL NOT VIOLATE ANY SIMILAR LAW. ANY PURPORTED PURCHASE OR TRANSFER OF A SECURITY OR INTEREST THEREIN THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(ix) that the Notes in registered form which are registered in the name of a nominee of DTC will bear an additional legend to the following effect unless otherwise agreed to by the Issuer:

"UNLESS THIS GLOBAL SECURITY IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION, ("**DTC**"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY REGISTERED SECURITY ISSUED IN EXCHANGE FOR THIS GLOBAL SECURITY OR ANY PORTION HEREOF IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUIRED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS GLOBAL SECURITY MAY NOT BE EXCHANGED, IN WHOLE OR IN PART, FOR A SECURITY REGISTERED IN THE NAME OF ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF EXCEPT IN THE LIMITED CIRCUMSTANCES SET FORTH IN THIS GLOBAL SECURITY, AND MAY NOT BE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THIS LEGEND. BENEFICIAL INTERESTS IN THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT IN ACCORDANCE WITH THIS LEGEND.";

(x) if it holds an interest in an Unrestricted Global Certificate, that if it should resell or otherwise transfer the Notes 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 Notes), it will do so only: (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act; or (ii) to a QIB in compliance with Rule 144A; and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Unrestricted Global Certificates will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"NEITHER THIS SECURITY NOR THE GUARANTEE THEREOF HAS BEEN NOR WILL 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 IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."; and

(xi) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Restricted Notes in the United States to any one purchaser will be for less than U.S.$200,000 (or its foreign currency equivalent) principal amount and no Restricted Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$200,000 (or its foreign currency equivalent) of Restricted Global Certificates.

Selling Restrictions

United States

The Notes and the Guarantee thereof have not been and will not be registered under the Securities Act and 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 the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or, in the case of Bearer Notes, deliver such Notes: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons other than in offshore transactions pursuant to Regulation S or pursuant to Rule 144A, and such Dealer will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of any Notes comprising any Tranche, an offer or sale of such Notes 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 or an available exemption from registration under the Securities Act.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. Dealers may also arrange for the resale of Registered Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.$200,000 (or the approximate equivalent thereof in any other currency). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and U.S. Treasury regulations promulgated thereunder.

In respect of Bearer Notes where TEFRA D is specified in the applicable Final Terms the relevant Dealer will be required to represent and agree that:

(i) except to the extent permitted under U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) (or any substantially identical successor U.S. Treasury Regulations section including, without limitation, substantially identical successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "**D Rules**"): (i) it has not offered or sold, and during the restricted period it will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person; and (ii) it has not delivered and it will not deliver within the United States or its possessions definitive Bearer Notes that are sold during the restricted period;

(ii) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(iii) if it is a United States person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(6) (or any substantially identical successor U.S. Treasury Regulations section including, without limitation, substantially identical successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010);

(iv) with respect to each affiliate that acquires Bearer Notes from it for the purpose of offering or selling such Notes during the restricted period, it repeats and confirms the representations and agreements contained in subparagraphs (a), (b) and (c) on such affiliate's behalf; and

(v) it will obtain from any distributor (within the meaning of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(4)(ii)) (or any substantially identical successor U.S. Treasury Regulations section including, without limitation, substantially identical successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) that purchases any Bearer Notes from it pursuant to a written contract with such Dealer (other than a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of sub-paragraphs (a), (b), (c) and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and U.S. Treasury regulations promulgated thereunder, including the D Rules.

In respect of Bearer Notes where TEFRA C is specified in the applicable Final Terms, the relevant Dealer will be required to represent and agree that:

(i) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions in connection with the original issuance of the Bearer Notes; and

(ii) in connection with the original issuance of the Bearer Notes it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of the Bearer Notes.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the applicable Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes 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**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a 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 and regulations of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

(i) an "**Exempt Offer**" in accordance with the Markets Rules (MKT Module) of the Dubai Financial Services Authority (the "**DFSA**") rulebook; and

(ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

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 Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 11 or Article 12 of the "Offers of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 3-151-2016 dated 21 December 2016 (the "**KSA Regulations**"), made through a person authorised by the Capital Market Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 11 of the KSA Regulations or by way of a limited offer under Article 12 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes to a Saudi Investor will be made in compliance with the KSA Regulations.

Investors are informed that Article 18 of the KSA Regulations places restrictions on secondary market activity with respect to the Notes, including as follows:

(i) a Saudi Investor (referred to as a "**transferor**") who has acquired Notes pursuant to a private placement may not offer or sell Notes to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorised person where one of the following requirements is met:

    (i) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;

    (ii) the Notes are offered or sold to a sophisticated investor; or

    (iii) the Notes are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;

(ii) if the requirement of paragraph (a)(i) above cannot be fulfilled because the price of the Notes being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Notes to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;

(iii) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Notes if he/she sells his entire holding of Notes to one transferee; and

(iv) the provisions of paragraphs (a), (b) and (c) above shall apply to all subsequent transferees of the Notes.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(ii) 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

(iii) 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 (excluding the Qatar Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Notes in the State of Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of the State of Qatar; 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 the State of Qatar. This Base Prospectus has not been reviewed or approved by the Qatar Central Bank, the Qatar Exchange, the Qatar Financial Centre Regulatory Authority or the Qatar Financial Markets Authority and is only intended for specific recipients, in compliance with the foregoing.

Singapore

Each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed that, and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes 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 Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than:

(i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to Section 274 of the SFA;

(ii) 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

(iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) 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

(ii) 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 (as defined in Section 239(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 Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, 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) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "**structured product**" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than: (i) to "**professional investors**" within the meaning of 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 "**CO**") or which do not constitute an offer to the public within the meaning of the CO; and

(ii) 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 Notes, 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 Notes 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.

Malaysia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) this Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia ("**CMSA**"); and

(ii) accordingly, the Notes have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Notes has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b), and Schedule 8 or Section 257(3), read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Notes. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Notes as aforesaid without the necessary approvals being in place.

State of Kuwait

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no Notes will be offered in the State of Kuwait, unless all necessary approvals from the Kuwait Capital Markets Authority pursuant to Law No. 7 of 2010, and its executive bylaws (each as amended) together with the various resolutions, regulations, directives and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in the State of Kuwait, have been given in respect of the offering, marketing, and sale, of the Notes.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Base Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*) as defined under Article 100 of the Legislative Decree No. 58 of 24 February 1998, as amended (the "**Italian Financial Act**"), as implemented by Article 26, paragraph 1(d) of CONSOB Regulation No. 16190 of 29 October 2007, as amended ("**CONSOB Regulation No. 16190**"), pursuant to Article 34-ter, first paragraph, letter b), of CONSOB Regulation No. 11971 of 14 May 1999, as amended ("**CONSOB Regulation No. 11971**"); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Act and its implementing CONSOB Regulations including CONSOB Regulation No. 11971.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy will be made in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver any Notes or distribute copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy, except in any circumstances where an express exemption from compliance with the offer restrictions applies, as provided under the Italian Financial Act or CONSOB Regulation No. 11971.

Any such offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relation to the Notes in the Republic of Italy must be:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Financial Act, CONSOB Regulation No. 16190, Legislative Decree No. 385 of 1 September 1993 as amended (the "**Banking Act**") and any other applicable laws or regulation;

(b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in the Republic of Italy or by Italian persons outside of the Republic of Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

Provisions related to the secondary market in the Republic of Italy

Investors should also note that, in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies Notes which are initially offered and placed in the Republic of Italy or abroad to qualified investors only but in the following year are regularly ("*sistematicamente*") distributed on the secondary market in the Republic of Italy to non-qualified investors become subject to the public offer and the prospectus requirement rules provided under the Italian Financial Act and CONSOB Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the Notes for any damages suffered by such non-qualified investors.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Guarantor nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Guarantor or the Dealers represents that Notes 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.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer, the Guarantor and the relevant Dealer shall agree and as shall be set out in the relevant subscription agreement.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes by the Issuer have been duly authorised by a resolution of the Board of Directors of the Issuer dated 11 May 2017 and a resolution of the Board of Directors of the Guarantor dated 10 April 2017. The giving of the Guarantee has been duly authorised by a resolution of the Board of Directors of the Guarantor dated 10 April 2017.

Listing and admission to trading

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Main Securities Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Global Certificate(s) initially representing the Notes of such Tranche. Application has been made to the Irish Stock Exchange for Notes issued under the Programme to be admitted to the Official List and to trading on the Main Securities Market. The approval of the Programme in respect of Notes is expected to be granted on or about 11 May 2017. Prior to the official listing and admission to trading, however, dealings will be permitted. Unlisted Notes may be issued pursuant to the Programme.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

Documents Available

For the period of 12 months following the date of this Base Prospectus, physical copies of the following documents will, when published, be available for inspection from the registered office of the Guarantor and from the specified office of the Fiscal Agent for the time being in London:

(i) the Memorandum and Articles of Association of the Issuer and the Memorandum and Articles of Association (with an English translation thereof) of the Guarantor;

(ii) the Financial Statements;

(iii) the most recently published audited consolidated financial statements of the Guarantor and the unaudited condensed consolidated interim financial statements (if any) of the Guarantor, in each case together with any audit or review reports prepared in connection therewith. The Guarantor currently prepares quarterly unaudited condensed consolidated interim financial statements. The Issuer is not required to publish any financial statements under DIFC law;

(iv) the Agency Agreement, the Guarantee, the Deed of Covenant, the Deed Poll and the forms of the Global Notes, the Global Certificates, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(v) a copy of this Base Prospectus; and

(vi) any future base prospectuses, information memoranda, applicable Final Terms (save that the applicable Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a Base Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) and supplements to this Base Prospectus and any other documents incorporated herein or therein by reference.

The English language translations of the Memorandum and Articles of Association of the Guarantor are accurate and direct translations of the original foreign language documents. In the event of a discrepancy between the English language translation and the foreign language version, the foreign language version will prevail.

This Base Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Main Securities Market will be published on the website of the Central Bank of Ireland (http://www.centralbank.ie).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) common code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, S.A., 42 Avenue JF Kennedy L-1885 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Guarantor and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position, and no material adverse change in the prospects of the Issuer, since the date of its incorporation.

There has been no significant change in the financial or trading position of the Guarantor and its subsidiaries taken as a whole (the "**Group**") since 31 March 2017. There has been no material adverse change in the prospects of the Group since 31 December 2016.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Base Prospectus which may have, or have in such period had, a significant effect on the Issuer's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Guarantor is aware) in the 12 months preceding the date of this Base Prospectus which may have, or have in such period had, a significant effect on the Guarantor and/or the Group's financial position or profitability.

Auditors

The current auditors of the Guarantor are Deloitte & Touche Al-Wazzan & Co and Ernst & Young Al Aiban, Al Osaimi & Partners. The professional body of auditors in Kuwait is the Kuwaiti Association of Accountants and Auditors and the auditors of the Guarantor are members of that professional body. The auditors of the Guarantor have no material interest in the Guarantor.

Dealers Transacting with the Issuer and the Guarantor

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantor and their respective affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Dealers 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 Issuer, the Guarantor and their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer, the Guarantor and their affiliates routinely hedge their credit exposure to the Issuer, the Guarantor and their affiliates consistent with their customary risk management policies. Typically, such Dealers 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 Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers 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.

INDEX TO FINANCIAL STATEMENTS

NATIONAL BANK OF KUWAIT GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2017 (UNAUDITED)

EY
Building a better working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT S.A.K.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") as at 31 March 2017, and the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its executive regulation, or the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the three months period ended 31 March 2017 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the three months period ended 31 March 2017 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

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

10 April 2017
Kuwait

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

31 March 2017 (Unaudited)

	Notes	Three months ended 31 March 2017 KD 000's	2016 KD 000's
Interest income		**168,231**	155,722
Interest expense		**46,621**	42,056
Net interest income		**121,610**	113,666
Murabaha and other Islamic financing income		**35,937**	29,907
Finance cost and Distribution to depositors		**10,003**	6,950
Net income from Islamic financing		**25,934**	22,957
Net interest income and net income from Islamic financing		**147,544**	136,623
Net fees and commissions		**33,643**	33,410
Net investment income		**5,133**	1,467
Net gains from dealing in foreign currencies		**8,030**	7,399
Other operating income		**1,031**	339
Non-interest income		**47,837**	42,615
Net operating income		**195,381**	179,238
Staff expenses		**36,523**	33,905
Other administrative expenses		**20,189**	19,499
Depreciation of premises and equipment		**4,007**	4,049
Amortisation of intangible assets		**792**	1,198
Operating expenses		**61,511**	58,651
Operating profit before provision for credit losses and impairment losses		**133,870**	120,587
Provision charge for credit losses and impairment losses	3	**37,737**	30,917
Operating profit before taxation		**96,133**	89,670
Taxation	4	**6,415**	6,966
Profit for the period		**89,718**	82,704
Attributable to:			
Shareholders of the Bank		**85,355**	78,935
Non-controlling interests		**4,363**	3,769
		89,718	82,704
Basic earnings per share attributable to shareholders of the Bank	5	**15 fils**	14 fils

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 March 2017 (Unaudited)

	Three months ended 31 March	
	2017	2016
	KD 000's	KD 000's
Profit for the period	**89,718**	82,704
Other comprehensive income:		
Investments available for sale:		
Net change in fair value	**17,957**	(10,465)
Net transfer to consolidated statement of income	**(3,392)**	4,247
	14,565	(6,218)
Share of other comprehensive income (loss) of associates	**150**	(20)
Exchange differences on translation of foreign operations	**8,798**	(30,593)
Other comprehensive income (loss) for the period reclassifiable to consolidated statement of income in subsequent periods	**23,513**	(36,831)
Total comprehensive income for the period	**113,231**	45,873
Attributable to:		
Shareholders of the Bank	**108,555**	42,038
Non-controlling interests	**4,676**	3,835
	113,231	45,873

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2017 (Unaudited)

	Notes	**31 March 2017 KD 000's**	Audited 31 December 2016 KD 000's	31 March 2016 KD 000's
Assets				
Cash and short term funds		**2,705,067**	2,686,963	4,310,505
Central Bank of Kuwait bonds		**738,955**	748,889	680,675
Kuwait Government treasury bonds		**766,890**	493,101	390,479
Deposits with banks		**2,321,857**	2,407,915	1,785,077
Loans, advances and Islamic financing to customers		**14,048,746**	13,611,491	13,559,416
Investment securities		**3,152,131**	3,174,632	2,777,057
Investment in associates		**72,233**	73,644	86,011
Land, premises and equipment		**260,698**	255,086	233,414
Goodwill and other intangible assets		**585,940**	581,840	658,148
Other assets		**161,733**	170,508	191,478
Total assets		**24,814,250**	24,204,069	24,672,260
Liabilities				
Due to banks and other financial institutions		**7,432,480**	7,347,803	8,266,805
Customer deposits		**13,151,268**	12,608,092	12,263,530
Certificates of deposit issued		**450,335**	415,989	665,277
Subordinated Tier 2 bonds		**124,709**	124,700	124,675
Other liabilities		**308,897**	302,753	269,932
Total liabilities		**21,467,689**	20,799,337	21,590,219
Equity				
Share capital	6	**591,744**	563,566	529,170
Proposed bonus shares	6	**-**	28,178	-
Statutory reserve		**281,783**	281,783	251,986
Share premium account		**803,028**	803,028	699,840
Treasury shares	6	**(77,799)**	(77,799)	(77,799)
Treasury shares reserve		**13,994**	13,994	13,994
Other reserves	6	**1,214,200**	1,271,813	1,229,989
Equity attributable to shareholders of the Bank		**2,826,950**	2,884,563	2,647,180
Perpetual Tier 1 Capital Securities		**210,700**	210,700	210,700
Non-controlling interests		**308,911**	309,469	224,161
Total equity		**3,346,561**	3,404,732	3,082,041
Total liabilities and equity		**24,814,250**	24,204,069	24,672,260

Ghassan Ahmed Saoud Al Khalid
Vice Chairman

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2017 (Unaudited)

	Notes	Three months ended 31 March 2017 KD 000's	2016 KD 000's
Operating activities			
Profit for the period		**89,718**	82,704
Adjustments for:			
Net investment income		**(5,133)**	(1,467)
Depreciation of premises and equipment		**4,007**	4,049
Amortisation of intangible assets		**792**	1,198
Provision charge for credit losses and impairment losses	3	**37,737**	30,917
Share based payment reserve		**93**	153
Taxation	4	**6,415**	6,966
Operating profit before changes in operating assets and liabilities		**133,629**	124,520
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		**9,934**	123,255
Kuwait Government treasury bonds		**(273,789)**	(10,427)
Deposits with banks		**86,058**	(358,398)
Loans, advances and Islamic financing to customers		**(472,272)**	(29,846)
Other assets		**8,775**	(17,988)
Due to banks and other financial institutions		**84,677**	960,338
Customer deposits		**543,176**	204,327
Certificates of deposit issued		**34,346**	10,020
Other liabilities		**8,360**	(4,858)
Tax paid		**(5,362)**	(6,479)
Net cash from operating activities		**157,532**	994,464
Investing activities			
Purchase of investment securities		**(404,083)**	(473,044)
Proceeds from sale/redemption of investment securities		**444,830**	469,935
Dividend income		**1,028**	1,082
Dividend from associates		**-**	397
Proceeds from sale of land, premises and equipment		**291**	1,131
Purchase of land, premises and equipment		**(9,910)**	(12,093)
Net cash from (used in) investing activities		**32,156**	(12,592)
Financing activities			
Dividends paid	6	**(166,184)**	(148,443)
Dividend paid by a subsidiary to non-controlling interests		**(5,400)**	(4,295)
Net cash used in financing activities		**(171,584)**	(152,738)
Increase in cash and short term funds		**18,104**	829,134
Cash and short term funds at 1 January		**2,686,963**	3,481,371
Cash and short term funds at 31 March		**2,705,067**	4,310,505

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2017 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank										
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 6)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	Total
At 1 January 2017	**563,566**	**28,178**	**281,783**	**803,028**	**(77,799)**	**13,994**	**1,271,813**	**2,884,563**	**210,700**	**309,469**	**3,404,732**
Profit for the period	-	-	-	-	-	-	**85,355**	**85,355**	-	**4,363**	**89,718**
Other comprehensive income	-	-	-	-	-	-	**23,200**	**23,200**	-	**313**	**23,513**
Total comprehensive income	-	-	-	-	-	-	**108,555**	**108,555**	-	**4,676**	**113,231**
Issue of bonus shares (Note 6)	**28,178**	**(28,178)**	-	-	-	-	-	-	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	**(166,184)**	**(166,184)**	-	-	**(166,184)**
Share based payment in a subsidiary	-	-	-	-	-	-	**54**	**54**	-	**39**	**93**
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	**(5,400)**	**(5,400)**
Change in effective holding in a subsidiary	-	-	-	-	-	-	**(38)**	**(38)**	-	**127**	**89**
At 31 March 2017	**591,744**	-	**281,783**	**803,028**	**(77,799)**	**13,994**	**1,214,200**	**2,826,950**	**210,700**	**308,911**	**3,346,561**
At 1 January 2016	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	2,755,939	210,700	224,485	3,191,124
Profit for the period	-	-	-	-	-	-	78,935	78,935	-	3,769	82,704
Other comprehensive (loss) income	-	-	-	-	-	-	(36,897)	(36,897)	-	66	(36,831)
Total comprehensive income	-	-	-	-	-	-	42,038	42,038	-	3,835	45,873
Issue of bonus shares (Note 6)	25,198	(25,198)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	(148,443)	(148,443)	-	-	(148,443)
Transfer to cash settled share based compensation	-	-	-	-	-	-	(2,418)	(2,418)	-	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	-	-	89	89	-	64	153
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	(4,295)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(25)	(25)	-	72	47
At 31 March 2016	529,170	-	251,986	699,840	(77,799)	13,994	1,229,989	2,647,180	210,700	224,161	3,082,041

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the three months period ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors on 10 April 2017. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a Bank with the Central Bank of Kuwait. The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait.

2 Accounting policies

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting'. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016.

The annual consolidated financial statements for the year ended 31 December 2016 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the requirement of IAS 39, 'Financial Instruments: Recognition and Measurement', for collective impairment provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not specifically provided for.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Provision charge for credit losses and impairment losses

	Three months ended 31 March	
	2017	2016
	KD 000's	KD 000's
Provision charge for credit losses – specific	**11,954**	5,952
Provision charge for credit losses – general	**23,171**	13,972
Impairment losses	**2,612**	10,993
	37,737	30,917

4 Taxation

	Three months ended 31 March	
	2017	2016
	KD 000's	KD 000's
National labour support tax	**2,131**	1,978
Zakat	**928**	855
Contribution to Kuwait Foundation for the Advancement of Sciences	**678**	662
Overseas tax	**2,678**	3,471
	6,415	6,966

5 Earnings per share

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

	Three months ended 31 March	
	2017	2016
	KD 000's	KD 000's
Profit attributable to shareholders of the Bank	**85,355**	78,935
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	**5,816,429**	5,600,462
Basic earnings per share	**15 fils**	14 fils

Earnings per share calculations for the period ended 31 March 2016 have been adjusted to take account of the rights shares issued in 2016 and bonus shares issued in 2017.

6 Shareholders' equity

a) The authorised share capital of the Bank comprises of 6,000,000,000 shares (31 December 2016: 6,000,000,000 shares and 31 March 2016: 6,000,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises of 5,917,447,518 shares (31 December 2016: 5,635,664,303 shares and 31 March 2016: 5,291,703,571 shares) of 100 fils each.

b) Treasury shares

	31 March 2017	Audited 31 December 2016	31 March 2016
Number of treasury shares	**101,018,981**	96,208,554	96,208,243
Treasury shares as a percentage of total shares in issue	**1.7%**	1.7%	1.8%
Cost of treasury shares (KD thousand)	**77,799**	77,799	77,799
Market value of treasury shares (KD thousand)	**66,673**	62,536	64,460
Weighted average market value per treasury share (fils)	**715**	643	722

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 11 March 2017 approved 5% bonus shares (2015: 5%) and a cash dividend of 30 fils per share (2015: 30 fils per share) for the year ended 31 December 2016. The cash dividend was paid subsequently and the bonus shares increased the number of issued and fully paid up shares by 281,783,215 (2015: 251,985,884) and share capital by KD 28,178 thousand (2015: KD 25,198 thousand).

6 Shareholders' equity (continued)

d) Other reserves

KD 000's

	General reserve	*Retained earnings*	*Foreign currency translation reserve*	*Cumulative changes in fair values*	*Share based payment reserve*	*Proposed cash dividend*	*Total other reserves*
At 1 January 2017	117,058	1,163,193	(237,915)	49,121	14,172	166,184	**1,271,813**
Profit for the period	-	85,355	-	-	-	-	**85,355**
Other comprehensive income	-	-	8,651	14,549	-	-	**23,200**
Total comprehensive income	-	**85,355**	**8,651**	**14,549**	-	-	**108,555**
Dividends paid	-	-	-	-		(166,184)	**(166,184)**
Share based payment in a subsidiary	-	-	-	-	54	-	**54**
Change in effective holding in a subsidiary	-	(38)	-	-	-	-	**(38)**
At 31 March 2017	**117,058**	**1,248,510**	**(229,264)**	**63,670**	**14,226**	**-**	**1,214,200**
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the period	-	78,935	-	-	-	-	78,935
Other comprehensive loss	-	-	(30,672)	(6,225)	-	-	(36,897)
Total comprehensive income (loss)	-	78,935	(30,672)	(6,225)	-	-	42,038
Dividends paid	-	-	-	-	-	(148,443)	(148,443)
Transfer to cash settled share based compensation	-	-	-	-	(2,418)	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	89	-	89
Change in effective holding in a subsidiary	-	(25)	-	-	-	-	(25)
At 31 March 2016	117,058	1,186,131	(110,421)	23,247	13,974	-	1,229,989

7 Segmental analysis

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

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

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

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

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

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

International
International includes all branches, subsidiaries and associates outside Kuwait.

The following table presents net operating income, profit for the period, total assets and total liabilities information in respect of the Group's business segments:

	31 March 2017						
	Consumer and Private Banking KD 000's	**Corporate Banking KD 000's**	**Investment Banking and Asset Management KD 000's**	**Islamic Banking KD 000's**	**Group Centre KD 000's**	**International KD 000's**	**Total KD 000's**
Three months							
Net operating income	**60,651**	**47,628**	**6,846**	**30,271**	**5,582**	**44,403**	**195,381**
Profit (loss) for the period	**33,912**	**38,553**	**4,084**	**10,547**	**(22,864)**	**25,486**	**89,718**
Total assets	**4,252,111**	**5,578,591**	**81,828**	**3,673,149**	**2,920,815**	**8,307,756**	**24,814,250**
Total liabilities	**4,426,042**	**2,725,036**	**17,258**	**3,251,503**	**1,716,730**	**9,331,120**	**21,467,689**

7 Segmental analysis (continued)

	31 March 2016						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Three months							
Net operating income	58,424	42,966	5,876	26,033	3,703	42,236	179,238
Profit (loss) for the period	34,727	31,563	3,080	9,110	(19,141)	23,365	82,704
Total assets	4,090,596	5,238,105	62,469	3,260,127	2,161,183	9,859,780	24,672,260
Total liabilities	4,141,664	2,232,321	5,799	2,939,749	1,934,292	10,336,394	21,590,219

8 Commitments and contingent liabilities

	31 March 2017 KD 000's	Audited 31 December 2016 KD 000's	31 March 2016 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	**187,978**	115,668	100,292
Letters of credit	**274,279**	319,459	248,216
Guarantees	**3,614,618**	3,638,537	3,628,328
	4,076,875	4,073,664	3,976,836

Irrevocable commitments to extend credit amount to KD 705,861 thousand (31 December 2016: KD 786,888 thousand, 31 March 2016: KD 1,014,674 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the interim condensed consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 73,892 thousand (31 December 2016: KD 105,426 thousand, 31 March 2016: KD 88,060 thousand).

9 Fair value of financial instruments

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

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

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

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

31 March 2017	***Level 1 KD 000's***	***Level 2 KD 000's***	***Level 3 KD 000's***	***Total KD 000's***
Debt securities	**1,936,400**	**935,268**	**14,762**	**2,886,430**
Equities and other investments	**82,221**	**85,370**	**69,997**	**237,588**
	2,018,621	**1,020,638**	**84,759**	**3,124,018**
Derivative financial instruments (Note 10)	**-**	**(6,763)**	**-**	**(6,763)**

31 December 2016	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Debt securities	1,753,246	939,419	14,765	2,707,430
Equities and other investments	91,489	132,410	71,782	295,681
	1,844,735	1,071,829	86,547	3,003,111
Derivative financial instruments (Note 10)	-	2,633	-	2,633

31 March 2016	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Debt securities	1,572,936	854,314	20,321	2,447,571
Equities and other investments	126,074	64,139	78,916	269,129
	1,699,010	918,453	99,237	2,716,700
Derivative financial instruments (Note 10)	-	(50,121)	-	(50,121)

9 Fair value of financial instruments (continued)

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

	At 1 January 2017 KD 000's	*Change in fair value KD 000's*	*Additions KD 000's*	*Sale/ redemption KD 000's*	*Exchange rate movements KD 000's*	*At 31 March 2017 KD 000's*	*Net gains in the interim condensed consolidated statement of income KD 000's*
Debt securities	**14,765**	**-**	**-**	**-**	**(3)**	**14,762**	**227**
Equities and other investments	**71,782**	**27**	**144**	**(1,790)**	**(166)**	**69,997**	**1,153**
	86,547	**27**	**144**	**(1,790)**	**(169)**	**84,759**	**1,380**

	At 1 January 2016 KD 000's	*Change in fair value KD 000's*	*Additions KD 000's*	*Sale/ redemption KD 000's*	*Exchange rate movements KD 000's*	*At 31 March 2016 KD 000's*	*Net gains in the interim condensed consolidated statement of income KD 000's*
Debt securities	31,686	42	17,622	(29,003)	(26)	20,321	277
Equities and other investments	79,904	(315)	496	(910)	(259)	78,916	858
	111,590	(273)	18,118	(29,913)	(285)	99,237	1,135

10 Derivative financial instruments

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

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

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

10 Derivative financial instruments (continued)

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

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

Forward foreign exchange
Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	31 March 2017			Audited 31 December 2016			31 March 2016		
	Positive fair value KD 000's	**Negative fair value KD 000's**	**Notional KD 000's**	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	**22,684**	**28,660**	**1,421,589**	25,992	30,117	1,376,449	2,743	47,901	963,165
Interest rate swaps (others)	**1,381**	**1,339**	**83,406**	1,450	1,404	84,811	1,611	1,550	95,559
Forward foreign exchange contracts	**4,555**	**5,384**	**1,795,468**	17,741	11,029	2,094,223	7,833	12,857	1,739,782
	28,620	**35,383**	**3,300,463**	45,183	42,550	3,555,483	12,187	62,308	2,798,506

The net fair value of interest rate swaps held as fair value hedges as at 31 March 2017 is negative KD 5,976 thousand (31 December 2016: negative KD 4,125 thousand, 31 March 2016: negative KD 45,158 thousand). Gain on the hedged fixed income financial assets amounted to KD 41,607 thousand (31 December 2016: KD 26,805 thousand, 31 March 2016: KD 40,056 thousand).

11 Related party transactions

Related parties comprise Board Members and Executive Officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers			Number of related parties					
	31 March 2017	31 December 2016	31 March 2016	31 March 2017	31 December 2016	31 March 2016	31 March 2017 KD 000's	31 December 2016 Audited KD 000's	31 March 2016 KD 000's
Board Members									
Loans (secured)	**3**	4	4	**15**	16	10	**154,603**	155,598	249,237
Contingent liabilities	**-**	-	1	**13**	13	12	**19,327**	20,981	19,040
Credit cards	**5**	6	7	**10**	10	2	**69**	99	30
Deposits	**8**	8	8	**69**	67	65	**42,312**	32,090	35,915
Collateral against credit facilities	**3**	4	4	**13**	14	14	**301,907**	288,898	321,447
Interest and fee income							**1,397**	7,586	2,217
Interest expense							**10**	43	17
Purchase of equipment and other expenses							**5**	23	1
Executive Officers									
Loans	**4**	3	4	**5**	3	2	**2,597**	2,702	2,057
Contingent liabilities	**4**	5	5	**-**	-	-	**2**	2	2
Credit cards	**11**	12	12	**3**	2	2	**66**	38	49
Deposits	**13**	13	12	**31**	33	25	**3,864**	2,910	3,636
Interest and fee income							**23**	90	25
Interest expense							**-**	-	-

11 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 31 March	
	2017	2016
	KD 000's	KD 000's
Salaries and other short term benefits	**1,854**	1,687
Post-employment benefits	**82**	75
Share based compensation	**142**	113
	2,078	1,875

NATIONAL BANK OF KUWAIT GROUP

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

Consolidated Financial Statements

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the related consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

We have identified the following key audit matters:

a) Impairment of loans, advances and Islamic financing to customers

Impairment of loans, advances and Islamic financing to customers is a highly subjective area due to the level of judgement applied by management in determining provisions which is dependent on the credit risk related to that loan. Certain judgements applied by the management in accounting for impairment of loans, advances and Islamic financing to customers include the identification of impairment events, the valuation of collateral and assessment of customers that may default, and the future cash flows of loans, advances and Islamic financing to customers granted.

Due to the significance of loans, advances and Islamic financing to customers and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies and in Note 12 to the consolidated financial statements.

Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans, advances and Islamic financing to customers and the impairment provisioning process, to validate the operating effectiveness of the key controls in place, which identify the impaired loans, advances and Islamic financing to customers and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operating effectively.

In addition to testing the key controls, we selected samples of loans, advances and Islamic financing to customers outstanding as at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing loans, advances and Islamic financing to customers, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing loans, advances and Islamic financing to customers, we assessed whether the borrowers exhibit any possible default risk that may affect the repayment abilities.

b) Impairment of goodwill and other intangible assets

The Group has goodwill and other intangible assets with carrying value of KD 581,840 thousand as at 31 December 2016. The impairment tests of goodwill and other intangible assets performed by the management are significant to our audit because the assessment of the recoverable amount of goodwill and other intangible assets under the value-in-use basis is complex and requires considerable judgment on the part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the banking sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill and other intangible assets as a key audit matter.

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Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Impairment of goodwill and other intangible assets (continued)

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

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

c) Valuation of derivative financial instruments

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

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

In addition to the testing of key controls, we evaluated and challenged the methodologies, inputs and assumptions used by the Group in determining fair values, with the help of our own valuation specialist and by reference to externally available market data to assess whether appropriate inputs are used in the valuation. We also compared valuations derived from our internal valuation model, for a sample of instruments, to the fair values determined by the Group. Further, we assessed whether the disclosures in the consolidated financial statements about the valuation basis and inputs used in the fair value measurement are adequate and that disclosures relating to the fair value risks and sensitivities appropriately reflect the Group's exposure to the derivative financial instruments at the reporting date. Refer to Note 27 to the consolidated financial statements for the disclosures on derivative financial instruments.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

d) Valuation of investment securities

Investment securities are primarily comprised of portfolios of debt and equity investments. These instruments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. The valuation is performed by the Group using a fair value hierarchy:

- Level 1 are valuations based on quoted prices (unadjusted) in active markets.
- Level 2 are valuations based on other than quoted prices included within level 1, which are observable either directly or indirectly.
- Level 3 are valuations based on unobservable inputs for the asset.

The valuation of investment securities is inherently subjective, most predominantly for the instruments classified under level 2 and level 3 since these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level 2 and level 3 investments are expected cash flows, risk free rates and credit spreads. In addition, the Group determines whether objective evidence of impairment exists for individual investments. In these cases, the difference between amortised cost and fair value is transferred from other comprehensive income to the consolidated statement of income. Given the inherent subjectivity in the valuation of the instruments classified under level 2 and level 3, we determined this to be a key audit matter. The investment securities classified under level 2 and level 3 amount to KD 1,071,829 thousand and KD 86,547 thousand respectively as at 31 December 2016.

Our audit procedures comprised, amongst others of an assessment of the methodology and the appropriateness of the valuation models and inputs used to value the investment securities. Further, we used our internal valuation specialists to assess the valuation of all individual investments available for sale, and to assess whether the valuations performed by the Group were within a pre-defined tolerable differences threshold. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data. We also evaluated the Group's assessment whether objective evidence of impairment exists for individual investments. Additionally, we assessed the adequacy of the fair value disclosures in Note 24 to the consolidated financial statements.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Annual Report of the Group for the year ended 31 December 2016

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2016, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2016 after the date of our auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

Report on Other Legal and Regulatory Requirements

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

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2016 that might have had a material effect on the business of the Bank or on its financial position.

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

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

8 January 2017
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	**2016 KD 000's**	2015 KD 000's
Interest income	4	**665,263**	585,084
Interest expense	5	**189,653**	139,427
Net interest income		**475,610**	445,657
Murabaha and other Islamic financing income		**128,000**	106,369
Finance cost and Distribution to depositors		**33,873**	21,875
Net income from Islamic financing		**94,127**	84,494
Net interest income and net income from Islamic financing		**569,737**	530,151
Net fees and commissions	6	**132,826**	129,802
Net investment income	7	**6,398**	32,156
Net gains from dealing in foreign currencies		**35,391**	33,154
Other operating income		**957**	3,494
Non-interest income		**175,572**	198,606
Net operating income		**745,309**	728,757
Staff expenses		**143,844**	137,213
Other administrative expenses		**87,435**	77,168
Depreciation of premises and equipment		**16,380**	15,338
Amortisation of intangible assets	15	**4,362**	4,968
Operating expenses		**252,021**	234,687
Operating profit before provision for credit losses and impairment losses		**493,288**	494,070
Provision charge for credit losses and impairment losses	8	**152,317**	164,397
Operating profit before taxation		**340,971**	329,673
Taxation	9	**28,811**	33,154
Profit for the year		**312,160**	296,519
Attributable to:			
Shareholders of the Bank		**295,178**	282,160
Non-controlling interests		**16,982**	14,359
		312,160	296,519
Basic and diluted earnings per share attributable to shareholders of the Bank	10	**52 fils**	52 fils

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016	*2015*
	KD 000's	*KD 000's*
Profit for the year	**312,160**	296,519
Other comprehensive income:		
Investments available for sale:		
Net change in fair value	**14,689**	(14,380)
Net transfer to consolidated statement of income	**4,713**	2,061
	19,402	(12,319)
Exchange differences and share of other comprehensive income transferred to consolidated statement of income on sale of an associate	**-**	(8,471)
Share of other comprehensive income of associates	**7**	111
Exchange differences on translation of foreign operations	**(159,012)**	(12,794)
Other comprehensive loss for the year reclassifiable to consolidated statement of income in subsequent years	**(139,603)**	(33,473)
Total comprehensive income for the year	**172,557**	263,046
Attributable to:		
Shareholders of the Bank	**156,661**	249,505
Non-controlling interests	**15,896**	13,541
	172,557	263,046

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	*2016* *KD 000's*	*2015* *KD 000's*
Assets			
Cash and short term funds	11	**2,686,963**	3,481,371
Central Bank of Kuwait bonds	13	**748,889**	803,930
Kuwait Government treasury bonds	13	**493,101**	380,052
Deposits with banks		**2,407,915**	1,426,679
Loans, advances and Islamic financing to customers	12	**13,611,491**	13,550,966
Investment securities	13	**3,174,632**	2,784,334
Investment in associates	14	**73,644**	92,713
Land, premises and equipment		**255,086**	226,501
Goodwill and other intangible assets	15	**581,840**	677,594
Other assets	16	**170,508**	173,490
Total assets		**24,204,069**	23,597,630
Liabilities			
Due to banks and other financial institutions		**7,347,803**	7,306,467
Customer deposits		**12,608,092**	12,059,203
Certificates of deposit issued		**415,989**	655,257
Subordinated Tier 2 bonds	17	**124,700**	124,664
Other liabilities	18	**302,753**	260,915
Total liabilities		**20,799,337**	20,406,506
Equity			
Share capital	19	**563,566**	503,972
Proposed bonus shares	20	**28,178**	25,198
Statutory reserve	19	**281,783**	251,986
Share premium account	19	**803,028**	699,840
Treasury shares	19	**(77,799)**	(77,799)
Treasury share reserve	19	**13,994**	13,994
Other reserves	19	**1,271,813**	1,338,748
Equity attributable to shareholders of the Bank		**2,884,563**	2,755,939
Perpetual Tier 1 Capital Securities	21	**210,700**	210,700
Non-controlling interests	22	**309,469**	224,485
Total equity		**3,404,732**	3,191,124
Total liabilities and equity		**24,204,069**	23,597,630

Nasser Musaed Abdullah Al-Sayer
Chairman

Isam J. Al Sager
Group Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	*2016* *KD 000's*	*2015* *KD 000's*
Operating activities			
Profit for the year		**312,160**	296,519
Adjustments for:			
Net investment income	7	**(6,398)**	(32,156)
Depreciation of premises and equipment		**16,380**	15,338
Amortisation of intangible assets	15	**4,362**	4,968
Provision charge for credit losses and impairment losses	8	**152,317**	164,397
Share based payment reserve		**491**	1,658
Taxation	9	**28,811**	33,154
Operating profit before changes in operating assets and liabilities		**508,123**	483,878
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		**55,041**	(269,242)
Kuwait Government treasury bonds		**(113,049)**	(35,523)
Deposits with banks		**(1,026,578)**	623,836
Loans, advances and Islamic financing to customers		**(349,165)**	(1,768,227)
Other assets		**(7,390)**	(11,119)
Due to banks and other financial institutions		**107,697**	600,750
Customer deposits		**911,541**	799,467
Certificates of deposit issued		**(239,268)**	(19,808)
Other liabilities		**31,467**	(21,809)
Tax paid		**(28,775)**	(32,351)
Net cash (used in) from operating activities		**(150,356)**	349,852
Investing activities			
Purchase of investment securities		**(2,110,056)**	(1,532,673)
Proceeds from sale/redemption of investment securities		**1,467,493**	1,226,291
Dividend income	7	**3,065**	2,939
Proceeds from disposal of an associate		**-**	157,857
Dividend from associates		**414**	587
Proceeds from sale of land, premises and equipment		**4,188**	1,003
Purchase of land, premises and equipment		**(54,021)**	(39,428)
Net cash used in investing activities		**(688,917)**	(183,424)
Financing activities			
Proceeds from issuance of right shares	19(a)	**137,584**	-
Net proceeds from issue of Perpetual Tier 1 Capital Securities	21	**-**	209,724
Net proceeds from issue of Perpetual Tier 1 Sukuk by a subsidiary	22	**74,738**	-
Net proceeds from issue of Subordinated Tier 2 bonds	17	**-**	124,664
Proceeds from sale of treasury shares		**-**	112
Dividends paid		**(148,443)**	(141,374)
Interest paid on Perpetual Tier 1 Capital Securities		**(12,146)**	(6,087)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary		**(2,573)**	-
Dividends paid by a subsidiary to non-controlling interests		**(4,295)**	(4,087)
Net cash from financing activities		**44,865**	182,952
(Decrease) increase in cash and short term funds		**(794,408)**	349,380
Cash and short term funds at the beginning of the year		**3,481,371**	3,131,991
Cash and short term funds at the end of the year	11	**2,686,963**	3,481,371

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

KD 000's

	Equity attributable to shareholders of the Bank										
	Share capital	***Proposed bonus shares***	***Statutory reserve***	***Share premium account***	***Treasury shares***	***Treasury share reserve***	***Other reserves*** *(Note 19e)*	***Total***	***Perpetual Tier 1 Capital Securities***	***Non - controlling interests***	***Total equity***
At 1 January 2016	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	**2,755,939**	210,700	224,485	**3,191,124**
Profit for the year	-	-	-	-	-	-	295,178	**295,178**	-	16,982	**312,160**
Other comprehensive loss	-	-	-	-	-	-	(138,517)	**(138,517)**	-	(1,086)	**(139,603)**
Total comprehensive income	-	-	-	-	-	-	**156,661**	**156,661**	-	**15,896**	**172,557**
Transfer to statutory reserve (Note 19b)	-	-	29,797	-	-	-	(29,797)	-	-	-	-
Issue of bonus shares (Note 19a)	25,198	(25,198)	-	-	-	-	-	-	-	-	-
Issue of rights shares (Note 19a)	34,396	-	-	103,188	-	-	-	**137,584**	-	-	**137,584**
Issue of Perpetual Tier 1 Sukuk by a subsidiary (Note 22)	-	-	-	-	-	-	-	-	-	75,388	**75,388**
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(379)	**(379)**	-	(271)	**(650)**
Dividends paid	-	-	-	-	-	-	(148,443)	**(148,443)**	-	-	**(148,443)**
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(12,146)	**(12,146)**	-	-	**(12,146)**
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(1,503)	**(1,503)**	-	(1,070)	**(2,573)**
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	**(4,295)**
Transfer to cash settled share based compensation	-	-	-	-	-	-	(2,418)	**(2,418)**	-	-	**(2,418)**
Share based payment in a subsidiary	-	-	-	-	-	-	287	**287**	-	204	**491**
Proposed bonus shares (Note 20)	-	28,178	-	-	-	-	(28,178)	-	-	-	-
Other movements	-	-	-	-	-	-	(1,019)	**(1,019)**	-	(868)	**(1,887)**
At 31 December 2016	**563,566**	**28,178**	**281,783**	**803,028**	**(77,799)**	**13,994**	**1,271,813**	**2,884,563**	**210,700**	**309,469**	**3,404,732**

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

KD 000's

	Equity attributable to shareholders of the Bank										
	Share capital	***Proposed bonus shares***	***Statutory reserve***	***Share premium account***	***Treasury shares***	***Treasury share reserve***	***Other reserves** (Note 19e)*	***Total***	***Perpetual Tier 1 Capital Securities***	***Non - controlling interests***	***Total equity***
At 1 January 2015	479,973	23,999	239,987	699,840	(78,795)	14,878	1,273,389	2,653,271	-	217,269	2,870,540
Profit for the year	-	-	-	-	-	-	282,160	282,160	-	14,359	296,519
Other comprehensive loss	-	-	-	-	-	-	(32,655)	(32,655)	-	(818)	(33,473)
Total comprehensive income	-	-	-	-	-	-	249,505	249,505	-	13,541	263,046
Transfer to statutory reserve (Note 19b)	-	-	11,999	-	-	-	(11,999)	-	-	-	-
Issue of bonus shares (Note 19a)	23,999	(23,999)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	996	(884)	-	112	-	-	112
Dividends paid	-	-	-	-	-	-	(141,374)	(141,374)	-	-	(141,374)
Issue of Perpetual Tier 1 Capital Securities (Note 21)	-	-	-	-	-	-	-	-	210,700	-	210,700
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(6,087)	(6,087)	-	-	(6,087)
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(976)	(976)	-	-	(976)
Proposed bonus shares (Note 20)	-	25,198	-	-	-	-	(25,198)	-	-	-	-
Share based payment	-	-	-	-	-	-	1,470	1,470	-	188	1,658
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,087)	(4,087)
Capital redemption in a subsidiary	-	-	-	-	-	-	-	-	-	(2,458)	(2,458)
Change in effective holding in a subsidiary	-	-	-	-	-	-	18	18	-	32	50
At 31 December 2015	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	2,755,939	210,700	224,485	3,191,124

The attached notes 1 to 31 form part of these consolidated financial statements.

1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 8 January 2017. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) except for International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement', requirement for a collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

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

2.2 Changes in accounting policies

The accounting policies applied are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2016 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective:

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2016 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group except the following:

IFRS 9: Financial Instruments

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

a. Classification and measurement

The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

b. Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS become mandatory on 1 January 2018.

c. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').
Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment or considered to be in default or otherwise credit impaired are in 'stage 3'.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

c. Impairment of financial assets (continued)
The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Group has completed an assessment of the requirements of IFRS 9 and is well positioned for adoption of the standard.

IFRS 15: Revenue from Contracts with customers
IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the impact of IFRS 15 but does not expect any significant effect on adoption of this standard.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

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

a. Subsidiaries

Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer note 25 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest

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

c. Associates

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

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

2.4 Foreign currencies

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

a. Translation of foreign currency transactions

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies (continued)

a. Translation of foreign currency transactions (continued)
Translation gains or losses on non-monetary items carried at fair value are recognised in other comprehensive income as part of the fair value adjustment on investment securities available for sale, unless the non-monetary item is part of an effective hedging strategy.

b. Translation of financial statements of foreign entities
The results and financial position of all the Group entities that have a functional currency different from the presentation currency is translated to presentation currency as follows:

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

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

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

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

2.7 Fees and commissions income
Fees 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.

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

2.9 Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

a. Assets carried at amortised cost
The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income. In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

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

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

2.11 Share based compensation

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

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

2.12 Post employment benefits
The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.15 Cash and short term funds
Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days.

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

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

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

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

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

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

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

c. Leased assets - the Group as a lessor
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortised cost net of provision for impairment.

2.19 Financial investments
The Group classifies its financial investments in the following categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through statement of income

All investments with the exception of investments at fair value through statement of income are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs. Premiums and discounts on financial investments (excluding those carried at fair value through statement of income) are amortised using the effective yield method and taken to interest income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Financial Investments (continued)

Held to maturity
Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost, less provision for impairment in value, if any. The losses arising from impairment of such investments are recognised in the consolidated statement of income. The interest income from debt securities classified as held to maturity is recorded in interest income.

Available for sale
Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as fair value through statement of income, held to maturity, or loans and advances. After initial recognition, investments which are classified as “available for sale” are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as “cumulative changes in fair values” within equity, is included in the consolidated statement of income for the period. In case of a reversal of previously recognised impairment losses for equity investments, such changes will not be recognised in the current consolidated statement of income but will be recorded as an increase in the reserve for cumulative changes in fair values. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through consolidated statement of income. The portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated statement of income. The interest income from debt securities classified as available for sale is recorded in interest income and the dividend income from equities are recorded in dividend income.

Investments carried at fair value through statement of income
Investments are classified as "investments carried at fair value through statement of income" if they are held for trading or, upon initial recognition, are designated as fair value through statement of income. Investments are classified as held for trading when they are acquired for the purpose of selling or repurchase in the near term with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Investments are designated as fair value through statement of income if the fair value of the investment can be reliably measured and the classification as fair value through statement of income is as per the documented strategy of the Group. Investments classified as “investments carried at fair value through statement of income” are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income. Any dividend income of equities classified as ‘investments carried at fair value through the statement of income’ is recorded as part of ‘dividend income’.

Reclassification of financial investments
Available for sale investments are reclassified to held to maturity investments only in certain limited circumstances as a result of change in intention when there is an ability to hold till maturity. Upon such reclassification, the fair value on the date of reclassification becomes the new amortised cost of such investments. Any difference between the new amortised cost and the maturity amount are amortised to consolidated statement of income over the remaining life of the investments using effective interest method. The amount of gain or loss previously recognised in other comprehensive income are also amortised to consolidated statement of income over the remaining life of the investments using effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

2.23 Derecognition of financial assets and financial liabilities

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Derivative financial instruments

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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

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

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

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

2.25 Trade and settlement date accounting

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

2.26 Investment properties

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and equipments on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of premises and equipments are as follows:

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

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

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

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

2.29 Goodwill and intangible assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Goodwill and intangible assets (continued)

b. Intangible assets

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

2.30 Property acquired on settlement of debt

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

2.31 Due to Banks and Financial Institutions, Customer deposits & Certificates of deposit issued

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

2.32 Islamic customer deposits

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

Investment accounts

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

Non-investment accounts

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

2.33 Subordinated Tier 2 Bonds

Subordinated Tier 2 Bonds are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Accounting Judgements
Impairment of available for sale equity investments
The Group treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.37 Significant accounting judgements and estimates (continued)

Estimation uncertainty and assumptions (continued)

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

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

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

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

3 SEGMENTAL ANALYSIS

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

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

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

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

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

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

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

3 SEGMENTAL ANALYSIS (continued)

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

2016

	Consumer and Private Banking KD 000's	***Corporate Banking KD 000's***	***Investment Banking and Asset Management KD 000's***	***Islamic Banking KD 000's***	***Group Centre KD 000's***	***International KD 000's***	***Total KD 000's***
Net interest income and net income from Islamic financing	**181,803**	**126,768**	**130**	**94,127**	**17,990**	**148,919**	**569,737**
Net operating income	**242,059**	**170,785**	**23,307**	**106,997**	**15,446**	**186,715**	**745,309**
Profit (loss) for the year	**139,493**	**137,400**	**12,114**	**41,301**	**(118,106)**	**99,958**	**312,160**
Total assets	**4,218,253**	**5,380,784**	**107,767**	**3,481,807**	**2,719,810**	**8,295,648**	**24,204,069**
Total liabilities	**4,171,318**	**2,287,130**	**47,754**	**3,058,654**	**2,014,183**	**9,220,298**	**20,799,337**

2015

	Consumer and Private Banking KD 000's	*Corporate Banking KD 000's*	*Investment Banking and Asset Management KD 000's*	*Islamic Banking KD 000's*	*Group Centre KD 000's*	*International KD 000's*	*Total KD 000's*
Net interest income and net income from Islamic financing	171,176	121,951	142	84,494	18,016	134,372	530,151
Net operating income	229,373	162,527	23,809	94,680	40,068	178,300	728,757
Profit (loss) for the year	134,452	129,842	12,175	35,185	(95,072)	79,937	296,519
Total assets	4,051,853	5,256,655	62,942	3,132,885	2,163,474	8,929,821	23,597,630
Total liabilities	3,988,777	2,092,663	8,819	2,812,086	2,010,953	9,493,208	20,406,506

3 SEGMENTAL ANALYSIS (continued)

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

Net operating income	***2016*** ***KD 000's***	*2015* *KD 000's*
Kuwait	**558,594**	550,457
Other Middle East and North Africa	**138,474**	131,248
Europe	**25,398**	24,497
Others	**22,843**	22,555
	745,309	728,757

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

Non-current assets	***2016*** ***KD 000's***	*2015* *KD 000's*
Kuwait	**857,613**	914,370
Other Middle East and North Africa	**24,269**	35,024
Europe	**1,112**	1,349
Others	**444**	456
	883,438	951,199

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

4 INTEREST INCOME

	2016 ***KD 000's***	*2015* *KD 000's*
Deposits with banks	**38,910**	32,613
Loans and advances to customers	**490,903**	430,524
Debt investment securities	**121,705**	111,942
Other	**13,745**	10,005
	665,263	585,084

5 INTEREST EXPENSE

	2016 ***KD 000's***	*2015* *KD 000's*
Due to banks and other financial institutions	**68,320**	44,750
Customer deposits	**110,782**	91,764
Certificates of deposit issued	**4,637**	2,222
Subordinated Tier 2 bonds	**5,914**	691
	189,653	139,427

6 NET FEES AND COMMISSIONS

	2016 KD 000's	2015 KD 000's
Fees and commissions income	**159,584**	153,351
Fees and commissions related expenses	**(26,758)**	(23,549)
Net fees and commissions	**132,826**	129,802

Fees and commissions income includes asset management fees of KD 29,551 thousand (2015: KD 28,672 thousand) earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

7 NET INVESTMENT INCOME

	2016 KD 000's	2015 KD 000's
Net realised gains on available for sale investments	**4,314**	8,496
Net gains (losses) from investments carried at fair value through statement of income	**822**	(183)
Dividend income	**3,065**	2,939
Share of results of associates	**(1,289)**	220
Gain on sale of investment in an associate	**-**	21,862
Net losses from investment properties	**(514)**	(1,178)
	6,398	32,156

8 PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2016 KD 000's	2015 KD 000's
Provision charge for credit losses (Note 12)	**125,683**	129,959
Impairment losses on investment securities	**9,027**	10,557
Impairment losses on associates (Note 14)	**12,165**	18,481
Impairment losses on intangible assets (Note 15)	**5,442**	5,400
	152,317	164,397

9 TAXATION

	2016 KD 000's	2015 KD 000's
National labour support tax	**7,263**	7,022
Zakat	**3,243**	3,084
Contribution to Kuwait Foundation for the Advancement of Sciences	**2,520**	2,573
Overseas tax	**15,785**	20,475
	28,811	33,154

10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier I Capital Securities) by the weighted average number of shares outstanding during the year net of treasury shares.

Diluted earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier I Capital Securities) by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share for 2015 arising from the issuance of employee share options did not result in any change from the reported basic earnings per share. Refer note 23 in this regard.

	2016 ***KD 000's***	*2015* *KD 000's*
Profit for the year attributable to shareholders of the Bank	**295,178**	282,160
Less: Interest paid on Perpetual Tier 1 Capital Securities	**(12,146)**	(6,087)
Less: Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary attributable to shareholders of the Bank	**(1,503)**	-
	281,529	276,073
Weighted average number of shares outstanding during the year net of treasury shares (thousands)	**5,440,914**	5,323,407
Basic and diluted earnings per share	**52 fils**	52 fils

Earnings per share calculations for 2015 have been adjusted to take account of the bonus shares and rights shares issued in 2016.

11 CASH AND SHORT TERM FUNDS

	2016 ***KD 000's***	*2015* *KD 000's*
Cash on hand	**179,298**	187,571
Current account with other banks	**1,140,983**	1,361,545
Money at call	**260,366**	190,562
Balances with the Central Bank of Kuwait	**190,830**	5,442
Deposits and Murabaha with banks maturing within seven days	**915,486**	1,736,251
	2,686,963	3,481,371

12 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2016	***Middle East and North Africa KD 000's***	***North America KD 000's***	***Europe KD 000's***	***Asia KD 000's***	***Others KD 000's***	***Total KD 000's***
Corporate	**8,572,654**	**271,989**	**344,561**	**179,112**	**294,360**	**9,662,676**
Retail	**4,613,908**	**119**	**3,042**	**-**	**-**	**4,617,069**
Loans, advances and Islamic financing to customers	**13,186,562**	**272,108**	**347,603**	**179,112**	**294,360**	**14,279,745**
Provision for credit losses						**(668,254)**
						13,611,491

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

2015	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Corporate	8,557,890	257,859	361,965	276,611	386,459	9,840,784
Retail	4,318,942	430	3,699	-	-	4,323,071
Loans, advances and Islamic financing to customers	12,876,832	258,289	365,664	276,611	386,459	14,163,855
Provision for credit losses						(612,889)
						13,550,966

Provisions for credit losses on cash facilities are as follows:

	Specific		***General***		***Total***	
	2016 KD 000's	*2015 KD 000's*	***2016 KD 000's***	*2015 KD 000's*	***2016 KD 000's***	*2015 KD 000's*
Balance at beginning of the year	**142,972**	138,764	**469,917**	375,834	**612,889**	514,598
Amounts written off net of exchange movements	**(71,984)**	(27,673)	**-**	(6)	**(71,984)**	(27,679)
Provided during the year	**30,398**	31,881	**96,951**	94,089	**127,349**	125,970
Balance at end of the year	**101,386**	142,972	**566,868**	469,917	**668,254**	612,889

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

	Corporate		***Retail***		***Total***	
	2016 KD 000's	*2015 KD 000's*	***2016 KD 000's***	*2015 KD 000's*	***2016 KD 000's***	*2015 KD 000's*
Balance at beginning of the year	**60,431**	68,712	**82,541**	70,052	**142,972**	138,764
Amounts written off net of exchange movements	**(30,336)**	(25,596)	**(41,648)**	(2,077)	**(71,984)**	(27,673)
Provided during the year	**14,153**	17,315	**16,245**	14,566	**30,398**	31,881
Balance at end of the year	**44,248**	60,431	**57,138**	82,541	**101,386**	142,972

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

	Specific		***General***		***Total***	
	2016 KD 000's	*2015 KD 000's*	***2016 KD 000's***	*2015 KD 000's*	***2016 KD 000's***	*2015 KD 000's*
Cash facilities	**30,398**	31,881	**96,951**	94,089	**127,349**	125,970
Non cash facilities	**(1,763)**	1,171	**97**	2,818	**(1,666)**	3,989
Provision charge for credit losses	**28,635**	33,052	**97,048**	96,907	**125,683**	129,959

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

The available provision on non-cash facilities of KD 29,270 thousand (2015: KD 30,931 thousand) is included under other liabilities (Note 18).

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

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

	2016 ***KD 000's***	*2015* *KD 000's*
Loans, advances and Islamic financing to customers	**183,005**	190,092
Provisions	**95,383**	135,270

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2016 amounts to KD 63,838 thousand (2015: KD 30,654 thousand). The collateral consists of cash, securities, bank guarantees and properties.

13 FINANCIAL INVESTMENTS

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

2016	***Held to maturity KD 000's***	***Available for sale KD 000's***	***Fair value through statement of income KD 000's***	***Total KD 000's***
Investment securities				
Debt securities - Government (Non Kuwait)	**170,958**	**1,529,703**	-	**1,700,661**
Debt securities - Non Government	-	**1,177,727**	-	**1,177,727**
Equities	-	**85,354**	**2,987**	**88,341**
Other investments	-	**159,288**	**48,615**	**207,903**
	170,958	**2,952,072**	**51,602**	**3,174,632**
Central Bank of Kuwait bonds	**748,889**	-	-	**748,889**
Kuwait Government treasury bonds	**493,101**	-	-	**493,101**
	1,412,948	**2,952,072**	**51,602**	**4,416,622**

13 FINANCIAL INVESTMENTS (continued)

2015	*Held to maturity*	*Available for sale*	*Fair value through statement of income*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*
Investment securities				
Debt securities - Government (Non Kuwait)	115,042	1,374,274	-	1,489,316
Debt securities - Non Government	4,452	1,007,668	-	1,012,120
Equities	-	96,437	2,560	98,997
Other investments	-	116,204	67,697	183,901
	119,494	2,594,583	70,257	2,784,334
Central Bank of Kuwait bonds	803,930	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	380,052
	1,303,476	2,594,583	70,257	3,968,316

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 563 thousand (2015: KD 2,974 thousand), which are recorded at cost since fair value cannot be reliably estimated.

An impairment loss of KD 9,027 thousand (2015: KD 10,557 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

Debt securities (Government – Non Kuwait) amounting to KD 73,232 thousand was reclassified during the year from available for sale investments to held to maturity investments.

14 INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2016	*2015*
	KD 000's	*KD 000's*
Bank Syariah Muamalat Indonesia T.B.K.	**31,150**	41,559
Bank of London and the Middle East	**29,564**	36,762
Turkish Bank A.S.	**4,884**	5,541
United Capital Bank	**4,581**	5,151
Others	**3,465**	3,700
	73,644	92,713

	Country of incorporation	***Principal business***	***% Effective ownership***	
			2016	*2015*
Bank Syariah Muamalat Indonesia T.B.K.	Indonesia	Banking	**30.5**	30.5
Bank of London and the Middle East	United Kingdom	Banking	**26.4**	25.6
Turkish Bank A.S.	Turkey	Banking	**34.3**	34.3
United Capital Bank	Sudan	Banking	**21.7**	21.7

14 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information of the material associate of the Group, Bank Syariah Muamalat Indonesia T.B.K. is as follows:

	2016 *KD 000's*	*2015* *KD 000's*
Assets	**1,159,402**	1,198,995
Liabilities	**1,088,830**	1,120,050
Net assets	**70,572**	78,945
Contingent liabilities	**14,956**	18,286
Net operating income	**43,227**	64,137
Net profit	**1,743**	657
Other comprehensive loss for the year	**(637)**	(7)

Carrying amount of investment in Bank Syariah Muamalat Indonesia T.B.K. consists of the Group's share of net assets and goodwill identified on acquisition.

Other associates	*2016* *KD 000's*	*2015* *KD 000's*
Share of results for the year	**(1,820)**	20
Share of other comprehensive income for the year	**200**	113

During the year the Group received dividend amounting to KD 414 thousand from associates (2015: KD 587 thousand).

During the year the Group provided KD 12,165 thousand by way of impairment in respect of its associate Bank Syariah Muamalat Indonesia T.B.K. The impairment is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using market mutiples. During 2015 the Group had provided KD 18,481 thousand by way of impairment in respect of associates, consisting primarily of KD 15,212 thousand for its investment in Turkish Bank A.S.

15 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill *KD 000's*	*Intangible Assets* *KD 000's*	*Total* *KD 000's*
Cost			
At 1 January 2016	**474,174**	**241,326**	**715,500**
Exchange rate adjustments	**(79,360)**	**(23,667)**	**(103,027)**
At 31 December 2016	**394,814**	**217,659**	**612,473**
Accumulated amortisation & impairment			
At 1 January 2016	**-**	**37,906**	**37,906**
Amortisation charge for the year	**-**	**4,362**	**4,362**
Impairment charge for the year	**-**	**5,442**	**5,442**
Exchange rate adjustments	**-**	**(17,077)**	**(17,077)**
At 31 December 2016	**-**	**30,633**	**30,633**
Net book value			
At 31 December 2016	**394,814**	**187,026**	**581,840**

15 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

	Goodwill KD 000's	*Intangible assets KD 000's*	*Total KD 000's*
Cost			
At 1 January 2015	481,711	243,591	725,302
Exchange rate adjustments	(7,537)	(2,265)	(9,802)
At 31 December 2015	474,174	241,326	715,500
Accumulated amortisation & impairment			
At 1 January 2015	-	28,886	28,886
Amortisation charge for the year	-	4,968	4,968
Impairment charge for the year	-	5,400	5,400
Exchange rate adjustments	-	(1,348)	(1,348)
At 31 December 2015	-	37,906	37,906
Net book value			
At 31 December 2015	474,174	203,420	677,594

Net book value of goodwill as at 31 December 2016 includes KD 334,531 thousand (2015: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 57,341 thousand (2015: KD 136,701 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,942 thousand (2015: KD 2,942 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2016 includes banking licences and brand amounting to KD 162,232 thousand (2015: KD 170,221 thousand), customer relationships and core deposits amounting to KD 17,923 thousand (2015: KD 20,657 thousand) and brokerage licences amounting to KD 6,871 thousand (2015: KD 12,542 thousand). Intangible assets with indefinite useful life amounts to KD 165,494 thousand (2015: KD 171,165 thousand). Intangible assets with definite useful life amounting to KD 21,532 thousand (2015: KD 32,255 thousand) are amortised over a period of 5 to 15 years.

Impairment testing for goodwill and intangible assets with indefinite useful life

The carrying value of goodwill and intangible assets with indefinite useful life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill or intangible assets might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations unless fair value based on an active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows are then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

Recoverable amount of goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of Boubyan Bank K.S.C.P. is allocated to a single CGU which consists of identifiable net assets including intangible assets of Boubyan Bank K.S.C.P. A discount rate of 9.25% (2015: 9.25%) and a terminal growth rate of 3.25% (2015: 3.5%) are used to estimate the recoverable amount of this cash generating unit. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 18% (2015: 16%) and a terminal growth rate of 5% (2015: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 10% (2015: 10%) and terminal growth rate of 3% (2015: 3.5%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin.

Based on such analysis, the Group has recorded an impairment loss of KD 5,442 thousand (2015: KD 5,400 thousand) in respect of the brokerage licence in Kuwait. There are no indications that the remaining goodwill or intangible assets with indefinite useful life are impaired.

16 OTHER ASSETS

	2016 KD 000's	2015 KD 000's
Interest receivable	**56,683**	52,759
Sundry debtors and prepayments	**41,675**	50,833
Investment properties	**24,680**	23,397
Properties acquired on settlement of debts	**21,832**	23,707
Others	**25,638**	22,794
	170,508	173,490

17 SUBORDINATED TIER 2 BONDS

On 18 November 2015, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD 125,000 thousand with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 4.75% per annum, payable semi-annually in arrears, for the first five years and will be reset for the subsequent period at the rate of 2.75% over the CBK Discount Rate (on the fifth year anniversary of date of issuance). Floating rate bonds carry an interest rate of 2.50% per annum over the Central Bank of Kuwait discount rate, reset semi-annually, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds and payable semi-annually in arrears. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions and regulatory approvals.

18 OTHER LIABILITIES

	2016 KD 000's	2015 KD 000's
Interest payable	**74,144**	40,249
Income received in advance	**28,808**	22,846
Taxation	**20,605**	20,569
Provision on non-cash facilities (Note 12)	**29,270**	30,931
Accrued expenses	**32,367**	40,011
Staff payables	**30,653**	29,822
Others	**86,906**	76,487
	302,753	260,915

19 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises of 6,000,000,000 (2015: 5,039,717,687) shares of KD 0.100 each. The increase in the authorised share capital was approved by the Extraordinary General Assembly meeting of the shareholders held on 19 March 2016.

	2016 KD 000's	2015 KD 000's
Issued and fully paid in cash:		
5,635,664,303 (2015 : 5,039,717,687) shares of KD 0.100 each	**563,566**	503,972

Annual General Assembly meeting of the shareholders held on 19 March 2016 approved an increase of KD 25,198,588.400 in the issued and fully paid share capital of the Bank by issuing 251,985,884 bonus shares representing 5% of the share capital. The issued and fully paid up share capital increased from KD 503,971,768.700 to KD 529,170,357.100 and the change in share capital was recorded in the commercial register on 23 March 2016.

19 SHARE CAPITAL AND RESERVES (continued)

a) Share capital (continued)

The Bank also made a rights issue to its shareholders at KD 0.400 per share made up of KD 0.100 share capital and KD 0.300 share premium. A total of 343,960,732 shares were issued resulting in an increase in share capital by KD 34,396,073.200 from KD 529,170,357.100 to KD 563,566,430.300 and an increase in the share premium account by KD 103,188,219.600 from KD 699,839,641.800 to KD 803,027,861.400. The change in share capital was recorded in the commercial register on 6 December 2016.

The movement in ordinary shares in issue during the year was as follows:

	2016	*2015*
Number of shares in issue as at 1 January	**5,039,717,687**	4,799,731,131
Bonus issue	**251,985,884**	239,986,556
Rights issue	**343,960,732**	-
Number of shares in issue as at 31 December	**5,635,664,303**	5,039,717,687

b) Statutory reserve

The Board of Directors recommended a transfer of KD 29,797 thousand (2015: KD 11,999 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

c) Share premium account

The balance in the share premium account is not available for distribution.

d) Treasury shares and Treasury share reserve

The Bank held the following treasury shares at the year end:

	2016	*2015*
Number of treasury shares	**96,208,554**	91,626,899
Treasury shares as a percentage of total shares in issue	**1.7%**	1.8%
Cost of treasury shares (KD thousand)	**77,799**	77,799
Market value of treasury shares (KD thousand)	**62,536**	73,302
Weighted average market value per treasury share (fils)	**643**	845

Movement in treasury shares was as follows:

	No. of shares	
	2016	*2015*
Balance as at 1 January	**91,626,899**	88,381,436
Bonus issue	**4,581,344**	4,363,258
Purchases	**311**	-
Sales	**-**	(1,117,795)
Balance as at 31 December	**96,208,554**	91,626,899

The balance in the treasury share reserve account is not available for distribution. Further, an amount equal to the cost of treasury shares is not available for distribution from general reserve throughout the holding period of these treasury shares.

19 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

KD 000's

	General reserve	*Retained earnings*	*Foreign currency translation reserve*	*Cumulative changes in fair values*	*Share based payment reserve*	*Proposed cash dividend*	*Total other reserves*
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	**1,338,748**
Profit for the year	-	295,178	-	-	-	-	**295,178**
Other comprehensive (loss) income	-	-	(158,166)	19,649	-	-	**(138,517)**
Total comprehensive income (loss)	**-**	**295,178**	**(158,166)**	**19,649**	-	-	**156,661**
Transfer to statutory reserve (Note 19b)	-	(29,797)	-	-	-		**(29,797)**
Dividends paid	-	-	-	-	-	(148,443)	**(148,443)**
Interest paid on perpetual Tier 1 Capital Securities	-	(12,146)	-	-	-	-	**(12,146)**
Profit distribution on perpetual Tier 1 Sukuk by a subsidiary	-	(1,503)	-	-	-	-	**(1,503)**
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	(379)	-	-	-	-	**(379)**
Proposed bonus shares (Note 20)	-	(28,178)	-	-	-	-	**(28,178)**
Proposed cash dividend 30 fils per share (Note 20)	-	(166,184)	-	-	-	166,184	**-**
Transfer to cash settled share based compensation	-	-	-	-	(2,418)	-	**(2,418)**
Share based payment in a subsidiary	-	-	-	-	287	-	**287**
Other movements	-	(1,019)	-	-	-	-	**(1,019)**
At 31 December 2016	**117,058**	**1,163,193**	**(237,915)**	**49,121**	**14,172**	**166,184**	**1,271,813**

19 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

	General reserve	*Retained earnings*	*Foreign currency translation reserve*	*Cumulative changes in fair values*	*Share based payment reserve*	*Proposed cash dividend*	*Total other reserves*
							KD 000's
At 1 January 2015	117,058	1,017,780	(61,497)	43,875	14,833	141,340	1,273,389
Profit for the year	-	282,160	-	-	-	-	282,160
Other comprehensive loss	-	-	(18,252)	(14,403)	-	-	(32,655)
Total comprehensive income (loss)	-	282,160	(18,252)	(14,403)	-	-	249,505
Transfer to statutory reserve (Note 19b)	-	(11,999)	-	-	-	-	(11,999)
Dividends paid	-	-	-	-	-	(141,374)	(141,374)
Dividends on treasury shares sold	-	(34)	-	-	-	34	-
Interest paid on perpetual Tier 1 Capital Securities	-	(6,087)	-	-	-	-	(6,087)
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	(976)	-	-	-	-	(976)
Proposed bonus shares (Note 20)	-	(25,198)	-	-	-	-	(25,198)
Proposed cash dividend 30 fils per share (Note 20)	-	(148,443)	-	-	-	148,443	-
Share based payment	-	-	-	-	1,470	-	1,470
Change in effective holding in a subsidiary	-	18	-	-	-	-	18
At 31 December 2015	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748

19 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable, except for the amount equivalent to the cost of treasury shares.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

20 PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 30 fils per share (2015: 30 fils per share) and bonus shares of 5% (2015: 5%) on outstanding shares as at 31 December 2016. The cash dividend, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the annual general assembly meeting and the bonus shares, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the regulatory approval for distribution of bonus shares.

21 PERPETUAL TIER 1 CAPITAL SECURITIES

In April 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Capital Securities"), through a wholly owned special purpose vehicle, amounting to USD 700,000 thousand which are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. The Capital Securities are subordinated, unsecured and carry an interest rate of 5.75% per annum, payable semi-annually in arrears, until the first call date in April 2021. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date in April 2021 and on every interest payment date thereafter, subject to certain conditions.

22 NON-CONTROLLING INTERESTS

During the year, Boubyan Bank K.S.C.P. (Boubyan Bank), a subsidiary of the Bank, issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250,000 thousand. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Boubyan Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Boubyan Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588% per annum. At the issuer's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.The Group did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non- controlling interest in the consolidated statement of financial position.

23 SHARE BASED PAYMENT

The Bank had been operating an equity settled share based compensation plan for its senior executives. These options vest if the employees remain in service for a period of three years from the grant date and the exercise price was equal to 100 fils per share. During the year, the Bank replaced the equity settled share based compensation plan with a cash settled share based compensation plan. As per the modified plan, options will vest if the employees remain in service for a period of three years and will be settled by cash payment determined based on the market value of the Bank's equity shares on vesting date.

The Bank also amended the settlement terms of the previous plan from equity settlement to cash settlement. Accordingly the Bank determined the fair value of the cash settled plan on the modification date and reclassified an amount of KD 2,418 thousand from share based payment reserve to other liabilities.

23 SHARE BASED PAYMENT (continued)

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.612 as at the end of the year. The significant inputs into the model were a share price of KD 0.660 at the measurement date, a standard deviation of expected share price returns of 20.40%, option life disclosed above and annual risk free interest rate of 2.5%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The following table shows the movement in number of share options during the year:

	2016	*2015*
	No. of share options	*No. of share options*
Outstanding at 1 January	**5,637,743**	5,275,605
Granted during the year	**2,197,905**	1,925,883
Exercised during the year	**(1,556,637)**	(1,117,795)
Lapsed during the year	**(227,019)**	(445,950)
Outstanding at 31 December	**6,051,992**	5,637,743

Boubyan Bank K.S.C.P. operates an equity settled share based compensation plan and granted share options to its senior executives.

The expense accrued on account of share based compensation plans for the year amounts to KD 1,693 thousand (2015: KD 1,658 thousand) and is included under staff expenses.

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

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

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

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

2016	***Level 1 KD 000's***	***Level 2 KD 000's***	***Level 3 KD 000's***	***Total KD 000's***
Debt securities	**1,753,246**	**939,419**	**14,765**	**2,707,430**
Equities and other investments	**91,489**	**132,410**	**71,782**	**295,681**
	1,844,735	**1,071,829**	**86,547**	**3,003,111**
Derivative financial instruments (Note 27)	**-**	**2,633**	**-**	**2,633**

2015	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Debt securities	1,537,093	813,163	31,686	2,381,942
Equities and other investments	129,797	70,223	79,904	279,924
	1,666,890	883,386	111,590	2,661,866
Derivative financial instruments (Note 27)	-	(28,944)	-	(28,944)

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

	At 1 January 2016 KD 000's	***Change in fair value KD 000's***	***Additions/ Transfers KD 000's***	***Sale/ redemption KD 000's***	***Exchange rate movements KD 000's***	***At 31 December 2016 KD 000's***	***Net gains in the consolidated statement of income KD 000's***
Debt securities	**31,686**	**-**	**14,000**	**(30,929)**	**8**	**14,765**	**989**
Equities and other investments	**79,904**	**(9,677)**	**9,950**	**(8,771)**	**376**	**71,782**	**4,616**
	111,590	**(9,677)**	**23,950**	**(39,700)**	**384**	**86,547**	**5,605**

	At 1 January 2015 KD 000's	*Change in fair value KD 000's*	*Additions KD 000's*	*Sale/ redemption KD 000's*	*Exchange rate movements KD 000's*	*At 31 December 2015 KD 000's*	*Net gains in the consolidated statement of income KD 000's*
Debt securities	39,089	-	-	(7,397)	(6)	31,686	1,675
Equities and other investments	82,564	(4,748)	8,804	(8,608)	1,892	79,904	6,688
	121,653	(4,748)	8,804	(16,005)	1,886	111,590	8,363

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Debt securities included in this category consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow method using credit spread of 4% (2015: ranging from 2% to 3.9%). Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

25 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	*Country of incorporation*	*Principal business*	*% Effective ownership*	
			2016	*2015*
National Bank of Kuwait (International) plc	United Kingdom	Banking	**100.0**	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	**100.0**	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	**85.5**	85.5
National Investors Group Holdings Limited	Cayman Islands	Investment Company	**100.0**	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	**84.3**	84.3
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	**99.9**	99.9
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	**93.3**	86.7
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	**98.5**	98.5
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	**58.4**	58.4

At 31 December 2016, 38.1.% (2015: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in note 31.

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2016 ***KD 000's***	*2015* *KD 000's*
Accumulated balances of non-controlling interest	**293,211**	207,231
Profit attributable to non-controlling interest	**16,527**	13,449

25 SUBSIDIARIES (continued)

Summarised financial information of Boubyan Bank K.S.C.P. are as follows:

Summarised financial information	***2016*** ***KD 000's***	*2015* *KD 000's*
Assets	**3,481,807**	3,132,885
Liabilities	**3,058,654**	2,812,086
Net operating income	**103,303**	91,353
Results for the year	**41,301**	35,185
Other comprehensive loss for the year	**(297)**	(3,717)

Summarised cash flow information	***2016*** ***KD 000's***	*2015* *KD 000's*
Operating cash flow	**(390,912)**	179,176
Investing cash flow	**(47,840)**	(16,515)
Financing cash flow	**60,873**	(12,223)

26 COMMITMENTS AND CONTINGENT LIABILITIES

	2016 ***KD 000's***	*2015* *KD 000's*
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	**115,668**	118,367
Letters of credit	**319,459**	320,673
Guarantees	**3,638,537**	3,466,160
	4,073,664	3,905,200

Irrevocable commitments to extend credit amount to KD 786,888 thousand (31 December 2015: KD 755,668 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 105,426 thousand (31 December 2015: KD 93,456 thousand).

27 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

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

Forward foreign exchange
Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2016			*2015*		
	Positive fair value KD 000's	***Negative fair value KD 000's***	***Notional KD 000's***	*Positive fair value KD 000's*	*Negative fair value KD 000's*	*Notional KD 000's*
Interest rate swaps (held as fair value hedges)	**25,992**	**30,117**	**1,376,449**	6,361	33,597	900,027
Interest rate swaps (others)	**1,450**	**1,404**	**84,811**	758	689	101,718
Forward foreign exchange contracts	**17,741**	**11,029**	**2,094,223**	9,625	11,402	1,742,618
	45,183	**42,550**	**3,555,483**	16,744	45,688	2,744,363

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2016 is negative KD 4,125 thousand (2015: negative KD 27,236 thousand). Gain on the hedged fixed income financial assets amounted to KD 26,805 thousand (2015: KD 29,664 thousand).

28 RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		*Number of related parties*			
	2016	*2015*	***2016***	*2015*	***2016 KD 000's***	*2015 KD 000's*
Board Members						
Loans (secured)	**4**	4	**16**	11	**155,598**	259,355
Contingent liabilities	**-**	1	**13**	12	**20,981**	18,889
Credit cards	**6**	6	**10**	3	**99**	18
Deposits	**8**	9	**67**	67	**32,090**	30,073
Collateral against credit facilities	**4**	4	**14**	14	**288,898**	337,443
Interest and fee income					**7,586**	7,629
Interest expense					**43**	66
Purchase of equipment and other expenses					**23**	27
Sale of property acquired on settlement of debts					**-**	8,500
Executive Officers						
Loans	**3**	4	**3**	2	**2,702**	2,609
Contingent liabilities	**5**	5	**-**	-	**2**	2
Credit cards	**12**	12	**2**	1	**38**	56
Deposits	**13**	12	**33**	29	**2,910**	3,234
Interest and fee income					**90**	85
Interest expense					**-**	2

Details of compensation to key management personnel are as follows:

	2016 KD 000's	*2015 KD 000's*
Salaries and other short term benefits	**9,462**	8,893
Post-employment benefits	**514**	486
Share based compensation	**475**	408
	10,451	9,787

Board members do not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

29 RISK MANAGEMENT

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

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

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action.

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

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

29.1 CREDIT RISK

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

All significant policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

29 RISK MANAGEMENT (continued)

29.1 CREDIT RISK (continued)

29.1. 1 MAXIMUM EXPOSURE TO CREDIT RISK

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

	2016		*2015*	
	Gross exposure KD 000's	***Net exposure KD 000's***	*Gross exposure KD 000's*	*Net exposure KD 000's*
Loans, advances and Islamic financing to customers	**13,611,491**	**9,063,108**	13,550,966	8,758,404
Contingent liabilities	**4,073,664**	**3,939,330**	3,905,200	3,744,182

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

29.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

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

Credit risk can also arise due to a significant concentration of Group’s assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2016 is 16% (2015: 15%).

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

2016 **Geographic region**	***Middle East and North Africa KD 000's***	***North America KD 000's***	***Europe KD 000's***	***Asia KD 000's***	***Others KD 000's***	***Total KD 000's***
Balances and deposits with banks	**2,770,929**	**1,087,006**	**656,737**	**400,908**	**-**	**4,915,580**
Central Bank of Kuwait bonds	**748,889**	**-**	**-**	**-**	**-**	**748,889**
Kuwait Government treasury bonds	**493,101**	**-**	**-**	**-**	**-**	**493,101**
Loans, advances and Islamic financing to customers	**12,533,231**	**269,013**	**343,165**	**174,628**	**291,454**	**13,611,491**
Held to maturity investments	**158,504**	**-**	**-**	**12,454**	**-**	**170,958**
Available for sale investments	**1,897,481**	**48,516**	**176,496**	**548,525**	**36,412**	**2,707,430**
Other assets	**104,006**	**6,836**	**9,988**	**1,978**	**1,188**	**123,996**
	18,706,141	**1,411,371**	**1,186,386**	**1,138,493**	**329,054**	**22,771,445**
Commitments and contingent liabilities (Note 26)	**2,432,241**	**256,158**	**1,256,892**	**900,991**	**14,270**	**4,860,552**
	21,138,382	**1,667,529**	**2,443,278**	**2,039,484**	**343,324**	**27,631,997**

29 RISK MANAGEMENT (continued)

29.1 CREDIT RISK (continued)

29.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

2015

Geographic region	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Balances and deposits with banks	2,759,289	1,327,326	471,153	159,492	3,219	4,720,479
Central Bank of Kuwait bonds	803,930	-	-	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	-	-	380,052
Loans, advances and Islamic financing to customers	12,279,672	255,331	361,192	271,914	382,857	13,550,966
Held to maturity investments	99,318	-	-	20,176	-	119,494
Available for sale investments	1,618,218	48,300	184,440	498,176	32,808	2,381,942
Other assets	109,972	2,326	6,850	1,538	5,700	126,386
	18,050,451	1,633,283	1,023,635	951,296	424,584	22,083,249
Commitments and contingent liabilities (Note 26)	2,390,801	320,765	1,057,485	880,039	11,778	4,660,868
	20,441,252	1,954,048	2,081,120	1,831,335	436,362	26,744,117

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

Industry sector	***2016 KD 000's***	*2015 KD 000's*
Trading	**2,267,693**	2,323,127
Manufacturing	**1,748,422**	1,713,148
Banks and other financial institutions	**9,107,707**	8,861,239
Construction	**1,304,291**	1,515,697
Real Estate	**2,947,829**	2,798,090
Retail	**4,507,414**	4,191,243
Government	**2,484,846**	2,157,018
Others	**3,263,795**	3,184,555
	27,631,997	26,744,117

29 RISK MANAGEMENT (continued)

29.1 CREDIT RISK (continued)

29.1. 3 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

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

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

	Neither past due nor impaired		*Past due*	
	High	*Standard*	*or impaired*	*Total*
2016	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Balances and short term deposits with banks	**2,507,665**	-	-	**2,507,665**
Central Bank of Kuwait bonds	**748,889**	-	-	**748,889**
Kuwait Government treasury bonds	**493,101**	-	-	**493,101**
Deposits with banks	**2,230,960**	**176,955**	-	**2,407,915**
Loans, advances and Islamic financing to customers	**11,626,334**	**2,381,425**	**271,986**	**14,279,745**
Held to maturity investments	**12,454**	**158,504**	-	**170,958**
Available for sale investments	**2,252,553**	**454,877**	-	**2,707,430**
	19,871,956	**3,171,761**	**271,986**	**23,315,703**
2015				
Balances and short term deposits with banks	3,293,800	-	-	3,293,800
Central Bank of Kuwait bonds	803,930	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	380,052
Deposits with banks	1,237,787	188,892	-	1,426,679
Loans, advances and Islamic financing to customers	11,936,161	1,919,793	307,901	14,163,855
Held to maturity investments	20,176	99,318	-	119,494
Available for sale investments	1,658,973	722,969	-	2,381,942
	19,330,879	2,930,972	307,901	22,569,752

29 RISK MANAGEMENT (continued)

29.1 CREDIT RISK (continued)

29.1.4 AGEING ANALYSIS OF PAST DUE OR IMPAIRED LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

	Corporate		*Retail*		*Total*	
	Past due and not impaired KD 000's	*Past due and impaired KD 000's*	*Past due and not impaired KD 000's*	*Past due and impaired KD 000's*	*Past due and not impaired KD 000's*	*Past due and impaired KD 000's*
2016						
Up to 30 days	**4,500**	**2,793**	**36,541**	-	**41,041**	**2,793**
31 - 60 days	**13,261**	-	**16,983**	-	**30,244**	-
61 - 90 days	**15,078**	-	**2,618**	-	**17,696**	-
91-180 days	-	**37,984**	-	**20,138**	-	**58,122**
More than 180 days	-	**58,673**	-	**63,417**	-	**122,090**
	32,839	**99,450**	**56,142**	**83,555**	**88,981**	**183,005**
2015						
Up to 30 days	41,987	2,687	35,132	-	77,119	2,687
31 - 60 days	8,295	-	16,043	-	24,338	-
61 - 90 days	14,081	-	2,271	-	16,352	-
91-180 days	-	9,523	-	21,582	-	31,105
More than 180 days	-	69,862	-	86,438	-	156,300
	64,363	82,072	53,446	108,020	117,809	190,092

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 2016 was KD 75,586 thousand (2015: KD 55,563 thousand).

29 RISK MANAGEMENT (continued)

29.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2016	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	**4,782,330**	**258,957**	**53,591**	**5,094,878**
Central Bank of Kuwait bonds	**544,722**	**204,167**	-	**748,889**
Kuwait Government treasury bonds	**66,871**	**144,012**	**282,218**	**493,101**
Loans, advances and Islamic financing to customers	**4,489,373**	**1,567,813**	**7,554,305**	**13,611,491**
Held to maturity investments	**23,184**	**86,692**	**61,082**	**170,958**
Available for sale investments	**456,236**	**412,395**	**2,083,441**	**2,952,072**
Investments carried at fair value through statement of income	**51,602**	-	-	**51,602**
Investment in associates	-	-	**73,644**	**73,644**
Land, premises and equipment	-	-	**255,086**	**255,086**
Goodwill and other intangible assets	-	-	**581,840**	**581,840**
Other assets	**89,677**	**34,319**	**46,512**	**170,508**
	10,503,995	**2,708,355**	**10,991,719**	**24,204,069**
Liabilities and equity				
Due to banks and other financial institutions	**4,985,624**	**1,509,419**	**852,760**	**7,347,803**
Customer deposits	**10,420,857**	**1,810,620**	**376,615**	**12,608,092**
Certificates of deposit issued	**281,566**	**134,423**	-	**415,989**
Subordinated Tier 2 bonds	**-**	**-**	**124,700**	**124,700**
Other liabilities	**242,830**	**-**	**59,923**	**302,753**
Share capital and reserves	-	**-**	**2,718,379**	**2,718,379**
Proposed cash dividend	**166,184**	**-**	-	**166,184**
Perpetual Tier 1 Capital Securities	-	**-**	**210,700**	**210,700**
Non-controlling interests	-	**-**	**309,469**	**309,469**
	16,097,061	**3,454,462**	**4,652,546**	**24,204,069**

29 RISK MANAGEMENT (continued)

29.2 LIQUIDITY RISK (continued)

2015	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	4,600,880	301,100	6,070	4,908,050
Central Bank of Kuwait bonds	553,920	250,010	-	803,930
Kuwait Government treasury bonds	55,211	212,182	112,659	380,052
Loans, advances and Islamic financing to customers	4,431,115	1,987,624	7,132,227	13,550,966
Held to maturity investments	93,900	23,441	2,153	119,494
Available for sale investments	327,807	556,656	1,710,120	2,594,583
Investments carried at fair value through statement of income	70,257	-	-	70,257
Investment in associates	-	-	92,713	92,713
Land, premises and equipment	-	-	226,501	226,501
Goodwill and other intangible assets	-	-	677,594	677,594
Other assets	87,605	38,781	47,104	173,490
	10,220,695	3,369,794	10,007,141	23,597,630
Liabilities and equity				
Due to banks and other financial institutions	5,278,742	1,621,057	406,668	7,306,467
Customer deposits	10,328,767	1,400,124	330,312	12,059,203
Certificates of deposit issued	561,172	94,085	-	655,257
Subordinated Tier 2 bonds	-	-	124,664	124,664
Other liabilities	200,161	-	60,754	260,915
Share capital and reserves	-	-	2,607,496	2,607,496
Proposed cash dividend	148,443	-	-	148,443
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	224,485	224,485
	16,517,285	3,115,266	3,965,079	23,597,630

29 RISK MANAGEMENT (continued)

29.2 LIQUIDITY RISK (continued)

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

	Up to 3 months KD 000's	***3 to 12 months KD 000's***	***Over 1 year KD 000's***	***Total KD 000's***
2016				
Financial Liabilities				
Due to banks and other financial institutions	**4,998,573**	**1,527,916**	**886,416**	**7,412,905**
Customer deposits	**10,431,268**	**1,837,137**	**408,186**	**12,676,591**
Certificates of deposit issued	**282,388**	**134,913**	**-**	**417,301**
Subordinated Tier 2 bonds	**-**	**6,035**	**173,065**	**179,100**
	15,712,229	**3,506,001**	**1,467,667**	**20,685,897**
Contingent liabilities and commitments				
Contingent liabilities	**817,517**	**1,065,384**	**2,190,763**	**4,073,664**
Irrevocable commitments	**82,921**	**309,724**	**394,243**	**786,888**
	900,438	**1,375,108**	**2,585,006**	**4,860,552**
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	**1,807,064**	**235,010**	**135,040**	**2,177,114**
Contractual amounts receivable	**1,804,471**	**235,471**	**145,539**	**2,185,481**

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2015				
Financial Liabilities				
Due to banks and other financial institutions	5,285,641	1,632,290	418,182	7,336,113
Customer deposits	10,341,087	1,426,765	365,512	12,133,364
Certificates of deposit issued	561,635	94,224	-	655,859
Subordinated Tier 2 bonds	-	5,860	177,704	183,564
	16,188,363	3,159,139	961,398	20,308,900
Contingent liabilities and commitments				
Contingent liabilities	802,261	991,311	2,111,628	3,905,200
Irrevocable commitments	119,367	227,979	408,322	755,668
	921,628	1,219,290	2,519,950	4,660,868
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	1,452,136	284,670	90,242	1,827,048
Contractual amounts receivable	1,450,558	285,134	97,017	1,832,709

29 RISK MANAGEMENT (continued)

29.3 MARKET RISK

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

29.3.1 INTEREST RATE RISK

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

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

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

Based on the 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:

		2016		*2015*	
		Effect on profit KD 000's	***Effect on equity KD 000's***	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Currency	**Movement in Basis points**				
KWD	+25	**5,969**	**-**	4,546	-
USD	+25	**2,137**	**(114)**	2,064	(859)
EUR	+25	**915**	**(5)**	164	(8)
GBP	+25	**827**	**-**	11	-
EGP	+25	**30**	**-**	623	(882)

29.3.2 FOREIGN EXCHANGE RISK

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

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

29 RISK MANAGEMENT (continued)

29.3 MARKET RISK (continued)

29.3.2 FOREIGN EXCHANGE RISK (continued)

The table below analyses the effect on profit of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase.

		2016	*2015*
Currency	***% Change in currency rate***	***Effect on profit KD 000's***	*Effect on profit KD 000's*
USD	+5	**)412(**	)174(
GBP	+5	**40**	58
EUR	+5	**214**	165
EGP	+5	**)127(**	56
Other	+5	**)42(**	5

29.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through statement of income) and on equity (as a result of change in the fair value of equity investments held as available for sale) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2016		*2015*	
Market indices	***% Change in equity price***	***Effect on profit KD 000's***	***Effect on equity KD 000's***	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Kuwait stock exchange	+5	**-**	949	-	944
Saudi stock exchange	+5	**-**	475	-	468
UAE stock indices	+5	**-**	309	-	184

29.4 OPERATIONAL RISK

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

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

30 CAPITAL

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are, also, governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2016 *KD 000's*	*2015* *KD 000's*
Risk Weighted Assets	**15,631,316**	14,842,129
Capital required	**2,344,697**	1,855,266
Capital available		
Common Equity Tier 1 capital	**2,202,176**	1,965,705
Additional Tier 1 capital	**247,904**	221,245
Tier 1 capital	**2,450,080**	2,186,950
Tier 2 capital	**323,472**	310,531
Total capital	**2,773,552**	2,497,481
Common Equity Tier 1 capital adequacy ratio	**14.1%**	13.2%
Tier 1 capital adequacy ratio	**15.7%**	14.7%
Total capital adequacy ratio	**17.7%**	16.8%

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2016 *KD 000's*	*2015* *KD 000's*
Tier 1 capital	**2,450,080**	2,186,950
Total exposures	**26,510,797**	25,636,063
Leverage ratio	**9.2%**	8.5%

31 FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2016, funds under management were KD 3,614 million (2015: KD 3,368 million).

NATIONAL BANK OF KUWAIT GROUP

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

Consolidated Financial Statements

EY
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P. (continued)

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended, and its executive regulation, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended, and its executive regulation, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2015 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2015 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62 A
EY	DELOITTE & TOUCHE
(AL-AIBAN, AL-OSAIMI & PARTNERS)	(AL WAZZAN & CO.)

10 January 2016
Kuwait

National Bank of Kuwait Group

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Notes	*2015 KD 000's*	*2014 KD 000's*
Interest income	4	585,084	513,518
Interest expense	5	139,427	114,046
Net interest income		445,657	399,472
Murabaha and other Islamic financing income		106,369	87,061
Distribution to depositors and Murabaha costs		21,875	17,195
Net income from Islamic financing		84,494	69,866
Net interest income and net income from Islamic financing		530,151	469,338
Net fees and commissions	6	129,802	121,846
Net investment income	7	31,936	33,132
Net gains from dealing in foreign currencies		33,154	27,213
Share of results of associates		220	7,657
Other operating income		3,494	1,860
Non-interest income		198,606	191,708
Net operating income		728,757	661,046
Staff expenses		137,213	122,402
Other administrative expenses		77,168	72,412
Depreciation of premises and equipment		15,338	15,215
Amortisation of intangible assets	15	4,968	5,062
Operating expenses		234,687	215,091
Operating profit before provision for credit losses and impairment losses		494,070	445,955
Provision charge for credit losses and impairment losses	8	164,397	146,695
Operating profit before taxation		329,673	299,260
Taxation	9	33,154	25,606
Profit for the year		296,519	273,654
Attributable to:			
Shareholders of the Bank		282,160	261,810
Non-controlling interests		14,359	11,844
		296,519	273,654
Basic and diluted earnings per share attributable to shareholders of the Bank	10	56 fils	53 fils

The attached notes 1 to 30 form part of these consolidated financial statements.

National Bank of Kuwait Group

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	*2015 KD 000's*	*2014 KD 000's*
Profit for the year		**296,519**	273,654
Other comprehensive income:			
Net gains on investments available for sale transferred to consolidated statement of income	7	(8,496)	(26,547)
Impairment losses on investments available for sale transferred to consolidated statement of income	8	10,557	11,155
Change in fair value of investments available for sale		(14,380)	25,034
Exchange differences and share of other comprehensive income transferred to consolidated statement of income on sale of an associate		(8,471)	-
Share of other comprehensive income of associates		111	322
Exchange differences on translation of foreign operations		(12,794)	8,922
Other comprehensive (loss) income for the year reclassifiable to consolidated statement of income in subsequent years		**(33,473)**	18,886
Total comprehensive income for the year		**263,046**	292,540
Attributable to:			
Shareholders of the Bank		249,505	279,135
Non-controlling interests		13,541	13,405
		263,046	292,540

The attached notes 1 to 30 form part of these consolidated financial statements.

National Bank of Kuwait Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 KD 000's	2014 KD 000's
Assets			
Cash and short term funds	11	3,481,371	3,131,991
Central Bank of Kuwait bonds	13	803,930	534,688
Kuwait Government treasury bonds	13	380,052	344,529
Deposits with banks		1,426,679	2,050,515
Loans, advances and Islamic financing to customers	12	13,550,966	11,908,708
Investment securities	13	2,784,334	2,493,693
Investment in associates	14	92,713	119,398
Land, premises and equipment		226,501	203,414
Goodwill and other intangible assets	15	677,594	696,416
Other assets	16	173,490	162,371
Investment in an associate held for sale	14	-	138,408
Total assets		23,597,630	21,784,131
Liabilities			
Due to banks and other financial institutions		7,306,467	6,705,717
Customer deposits		12,059,203	11,259,736
Certificates of deposit issued		655,257	675,065
Subordinated Tier 2 bonds	17	124,664	-
Other liabilities	18	260,915	273,073
Total liabilities		20,406,506	18,913,591
Equity			
Share capital	19	503,972	479,973
Proposed bonus shares	20	25,198	23,999
Statutory reserve	19	251,986	239,987
Share premium account	19	699,840	699,840
Treasury shares	19	(77,799)	(78,795)
Treasury share reserve	19	13,994	14,878
Other reserves	19	1,338,748	1,273,389
Equity attributable to shareholders of the Bank		2,755,939	2,653,271
Perpetual Tier 1 Capital Securities	21	210,700	-
Non-controlling interests		224,485	217,269
Total equity		3,191,124	2,870,540
Total liabilities and equity		23,597,630	21,784,131

Nasser Musaed Abdullah Al-Sayer
Chairman

Isam J. Al Sager
Group Chief Executive Officer

The attached notes 1 to 30 form part of these consolidated financial statements.

National Bank of Kuwait Group

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 KD 000's	2014 KD 000's
Operating activities			
Profit for the year		296,519	273,654
Adjustments for:			
Net investment income	7	(31,936)	(33,132)
Share of results of associates		(220)	(7,657)
Depreciation of premises and equipment		15,338	15,215
Amortisation of intangible assets	15	4,968	5,062
Provision charge for credit losses and impairment losses	8	164,397	146,695
Share based payment reserve	22	1,658	1,480
Taxation	9	33,154	25,606
Operating profit before changes in operating assets and liabilities		483,878	426,923
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(269,242)	(229)
Kuwait Government treasury bonds		(35,523)	(24,281)
Deposits with banks		623,836	(1,150,843)
Loans, advances and Islamic financing to customers		(1,768,227)	(1,347,672)
Other assets		(11,119)	73,759
Due to banks and other financial institutions		600,750	1,760,852
Customer deposits		799,467	781,688
Certificates of deposit issued		(19,808)	434,081
Other liabilities		(9,015)	44,130
Tax paid		(32,351)	(22,513)
Net cash from operating activities		362,646	975,895
Investing activities			
Purchase of investment securities		(1,532,673)	(1,466,122)
Proceeds from sale/redemption of investment securities		1,226,291	1,350,475
Dividend income	7	2,939	3,839
Proceeds from disposal of an associate	14	157,857	-
Acquisition of non-controlling interests		-	(3,752)
Dividend from associates		587	11,554
Proceeds from sale of land, premises and equipment		1,003	414
Purchase of land, premises and equipment		(39,428)	(26,844)
Net cash used in investing activities		(183,424)	(130,436)
Financing activities			
Net proceeds from issue of Perpetual Tier 1 Capital Securities	21	209,724	-
Net proceeds from issue of Subordinated Tier 2 bonds	17	124,664	-
Dividends paid		(141,374)	(134,610)
Interest paid on Perpetual Tier 1 Capital Securities		(6,087)	-
Proceeds from sale of treasury shares		112	161
Dividends paid by a subsidiary to non-controlling interests		(4,087)	-
Net cash from (used in) financing activities		182,952	(134,449)
Increase in cash and short term funds		362,174	711,010
Exchange differences on translation of foreign operations		(12,794)	8,922
Cash and short term funds at the beginning of the year		3,131,991	2,412,059
Cash and short term funds at the end of the year	11	3,481,371	3,131,991

The attached notes 1 to 30 form part of these consolidated financial statements.

National Bank of Kuwait Group

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

KD 000's

	Equity attributable to shareholders of the Bank										
	Share capital	*Proposed bonus shares*	*Statutory reserve*	*Share premium account*	*Treasury shares*	*Treasury share reserve*	*Other reserves (Note 19c)*	*Total*	*Perpetual Tier 1 Capital Securities*	*Non-controlling interests*	*Total equity*
At 1 January 2014	457,117	22,856	228,559	699,840	(80,302)	16,224	1,164,550	2,508,844	-	202,950	2,711,794
Profit for the year	-	-	-	-	-	-	261,810	261,810	-	11,844	273,654
Other comprehensive income	-	-	-	-	-	-	17,325	17,325	-	1,561	18,886
Total comprehensive income	-	-	-	-	-	-	279,135	279,135	-	13,405	292,540
Transfer to statutory reserve (Note 19b)	-	-	11,428	-	-	-	(11,428)	-	-	-	-
Issue of bonus shares (Note 19a)	22,856	(22,856)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	1,507	(1,346)	-	161	-	-	161
Dividends paid	-	-	-	-	-	-	(134,610)	(134,610)	-	-	(134,610)
Proposed bonus shares (Note 20)	-	23,999	-	-	-	-	(23,999)	-	-	-	-
Share based payment	-	-	-	-	-	-	1,230	1,230	-	109	1,339
Capital increase/redemption (net) in subsidiaries	-	-	-	-	-	-	-	-	-	2,989	2,989
Acquisition of non-controlling interest	-	-	-	-	-	-	(1,421)	(1,421)	-	(2,331)	(3,752)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(68)	(68)	-	147	79
At 31 December 2014	479,973	23,999	239,987	699,840	(78,795)	14,878	1,273,389	2,653,271	-	217,269	2,870,540
Profit for the year	-	-	-	-	-	-	282,160	282,160	-	14,359	296,519
Other comprehensive loss	-	-	-	-	-	-	(32,655)	(32,655)	-	(818)	(33,473)
Total comprehensive income	-	-	-	-	-	-	249,505	249,505	-	13,541	263,046
Transfer to statutory reserve (Note 19b)	-	-	11,999	-	-	-	(11,999)	-	-	-	-
Issue of bonus shares (Note 19a)	23,999	(23,999)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	996	(884)	-	112	-	-	112
Dividends paid	-	-	-	-	-	-	(141,374)	(141,374)	-	-	(141,374)
Issue of Perpetual Tier 1 Capital Securities (Note 21)	-	-	-	-	-	-	-	-	210,700	-	210,700
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(6,087)	(6,087)	-	-	(6,087)
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(976)	(976)	-	-	(976)
Proposed bonus shares (Note 20)	-	25,198	-	-	-	-	(25,198)	-	-	-	-
Share based payment	-	-	-	-	-	-	1,470	1,470	-	188	1,658
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,087)	(4,087)
Capital redemption in a subsidiary	-	-	-	-	-	-	-	-	-	(2,458)	(2,458)
Change in effective holding in a subsidiary	-	-	-	-	-	-	18	18	-	32	50
At 31 December 2015	**503,972**	**25,198**	**251,986**	**699,840**	**(77,799)**	**13,994**	**1,338,748**	**2,755,939**	**210,700**	**224,485**	**3,191,124**

The attached notes 1 to 30 form part of these consolidated financial statements.

1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 10 January 2016. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) except for International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement', requirement for a collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

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

2.2 Changes in accounting policies

The accounting policies applied are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2015 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective:

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2015 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group except the following:

IFRS 9: Financial Instruments: Classification and Measurement

The IASB issued IFRS 9 Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

IFRS 15: Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the impact of IFRS 15 but does not expect any significant effect on adoption of this standard.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

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

a. Subsidiaries

Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer note 24 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest

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

c. Associates

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

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

2.4 Foreign currencies

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

a. Translation of foreign currency transactions

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies (continued)

a. Translation of foreign currency transactions (continued)
Translation gains or losses on non-monetary items carried at fair value are recognised in other comprehensive income as part of the fair value adjustment on investment securities available for sale, unless the non-monetary item is part of an effective hedging strategy.

b. Translation of financial statements of foreign entities
The results and financial position of all the Group entities that have a functional currency different from the presentation currency is translated to presentation currency as follows:

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

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

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

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

2.7 Fees and commissions income
Fees 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.

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

2.9 Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

a. Assets carried at amortised cost

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income. In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

b. Assets classified as available for sale

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

2.10 Impairment of non-financial assets

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

2.11 Share based compensation

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

2.12 Post employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

2.13 Taxation

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

2.14 Recognition of financial assets and financial liabilities

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Cash and short term funds

Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days.

2.16 Deposits with banks

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

2.17 Loans and advances to customers

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

Carrying value

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

Renegotiated loans

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

2.18 Islamic financing to customers

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

a. Murabaha

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

b. Wakala

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

c. Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amounts equal to the net investment outstanding in the leases less provision for impairment.

2.19 Financial Investments

The Group classifies its financial investments in the following categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through statement of income

All investments with the exception of investments at fair value through statement of income are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs. Premiums and discounts on non-trading investments (excluding those carried at fair value through statement of income) are amortised using the effective yield method and taken to interest income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Financial Investments (continued)

Held to maturity
Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost, less provision for impairment in value, if any. The losses arising from impairment of such investments are recognised in the consolidated statement of income. The interest income from debt securities classified as held to maturity is recorded in interest income.

Available for sale
Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as fair value through statement of income, held to maturity, or loans and advances. After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in the consolidated statement of income for the period. In case of a reversal of previously recognised impairment losses for equity investments, such changes will not be recognised in the current consolidated statement of income but will be recorded as an increase in the reserve for cumulative changes in fair values. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through consolidated statement of income. The portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated statement of income. The interest income from debt securities classified as available for sale is recorded in interest income and the dividend income from equities are recorded in dividend income.

Investments carried at fair value through statement of income
Investments are classified as "investments carried at fair value through statement of income" if they are held for trading or, upon initial recognition, are designated as fair value through statement of income. Investments are classified as held for trading when they are acquired for the purpose of selling or repurchase in the near term with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Investments are designated as fair value through statement of income if the fair value of the investment can be reliably measured and the classification as fair value through statement of income is as per the documented strategy of the Group. Investments classified as "investments carried at fair value through statement of income" are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income. Any dividend income of equities classified as 'investments carried at fair value through the statement of income' is recorded as part of 'dividend income'.

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

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

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

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

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.23 Derecognition of financial assets and financial liabilities

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Derivative financial instruments

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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

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

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

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

2.25 Trade and settlement date accounting

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

2.26 Investment properties

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and equipments on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of premises and equipments are as follows:

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

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

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

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

2.29 Goodwill and intangible assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Goodwill and intangible assets (continued)

b. Intangible assets

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

2.30 Property acquired on settlement of debt

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

2.31 Due to Banks and Financial Institutions, Customer deposits & Certificates of deposit issued

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

2.32 Islamic customer deposits

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

Murabaha payable

Murabaha payable is an Islamic transaction involving the Group's purchase of an asset from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. The purchase price is payable to the counterparty on maturity. Murabaha payable is stated at amortised cost.

Investment accounts

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

Non-investment accounts

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

2.33 Subordinated Tier 2 Bonds

Subordinated Tier 2 Bonds are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Accounting Judgements
Impairment of available for sale equity investments
The Group treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.37 Significant accounting judgements and estimates (continued)

Estimation uncertainty and assumptions (continued)

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

Share-based payments
The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 22.

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

3 SEGMENTAL ANALYSIS

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

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

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

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

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

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

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

3 SEGMENTAL ANALYSIS (continued)

2015

	Consumer and Private Banking KD 000's	*Corporate Banking KD 000's*	*Investment Banking and Asset Management KD 000's*	*Islamic Banking KD 000's*	*Group Centre KD 000's*	*International KD 000's*	*Total KD 000's*
Net interest income and net income from Islamic financing	171,176	121,951	142	84,494	18,016	134,372	530,151
Net operating income	229,373	162,527	23,809	94,680	40,068	178,300	728,757
Depreciation and amortisation expenses	4,121	477	122	2,636	9,278	3,672	20,306
Profit (loss) for the year	134,452	129,842	12,175	35,185	(95,072)	79,937	296,519
Total assets	4,051,853	5,256,655	62,942	3,132,885	2,163,474	8,929,821	23,597,630
Total liabilities	3,988,777	2,092,663	8,819	2,812,086	2,010,953	9,493,208	20,406,506

2014

	Consumer and Private Banking KD 000's	*Corporate Banking KD 000's*	*Investment Banking and Asset Management KD 000's*	*Islamic Banking KD 000's*	*Group Centre KD 000's*	*International KD 000's*	*Total KD 000's*
Net interest income and net income from Islamic financing	160,231	115,468	179	69,866	16,694	106,900	469,338
Net operating income	213,736	155,758	26,183	80,714	29,316	155,339	661,046
Depreciation and amortisation expenses	4,343	521	101	2,178	9,425	3,709	20,277
Profit (loss) for the year	133,003	107,667	13,838	28,505	(85,154)	75,795	273,654
Total assets	3,643,908	4,857,286	62,147	2,647,930	2,444,552	8,128,308	21,784,131
Total liabilities	3,834,766	2,044,509	8,288	2,346,828	2,271,658	8,407,542	18,913,591

3 SEGMENTAL ANALYSIS (continued)

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

Net operating income	*2015 KD 000's*	*2014 KD 000's*
Kuwait	550,457	505,707
Other Middle East and North Africa	131,248	113,954
Europe	24,497	23,786
Others	22,555	17,599
	728,757	661,046

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

Non-current assets	*2015 KD 000's*	*2014 KD 000's*
Kuwait	914,370	920,417
Other Middle East and North Africa	35,024	36,185
Europe	1,349	934
Others	456	349
	951,199	957,885

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

4 INTEREST INCOME

	2015 KD 000's	*2014 KD 000's*
Deposits with banks	32,613	23,192
Loans and advances to customers	430,524	390,618
Debt investment securities	111,942	90,178
Other	10,005	9,530
	585,084	513,518

5 INTEREST EXPENSE

	2015 KD 000's	*2014 KD 000's*
Due to banks and other financial institutions	44,750	30,161
Customer deposits	91,764	82,839
Certificates of deposit issued	2,222	1,046
Subordinated Tier 2 bonds	691	-
	139,427	114,046

6 NET FEES AND COMMISSIONS

	2015 KD 000's	*2014 KD 000's*
Fees and commissions income	153,351	141,493
Fees and commissions related expenses	(23,549)	(19,647)
Net fees and commissions	129,802	121,846

Fees and commissions income includes KD 28,672 thousand (2014: KD 28,721 thousand) relating to asset management fees earned on trust and fiduciary activities in which the Group holds or invests assets on behalf of its customers.

7 NET INVESTMENT INCOME

	2015 KD 000's	*2014 KD 000's*
Net realised gains on available for sale investments	8,496	26,547
Net losses from investments carried at fair value through statement of income	(183)	(198)
Dividend income	2,939	3,839
Gain on sale of investment in an associate (Note 14)	21,862	-
Net (losses) gains from investment properties	(1,178)	2,944
	31,936	33,132

8 PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2015 KD 000's	*2014 KD 000's*
Provision charge for credit losses (Note 12)	129,959	135,540
Impairment losses on investment securities	10,557	11,155
Impairment losses on associates (Note 14)	18,481	-
Impairment losses on intangible assets (Note 15)	5,400	-
	164,397	146,695

9 TAXATION

	2015 KD 000's	*2014 KD 000's*
National labour support tax	7,022	6,489
Zakat	3,084	1,870
Contribution to Kuwait Foundation for the Advancement of Sciences	2,573	2,372
Overseas tax	20,475	14,875
	33,154	25,606

10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (further adjusted for interest payment on Perpetual Tier 1 Capital Securities) by the weighted average number of shares outstanding during the year net of treasury shares.

Diluted earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (further adjusted for interest payment on Perpetual Tier 1 Capital Securities) by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issuance of employee share options does not result in any change from the reported basic earnings per share.

	2015 KD 000's	*2014 KD 000's*
Profit for the year attributable to shareholders of the Bank	282,160	261,810
Less: Interest payment on Perpetual Tier 1 Capital Securities	(6,087)	-
	276,073	261,810
Weighted average number of shares outstanding during the year (thousands)	4,948,014	4,946,772
Basic and diluted earnings per share	56 fils	53 fils

Earnings per share calculations for 2014 have been adjusted to take account of the bonus shares issued in 2015.

11 CASH AND SHORT TERM FUNDS

	2015 KD 000's	*2014 KD 000's*
Cash on hand	187,571	220,349
Current account with other banks	1,361,545	1,300,426
Money at call	190,562	250,400
Balances with the Central Bank of Kuwait	5,442	38,767
Deposits and Murabaha with banks maturing within seven days	1,736,251	1,322,049
	3,481,371	3,131,991

12 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2015	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Corporate	8,557,890	257,859	361,965	276,611	386,459	9,840,784
Retail	4,318,942	430	3,699	-	-	4,323,071
Loans, advances and Islamic financing to customers	12,876,832	258,289	365,664	276,611	386,459	14,163,855
Provision for credit losses						(612,889)
						13,550,966

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

2014	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Corporate	7,679,450	188,914	307,010	183,648	274,092	8,633,114
Retail	3,787,185	21	2,986	-	-	3,790,192
Loans, advances and Islamic financing to customers	11,466,635	188,935	309,996	183,648	274,092	12,423,306
Provision for credit losses						(514,598)
						11,908,708

Provisions for credit losses on cash facilities are as follows:

	Specific		*General*		*Total*	
	2015 KD 000's	*2014 KD 000's*	*2015 KD 000's*	*2014 KD 000's*	*2015 KD 000's*	*2014 KD 000's*
Balance at beginning of the year	138,764	145,371	375,834	290,082	514,598	435,453
Amounts written off net of exchange movement	(27,673)	(55,254)	(6)	117	(27,679)	(55,137)
Provided during the year	31,881	48,647	94,089	85,635	125,970	134,282
Balance at end of the year	142,972	138,764	469,917	375,834	612,889	514,598

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

	Corporate		*Retail*		*Total*	
	2015 KD 000's	*2014 KD 000's*	*2015 KD 000's*	*2014 KD 000's*	*2015 KD 000's*	*2014 KD 000's*
Balance at beginning of the year	68,712	82,846	70,052	62,525	138,764	145,371
Amounts written off net of exchange movements	(25,596)	(53,850)	(2,077)	(1,404)	(27,673)	(55,254)
Provided during the year	17,315	39,716	14,566	8,931	31,881	48,647
Balance at end of the year	60,431	68,712	82,541	70,052	142,972	138,764

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

	Specific		*General*		*Total*	
	2015 KD 000's	*2014 KD 000's*	*2015 KD 000's*	*2014 KD 000's*	*2015 KD 000's*	*2014 KD 000's*
Cash facilities	31,881	48,647	94,089	85,635	125,970	134,282
Non cash facilities	1,171	39	2,818	1,219	3,989	1,258
Provision charge for credit losses	33,052	48,686	96,907	86,854	129,959	135,540

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

The available provision on non-cash facilities of KD 30,931 thousand (2014: KD 26,941 thousand) is included under other liabilities (Note 18).

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

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

	2015 *KD 000's*	*2014* *KD 000's*
Loans, advances and Islamic financing to customers	190,092	186,412
Provisions	135,270	130,917

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2015 amounts to KD 30,654 thousand (2014: KD 48,052 thousand). The collateral consists of cash, securities, bank guarantees and properties.

13 FINANCIAL INVESTMENTS

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

2015	*Held to maturity* *KD 000's*	*Available for sale* *KD 000's*	*Fair value through statement of income* *KD 000's*	*Total* *KD 000's*
Investment securities				
Debt securities - Government (Non Kuwait)	115,042	1,374,274	-	1,489,316
Debt securities - Non Government	4,452	1,007,668	-	1,012,120
Equities	-	96,437	2,560	98,997
Other investments	-	116,204	67,697	183,901
	119,494	2,594,583	70,257	2,784,334
Central Bank of Kuwait bonds	803,930	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	380,052
	1,303,476	2,594,583	70,257	3,968,316

13 FINANCIAL INVESTMENTS (continued)

2014	*Held to maturity KD 000's*	*Available for sale KD 000's*	*Fair value through statement of income KD 000's*	*Total KD 000's*
Investment securities				
Debt securities - Government (Non Kuwait)	107,512	1,164,863	-	1,272,375
Debt securities - Non Government	4,295	919,455	-	923,750
Equities	-	111,878	2,995	114,873
Other investments	-	118,839	63,856	182,695
	111,807	2,315,035	66,851	2,493,693
Central Bank of Kuwait bonds	534,688	-	-	534,688
Kuwait Government treasury bonds	344,529	-	-	344,529
	991,024	2,315,035	66,851	3,372,910

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 2,974 thousand (2014: KD 3,075 thousand), which are recorded at cost since fair value cannot be reliably estimated.

An impairment loss of KD 10,557 thousand (2014: KD 11,155 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

14 INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2015 ***KD 000's***	*2014* *KD 000's*
Bank Syariah Muamalat Indonesia T.B.K.	**41,559**	47,597
Bank of London and the Middle East	**36,762**	37,669
Turkish Bank A.S.	**5,541**	24,962
United Capital Bank	**5,151**	5,022
Others	**3,700**	4,148
	92,713	119,398

	Country of incorporation	*Principal business*	*% Effective ownership*	
			2015	*2014*
Bank Syariah Muamalat Indonesia T.B.K.	Indonesia	Banking	**30.5**	30.5
Bank of London and the Middle East	United Kingdom	Banking	**25.6**	25.6
Turkish Bank A.S.	Turkey	Banking	**34.3**	34.3
United Capital Bank	Sudan	Banking	**21.7**	21.7

14 INVESTMENT IN ASSOCIATES (continued)

Summarised financial information of the material associate of the Group, Bank Syariah Muamalat Indonesia T.B.K. is as follows:

	2015 *KD 000's*	*2014* *KD 000's*
Assets	1,198,995	1,418,835
Liabilities	1,120,050	1,332,605
Net assets	78,945	86,230
Contingent liabilities	18,286	26,071
Net operating income	64,137	40,791
Net profit (loss)	657	(10,225)
Other comprehensive (loss) income for the year	(7)	117

Carrying amount of investment in Bank Syariah Muamalat Indonesia T.B.K. consists of the Group's share of net assets and goodwill identified on acquisition.

Other associates	*2015* *KD 000's*	*2014* *KD 000's*
Share of results for the year	20	1,475
Share of other comprehensive income for the year	113	11

During the year the Group received dividend amounting to KD 587 thousand from associates (2014: KD 11,554 thousand).

During the year the Group provided KD 18,481 thousand by way of impairment in respect of its associates, consisting primarily of KD 15,212 thousand for its investment in Turkish Bank A.S. Impairment in respect of Turkish Bank A.S. is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using a combination of valuation techniques. Significant inputs used in valuation techniques include profit forecast for 5 years period, discount rate of 17.8%, terminal growth rate of 4.5% and market multiples.

During 2014 the Bank entered into an agreement to sell its 30% equity interest in International Bank of Qatar Q.S.C. for a sales consideration of KD 157,857 thousand. The investment was accordingly reclassified as an associate held for sale in the consolidated statement of financial position as at 31 December 2014. The Bank concluded the sale transaction during the current year and recognised a pre-tax gain net of certain settlement costs amounting to KD 21,862 thousand inclusive of other comprehensive income of KD 8,471 thousand. This amount is included under net investment income in the consolidated statement of income. The Bank also incurred exit costs amounting to KD 4,676 thousand which are included under other administrative expenses.

15 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill *KD 000's*	*Intangible Assets* *KD 000's*	*Total* *KD 000's*
Cost			
At 1 January 2015	481,711	243,591	725,302
Exchange rate adjustments	(7,537)	(2,265)	(9,802)
At 31 December 2015	474,174	241,326	715,500
Accumulated amortisation & impairment			
At 1 January 2015	-	28,886	28,886
Amortisation charge for the year	-	4,968	4,968
Impairment charge for the year	-	5,400	5,400
Exchange rate adjustments	-	(1,348)	(1,348)
At 31 December 2015	-	37,906	37,906
Net book value			
At 31 December 2015	474,174	203,420	677,594

15 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

	Goodwill KD 000's	*Intangible assets KD 000's*	*Total KD 000's*
Cost			
At 1 January 2014	480,429	243,240	723,669
Exchange rate adjustments	1,282	351	1,633
At 31 December 2014	481,711	243,591	725,302
Accumulated amortisation			
At 1 January 2014	-	23,584	23,584
Charge for the year	-	5,062	5,062
Exchange rate adjustments	-	240	240
At 31 December 2014	-	28,886	28,886
Net book value			
At 31 December 2014	481,711	214,705	696,416

Net book value of goodwill as at 31 December 2015 includes KD 334,531 thousand (2014: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 136,701 thousand (2014: KD 144,299 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,942 thousand (2014: KD 2,881 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2015 includes banking licences and brand amounting to KD 170,221 thousand (2014: KD 173,933 thousand), customer relationships and core deposits amounting to KD 20,657 thousand (2014: KD 22,810 thousand) and brokerage licences amounting to KD 12,542 thousand (2014: KD 17,962 thousand). Intangible assets with indefinite useful life amounts to KD 171,165 thousand (2014: KD 176,585 thousand). Intangible assets with definite useful life amounting to KD 32,255 thousand (2014: KD 38,120 thousand) are amortised over a period of 5 to 15 years.

Impairment testing for goodwill and intangible assets with indefinite useful life
The carrying value of goodwill and intangible assets with indefinite useful life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill or intangible assets might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations unless fair value based on an active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows are then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

Recoverable amount of goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of Boubyan Bank K.S.C.P. is allocated to a single CGU which consists of identifiable net assets including intangible assets of Boubyan Bank K.S.C.P. A discount rate of 9.25% (2014: 9.25%) and a terminal growth rate of 3.5% (2014: 4.5%) are used to estimate the recoverable amount of this cash generating unit. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 16% (2014: 16%) and a terminal growth rate of 5% (2014: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 10% (2014: 8.5%) and terminal growth rate of 3.5% (2014: 4.5%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin.

Based on such analysis, the Group has recorded an impairment loss of KD 5,400 thousand in respect of the brokerage licence in Kuwait. There are no indications that the remaining goodwill or intangible assets with indefinite useful life are impaired.

16 OTHER ASSETS

	2015 KD 000's	2014 KD 000's
Interest receivable	52,759	41,824
Sundry debtors and prepayments	50,833	44,494
Investment properties	23,397	25,638
Properties acquired on settlement of debts	23,707	32,417
Others	22,794	17,998
	173,490	162,371

17 SUBORDINATED TIER 2 BONDS

During the year, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD 125,000 thousand with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 4.75% per annum, payable semi-annually in arrears, for the first five years and will be reset for the subsequent period at the rate of 2.75% over the CBK Discount Rate (on the fifth year anniversary of date of issuance). Floating rate bonds carry an interest rate of 2.50% per annum over the Central Bank of Kuwait discount rate, reset semi-annually, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds and payable semi-annually in arrears. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions and regulatory approvals.

18 OTHER LIABILITIES

	2015 KD 000's	2014 KD 000's
Interest payable	40,249	37,273
Income received in advance	22,846	22,775
Taxation	20,569	19,766
Provision on non-cash facilities (Note 12)	30,931	26,941
Accrued expenses	40,011	37,574
Staff payables	29,822	31,317
Others	76,487	97,427
	260,915	273,073

19 SHARE CAPITAL AND RESERVES

a) Share capital

	2015 KD 000's	2014 KD 000's
Authorised, issued and fully paid:		
5,039,717,687 (2014 : 4,799,731,131) shares of KD 0.100 each	503,972	479,973

Extraordinary general assembly meeting of the shareholders held on 7 March 2015 approved an increase of KD 23,998,655.600 in the authorised, issued and fully paid share capital of the Bank by issuing 239,986,556 bonus shares representing 5% of the share capital on the date of the extraordinary general assembly meeting. The authorised, issued and fully paid share capital increased from KD 479,973,113.100 to KD 503,971,768.700 and the change in share capital was recorded in the commercial register on 10 March 2015.

19 SHARE CAPITAL AND RESERVES (continued)

a) Share capital (continued)

The movement in ordinary shares in issue during the year was as follows:

	2015	*2014*
Number of shares in issue as at 1 January	4,799,731,131	4,571,172,506
Bonus issue	239,986,556	228,558,625
Number of shares in issue as at 31 December	5,039,717,687	4,799,731,131

b) Statutory reserve

The Board of Directors recommended a transfer of KD 11,999 thousand (2014: KD 11,428 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

c) Share premium account

The balance in the share premium account is not available for distribution.

d) Treasury shares and Treasury share reserve

The Bank held the following treasury shares at the year end:

	2015	*2014*
Number of treasury shares	91,626,899	88,381,436
Treasury shares as a percentage of total shares in issue	1.8%	1.8%
Cost of treasury shares (KD thousand)	77,799	78,795
Market value of treasury shares (KD thousand)	73,302	80,427
Weighted average market value per treasury share (fils)	845	960

Movement in treasury shares was as follows:

	No. of shares	
	2015	*2014*
Balance as at 1 January	88,381,436	85,782,085
Bonus issue	4,363,258	4,208,639
Sales	(1,117,795)	(1,609,288)
Balance as at 31 December	91,626,899	88,381,436

The balance in the treasury share reserve account is not available for distribution. Further, an amount equal to the cost of treasury shares is not available for distribution from general reserve throughout the holding period of these treasury shares.

19 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

KD 000's

	General reserve	*Retained earnings*	*Foreign currency translation reserve*	*Cumulative changes in fair values*	*Share based payment reserve*	*Proposed cash dividend*	*Total other reserves*
At 1 January 2014	117,058	934,274	(69,766)	34,819	13,603	134,562	1,164,550
Profit for the year	-	261,810	-	-	-	-	261,810
Other comprehensive income	-	-	8,269	9,056	-	-	17,325
Total comprehensive income (loss)	-	261,810	8,269	9,056	-	-	279,135
Transfer to statutory reserve (Note 19b)	-	(11,428)	-	-	-	-	(11,428)
Dividends paid	-	-	-	-	-	(134,610)	(134,610)
Dividends on treasury shares sold	-	(48)	-	-	-	48	-
Proposed bonus shares (Note 20)	-	(23,999)	-	-	-	-	(23,999)
Proposed cash dividend 30 fils per share (Note 20)	-	(141,340)	-	-	-	141,340	-
Share based payment	-	-	-	-	1,230	-	1,230
Acquisition of non-controlling interest	-	(1,421)	-	-	-	-	(1,421)
Change in effective holding in a subsidiary	-	(68)	-	-	-	-	(68)
At 31 December 2014	117,058	1,017,780	(61,497)	43,875	14,833	141,340	1,273,389
Profit for the year	-	282,160	-	-	-	-	282,160
Other comprehensive loss	-	-	(18,252)	(14,403)	-	-	(32,655)
Total comprehensive income (loss)	-	282,160	(18,252)	(14,403)	-	-	249,505
Transfer to statutory reserve (Note 19b)	-	(11,999)	-	-	-	-	(11,999)
Dividends paid	-	-	-	-	-	(141,374)	(141,374)
Dividends on treasury shares sold	-	(34)	-	-	-	34	-
Interest paid on perpetual Tier 1 Capital Securities	-	(6,087)	-	-	-	-	(6,087)
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	(976)	-	-	-	-	(976)
Proposed bonus shares (Note 20)	-	(25,198)	-	-	-	-	(25,198)
Proposed cash dividend 30 fils per share (Note 20)	-	(148,443)	-	-	-	148,443	-
Share based payment	-	-	-	-	1,470	-	1,470
Change in effective holding in a subsidiary	-	18	-	-	-	-	18
At 31 December 2015	117,058	1,107,221	(79,749)	29,471	16,303	148,443	1,338,748

19 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable, except for the amount equivalent to the cost of treasury shares.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

20 PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 30 fils per share (2014: 30 fils per share) and bonus shares of 5% (2014: 5%) on outstanding shares as at 31 December 2015. The cash dividend, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the annual general assembly meeting and the bonus shares, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the regulatory approval for distribution of bonus shares.

21 PERPETUAL TIER 1 CAPITAL SECURITIES

During the year, the Bank issued Perpetual Tier 1 Capital Securities (the "Capital Securities"), through a wholly owned special purpose vehicle, amounting to USD 700,000 thousand which are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. The Capital Securities are subordinated, unsecured and carry an interest rate of 5.75% per annum, payable semi-annually in arrears, until the first call date in April 2021. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date in April 2021 and on every interest payment date thereafter, subject to certain conditions.

22 SHARE BASED PAYMENT

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.710 (2014: KD 0.710). The significant inputs into the model were a share price of KD 0.890 (2014: KD 0.890) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of 21.9% (2014: 27.7%), option life disclosed above and annual risk free interest rate of 2% (2014: 2%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The following table shows the movement in number of share options during the year:

	2015	*2014*
	No. of share options	*No. of share options*
Outstanding at 1 January	5,275,605	5,073,908
Granted during the year	1,925,883	2,611,732
Exercised during the year	(1,117,795)	(1,609,288)
Lapsed during the year	(445,950)	(800,747)
Outstanding at 31 December	5,637,743	5,275,605

22 SHARE BASED PAYMENT (continued)

Boubyan Bank K.S.C.P. also operates an equity settled share based compensation plan and granted share options to its senior executives.

The expense accrued on account of share based compensation plans for the year amounts to KD 1,658 thousand (2014: KD 1,480 thousand) and is included under staff expenses.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

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

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

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

2015	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Debt securities	1,537,093	813,163	31,686	2,381,942
Equities and other investments	129,797	70,223	79,904	279,924
	1,666,890	883,386	111,590	2,661,866
Derivative financial instruments (Note 26)	-	(28,944)	-	(28,944)

2014	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Debt securities	1,297,935	747,294	39,089	2,084,318
Equities and other investments	132,225	79,704	82,564	294,493
	1,430,160	826,998	121,653	2,378,811
Derivative financial instruments (Note 26)	-	(27,494)	-	(27,494)

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At 1 January 2015 KD 000's	*Change in fair value KD 000's*	*Additions/ Transfers KD 000's*	*Sale/ redemption KD 000's*	*Exchange rate movements KD 000's*	*At 31 December 2015 KD 000's*	*Net gains in the consolidated statement of income KD 000's*
Debt securities	39,089	-	-	(7,397)	(6)	31,686	1,675
Equities and other investments	82,564	(4,748)	8,804	(8,608)	1,892	79,904	6,688
	121,653	(4,748)	8,804	(16,005)	1,886	111,590	8,363

	At 1 January 2014 KD 000's	*Change in fair value KD 000's*	*Additions KD 000's*	*Sale/ redemption KD 000's*	*Exchange rate movements KD 000's*	*At 31 December 2014 KD 000's*	*Net gains in the consolidated statement of income KD 000's*
Debt securities	44,900	-	-	(5,875)	64	39,089	1,892
Equities and other investments	89,619	(1,317)	2,440	(9,002)	824	82,564	13,447
	134,519	(1,317)	2,440	(14,877)	888	121,653	15,339

Debt securities included in this category consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow method using credit spread ranging from 2% to 3.9% (2014: 1.4% to 3.9%). Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

24 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	*Country of incorporation*	*Principal business*	*% Effective ownership*	
			2015	*2014*
National Bank of Kuwait (International) plc	United Kingdom	Banking	100.0	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	100.0	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	85.5	85.5
National Investors Group Holdings Limited	Cayman Islands	Investment Company	100.0	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	84.3	84.3
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	99.9	99.9
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	86.7	86.7
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	98.5	98.5
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	58.4	58.4

At 31 December 2015, 38.1% (2014: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in note 30.

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2015 KD 000's	*2014 KD 000's*
Accumulated balances of non-controlling interest	207,231	201,333
Profit attributable to non-controlling interest	13,449	11,057

Summarised financial information of Boubyan Bank K.S.C.P. are as follows:

Summarised financial information	*2015 KD 000's*	*2014 KD 000's*
Assets	3,132,885	2,647,930
Liabilities	2,812,086	2,346,828
Net operating income	91,353	78,405
Results for the year	35,185	28,505
Other comprehensive (loss) income for the year	(3,717)	3,503

Summarised cash flow information	*2015 KD 000's*	*2014 KD 000's*
Operating cash flow	181,000	161,852
Investing cash flow	(18,339)	(51,999)
Financing cash flow	(12,223)	(654)

25 COMMITMENTS AND CONTINGENT LIABILITIES

	2015 KD 000's	*2014 KD 000's*
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	118,367	116,379
Letters of credit	320,673	302,231
Guarantees	3,466,160	2,457,116
	3,905,200	2,875,726

Irrevocable commitments to extend credit amount to KD 755,668 thousand (31 December 2014: KD 644,854 thousand). This represents commitments to extend credit which is irrevocable over the life of the facility or is revocable only in response to a material adverse change.

In the normal course of business the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 93,456 thousand (31 December 2014: KD 124,327 thousand)

26 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

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

26 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2015			2014		
	Positive fair value KD 000's	*Negative fair value KD 000's*	*Notional KD 000's*	*Positive fair value KD 000's*	*Negative fair value KD 000's*	*Notional KD 000's*
Interest rate swaps (held as fair value hedges)	6,361	33,597	900,027	4,643	25,881	667,768
Interest rate swaps (others)	758	689	101,718	-	-	-
Forward foreign exchange contracts	9,625	11,402	1,742,618	6,198	12,454	1,359,531
	16,744	45,688	2,744,363	10,841	38,335	2,027,299

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2015 is negative KD 27,236 thousand (2014: negative KD 21,238 thousand). Gain on the hedged fixed income financial assets amounted to KD 29,664 thousand (2014: KD 28,344 thousand).

27 RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

27 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		*Number of related parties*			
	2015	*2014*	*2015*	*2014*	*2015 KD 000's*	*2014 KD 000's*
Board Members						
Loans (secured)	4	4	11	9	259,355	195,562
Contingent liabilities	1	1	12	11	18,889	12,495
Credit cards	6	6	3	5	18	62
Deposits	9	8	67	65	30,073	25,010
Collateral against credit facilities	4	4	14	11	337,443	293,532
Interest and fee income					7,629	6,718
Interest expense					66	73
Purchase of equipment and other expenses					27	431
Sale of property acquired on settlement of debts					8,500	18,000
Gain on sale of property acquired on settlement of debts					-	969
Executive Officers						
Loans	4	3	2	1	2,609	185
Contingent liabilities	5	5	-	-	2	2
Credit cards	12	11	1	-	56	30
Deposits	12	11	29	19	3,234	2,056
Interest and fee income					85	46
Interest expense					2	-
Associates						
Placements					-	174,151

Details of compensation to key management personnel are as follows:

	2015 KD 000's	*2014 KD 000's*
Salaries and other short term benefits	8,893	7,898
Post-employment benefits	486	462
Share based compensation	408	273
	9,787	8,633

Board members do not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

28 RISK MANAGEMENT

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

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

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action.

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

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

28.1 CREDIT RISK

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

All significant policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 1 MAXIMUM EXPOSURE TO CREDIT RISK

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

	2015		2014	
	Gross exposure KD 000's	*Net exposure KD 000's*	*Gross exposure KD 000's*	*Net exposure KD 000's*
Loans, advances and Islamic financing to customers	13,550,966	8,758,404	11,908,708	7,619,398
Contingent liabilities	3,905,200	3,744,182	2,875,726	2,714,341

Collateral and other credit enhancements

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

28.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

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

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2015 is 15% (2014: 16%).

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

2015 Geographic region	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Balances and deposits with banks	2,759,289	1,327,326	471,153	159,492	3,219	4,720,479
Central Bank of Kuwait bonds	803,930	-	-	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	-	-	380,052
Loans, advances and Islamic financing to customers	12,279,672	255,331	361,192	271,914	382,857	13,550,966
Held to maturity investments	99,318	-	-	20,176	-	119,494
Available for sale investments	1,618,218	48,300	184,440	498,176	32,808	2,381,942
Other assets	109,972	2,326	6,850	1,538	5,700	126,386
	18,050,451	1,633,283	1,023,635	951,296	424,584	22,083,249
Commitments and contingent liabilities (Note 25)	2,390,801	320,765	1,057,485	880,039	11,778	4,660,868
	20,441,252	1,954,048	2,081,120	1,831,335	436,362	26,744,117

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

2014 Geographic region	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Balances and deposits with banks	3,209,614	1,222,675	319,258	210,159	451	4,962,157
Central Bank of Kuwait bonds	534,688	-	-	-	-	534,688
Kuwait Government treasury bonds	344,529	-	-	-	-	344,529
Loans, advances and Islamic financing to customers	10,963,327	186,669	306,332	180,808	271,572	11,908,708
Held to maturity investments	100,577	-	-	11,230	-	111,807
Available for sale investments	1,496,334	45,855	164,238	364,404	13,487	2,084,318
Other assets	94,125	1,320	7,014	1,236	621	104,316
	16,743,194	1,456,519	796,842	767,837	286,131	20,050,523
Commitments and contingent liabilities (Note 25)	2,145,448	205,021	499,672	663,172	7,267	3,520,580
	18,888,642	1,661,540	1,296,514	1,431,009	293,398	23,571,103

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

	2015 KD 000's	*2014 KD 000's*
Industry sector		
Trading	**2,323,127**	2,197,751
Manufacturing	**1,713,148**	1,231,318
Banks and other financial institutions	**8,861,239**	7,966,606
Construction	**1,515,697**	1,211,222
Real Estate	**2,798,090**	2,448,022
Retail	**4,191,243**	3,676,187
Government	**2,157,018**	1,817,585
Others	**3,184,555**	3,022,412
	26,744,117	23,571,103

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1.3 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

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

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

	Neither past due nor impaired		*Past due*	
	High	*Standard*	*or impaired*	*Total*
2015	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Balances and short term deposits with banks	3,293,800	-	-	3,293,800
Central Bank of Kuwait bonds	803,930	-	-	803,930
Kuwait Government treasury bonds	380,052	-	-	380,052
Deposits with banks	1,237,787	188,892	-	1,426,679
Loans, advances and Islamic financing to customers	11,936,161	1,919,793	307,901	14,163,855
Held to maturity investments	20,176	99,318	-	119,494
Available for sale investments	1,658,973	722,969	-	2,381,942
	19,330,879	2,930,972	307,901	22,569,752
2014				
Balances and short term deposits with banks	2,911,642	-	-	2,911,642
Central Bank of Kuwait bonds	534,688	-	-	534,688
Kuwait Government treasury bonds	344,529	-	-	344,529
Deposits with banks	1,981,059	69,456	-	2,050,515
Loans, advances and Islamic financing to customers	10,445,249	1,728,478	249,579	12,423,306
Held to maturity investments	11,230	100,577	-	111,807
Available for sale investments	1,469,803	614,515	-	2,084,318
	17,698,200	2,513,026	249,579	20,460,805

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1.4 AGEING ANALYSIS OF PAST DUE OR IMPAIRED LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

	Corporate		*Retail*		*Total*	
	Past due and not impaired KD 000's	*Past due and impaired KD 000's*	*Past due and not impaired KD 000's*	*Past due and impaired KD 000's*	*Past due and not impaired KD 000's*	*Past due and impaired KD 000's*
2015						
Up to 30 days	41,987	2,687	35,132	-	77,119	2,687
31 - 60 days	8,295	-	16,043	-	24,338	-
61 - 90 days	14,081	-	2,271	-	16,352	-
91-180 days	-	9,523	-	21,582	-	31,105
More than 180 days	-	69,862	-	86,438	-	156,300
	64,363	82,072	53,446	108,020	117,809	190,092
2014						
Up to 30 days	11,519	-	27,524	-	39,043	-
31 - 60 days	925	-	12,468	-	13,393	-
61 - 90 days	8,441	-	2,290	-	10,731	-
91-180 days	-	14,718	-	17,483	-	32,201
More than 180 days	-	84,038	-	70,173	-	154,211
	20,885	98,756	42,282	87,656	63,167	186,412

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 2015 was KD 55,563 thousand (2014: KD 59,105 thousand).

28 RISK MANAGEMENT (continued)

28.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2015	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	4,600,880	301,100	6,070	4,908,050
Central Bank of Kuwait bonds	553,920	250,010	-	803,930
Kuwait Government treasury bonds	55,211	212,182	112,659	380,052
Loans, advances and Islamic financing to customers	4,431,115	1,987,624	7,132,227	13,550,966
Held to maturity investments	93,900	23,441	2,153	119,494
Available for sale investments	327,807	556,656	1,710,120	2,594,583
Investments carried at fair value through statement of income	70,257	-	-	70,257
Investment in associates	-	-	92,713	92,713
Land, premises and equipment	-	-	226,501	226,501
Goodwill and other intangible assets	-	-	677,594	677,594
Other assets	87,605	38,781	47,104	173,490
	10,220,695	3,369,794	10,007,141	23,597,630
Liabilities and equity				
Due to banks and other financial institutions	5,278,742	1,621,057	406,668	7,306,467
Customer deposits	10,328,767	1,400,124	330,312	12,059,203
Certificates of deposit issued	561,172	94,085	-	655,257
Subordinated Tier 2 bonds	-	-	124,664	124,664
Other liabilities	200,161	-	60,754	260,915
Share capital and reserves	-	-	2,607,496	2,607,496
Proposed cash dividend	148,443	-	-	148,443
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	224,485	224,485
	16,517,285	3,115,266	3,965,079	23,597,630

28 RISK MANAGEMENT (continued)

28.2 LIQUIDITY RISK (continued)

2014	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	4,496,912	679,738	5,856	5,182,506
Central Bank of Kuwait bonds	421,054	113,634	-	534,688
Kuwait Government treasury bonds	63,656	149,809	131,064	344,529
Loans, advances and Islamic financing to customers	3,824,418	1,656,749	6,427,541	11,908,708
Held to maturity investments	89,218	14,935	7,654	111,807
Available for sale investments	309,660	376,938	1,628,437	2,315,035
Investments carried at fair value through statement of income	66,851	-	-	66,851
Investment in associates	-	-	119,398	119,398
Land, premises and equipment	-	-	203,414	203,414
Goodwill and other intangible assets	-	-	696,416	696,416
Other assets	71,884	32,432	58,055	162,371
Investment in an associate held for sale	138,408	-	-	138,408
	9,482,061	3,024,235	9,277,835	21,784,131
Liabilities and equity				
Due to banks and other financial institutions	4,505,118	2,012,952	187,647	6,705,717
Customer deposits	9,624,495	1,480,952	154,289	11,259,736
Certificates of deposit issued	621,161	53,904	-	675,065
Other liabilities	214,814	-	58,259	273,073
Share capital and reserves	-	-	2,511,931	2,511,931
Proposed cash dividend	141,340	-	-	141,340
Non-controlling interests	-	-	217,269	217,269
	15,106,928	3,547,808	3,129,395	21,784,131

28 RISK MANAGEMENT (continued)

28.2 LIQUIDITY RISK (continued)

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

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2015				
Financial Liabilities				
Due to banks and other financial institutions	5,285,641	1,632,290	418,182	7,336,113
Customer deposits	10,341,087	1,426,765	365,512	12,133,364
Certificates of deposit issued	561,635	94,224	-	655,859
Subordinated Tier 2 bonds	-	5,860	177,704	183,564
	16,188,363	3,159,139	961,398	20,308,900
Contingent liabilities and commitments				
Contingent liabilities	802,261	991,311	2,111,628	3,905,200
Irrevocable commitments	119,367	227,979	408,322	755,668
	921,628	1,219,290	2,519,950	4,660,868
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	1,452,136	284,670	90,242	1,827,048
Contractual amounts receivable	1,450,558	285,134	97,017	1,832,709

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2014				
Financial Liabilities				
Due to banks and other financial institutions	4,511,803	2,029,861	192,433	6,734,097
Customer deposits	9,633,194	1,502,308	169,725	11,305,227
Certificates of deposit issued	621,381	53,930	-	675,311
	14,766,378	3,586,099	362,158	18,714,635
Contingent liabilities and commitments				
Contingent liabilities	733,514	862,203	1,280,009	2,875,726
Irrevocable commitments	100,800	174,884	369,170	644,854
	834,314	1,037,087	1,649,179	3,520,580
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	1,267,114	88,945	56,220	1,412,279
Contractual amounts receivable	1,270,636	88,817	57,264	1,416,717

28 RISK MANAGEMENT (continued)

28.3 MARKET RISK

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

28.3.1 INTEREST RATE RISK

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

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

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

Based on the 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:

		2015		*2014*	
		Effect on profit KD 000's	*Effect on equity KD 000's*	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Currency	Movement in Basis points				
KWD	+25	4,546	-	5,904	-
USD	+25	2,064	(859)	199	(1,783)
EUR	+25	164	(8)	(205)	(13)
GBP	+25	11	-	(66)	-
EGP	+25	623	(882)	403	(614)

28.3.2 FOREIGN EXCHANGE RISK

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

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

28 RISK MANAGEMENT (continued)

28.3 MARKET RISK (continued)

28.3.2 FOREIGN EXCHANGE RISK (continued)

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		2015		2014	
Currency	*% Change in currency rate*	*Effect on profit KD 000's*	*Effect on equity KD 000's*	*Effect on profit KD 000's*	*Effect on equity KD 000's*
USD	+5	(174)	730	393	620
GBP	+5	58	-	(202)	-
EUR	+5	165	-	244	-
EGP	+5	56	9,814	205	10,517
TRY	+5	-	252	-	1,215
IDR	+5	-	2,300	-	2,607
Other	+5	5	4,923	182	4,784

28.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through statement of income) and on equity (as a result of change in the fair value of equity investments held as available for sale) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2015		2014	
Market indices	*% Change in equity price*	*Effect on profit KD 000's*	*Effect on equity KD 000's*	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Kuwait stock exchange	+5	-	944	-	930
Doha securities market	+5	-	98	-	271
Saudi stock exchange	+5	-	468	-	546

28.4 OPERATIONAL RISK

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

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

29 CAPITAL

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are, also, governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2015 KD 000's	*2014 KD 000's*
Risk Weighted Assets	14,842,129	13,464,676
Capital required	1,855,266	1,615,761
Capital available		
Common Equity Tier 1 capital	1,965,705	1,782,908
Additional Tier 1 capital	221,245	8,893
Tier 1 capital	2,186,950	1,791,801
Tier 2 capital	310,531	163,176
Total capital	2,497,481	1,954,977
Common Equity Tier 1 capital adequacy ratio	13.2%	13.2%
Tier 1 capital adequacy ratio	14.7%	13.3%
Total capital adequacy ratio	16.8%	14.5%

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2015 KD 000's	*2014 KD 000's*
Tier 1 capital	2,186,950	1,791,801
Total exposures	25,636,063	23,064,834
Leverage ratio	8.5%	7.8%

30 FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2015, funds under management were KD 3,368 million (2014: KD 3,198 million).

ISSUER

NBK SPC Limited
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