



HH Sheikh

**Sabah Al-Ahmad Al-Jaber Al-Sabah**

Emir of the State of Kuwait



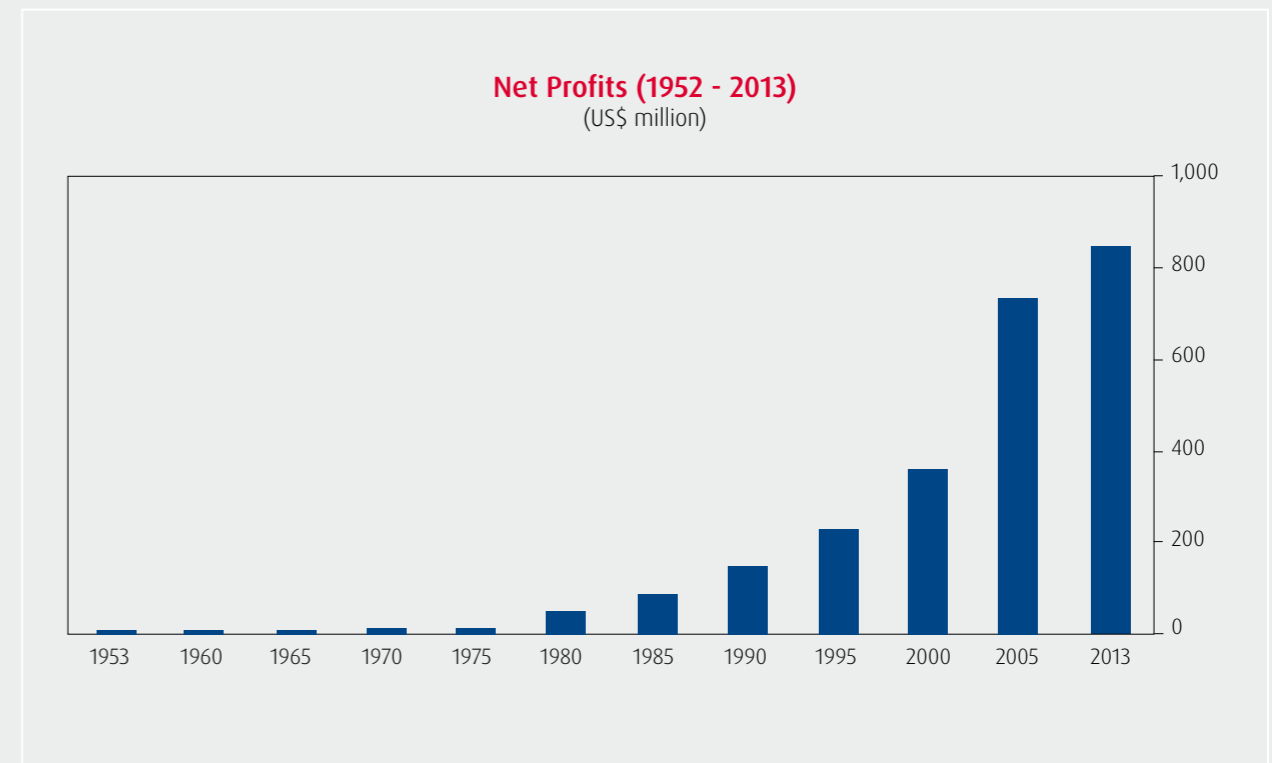
HH Sheikh

**Nawaf Al-Ahmad Al-Jaber Al-Sabah**

Crown Prince of the State of Kuwait

# Financial Highlights

(In US\$ millions)	2009	2010	2011	2012	2013
Net interest income & net income from Islamic financing	1,336.0	1,272.1	1,350.7	1,410.5	1,600.7
Non-interest income	502.1	495.6	564.7	893.8	619.7
Operating expenses	637.9	563.9	574.3	651.2	734.3
Net profit	940.3	1,069.6	1,072.2	1,081.8	844.3
Total assets	45,762.3	45,732.8	48,313.6	58,473.6	65,946.3
Assets under management	8,565.9	9,232.4	8,970.0	9,987.6	10,874.0
Shareholders' equity excluding proposed dividend	6,056.1	7,353.8	7,684.9	8,148.6	8,417.9
Market capitalization	11,629.9	18,316.6	15,595.0	14,543.7	14,153.5
Return on beginning equity excluding proposed dividends (%)	18.4	17.7	14.6	14.1	10.4
Year-end price per share	4.0	5.1	4.0	3.4	3.2
Basic earnings per share	0.22	0.24	0.24	0.24	0.19
Proposed cash dividends	0.14	0.14	0.14	0.11	0.11
Proposed bonus shares (%)	10.0	10.0	10.0	5.0	5.0



# Our Mission

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To be the premier Arab Bank

To achieve consistently superior returns  
for our shareholders

To deliver world-class products and services  
to our customers

To invest in people

To benefit the communities in which we operate

## NBK at a glance

NBK was established in 1952 as the first local bank and the first shareholding company in Kuwait and the Gulf region. Over the years, NBK has remained the leading financial institution in Kuwait and has successfully extended its well-established franchise throughout the Middle East. NBK currently operates through a large international network covering the world's leading financial and business centers across 16 countries.

NBK has long been recognized for its excellent and stable management team and its clear and focused strategy. NBK's strength rests on its consistent profitability, high asset quality, and strong capitalization. NBK offers a full spectrum of innovative and unrivalled financial and investment services and solutions for individuals, corporate and institutional clients. NBK currently enjoys a dominant market share with a large and ever expanding local and regional client base.

NBK has consistently been awarded the highest ratings among regional banks by the major international ratings agencies; Moody's, Standard and Poor's and Fitch Ratings, and has continuously ranked among the list of the world's 50 safest banks.

### Highest Credit Ratings in the Middle East

 **Moody's**     **FitchRatings**     **Standard & Poor's**

**Aa3**    **AA-**    **A+**

### Best Bank in the Middle East

 **GLOBAL  
FINANCE**

 **EUROMONEY  
2013  
Award for  
excellence**

# NBK Across The Globe



**1 KUWAIT** (No. of branches 64)  
Tel: +965 2242 2011  
Fax: +965 2259 5804

**WATANI FINANCIAL  
BROKERAGE COMPANY**  
Tel: +965 2259 5102  
Fax: +965 2224 6979

**NBK CAPITAL**  
Tel: +965 2224 6901  
Fax: +965 2224 6905

**2 IRAQ** (No. of branches 13)  
Credit Bank of Iraq  
Tel: +964 1 7182198 / 7191944  
Tel: +964 1 718884406 / 7171673  
Fax: +964 1 7170156

**3 JORDAN** (No. of branches 3)  
Tel: +962 6 580 0400  
Fax: +962 6 580 0441

**4 LEBANON** (No. of branches 6)  
Tel: +961 1 759 700  
Fax: +961 1 747 866

**5 SAUDI ARABIA**  
Jeddah Branch  
Tel: +966 2 653 8600  
Fax: +966 2 653 8653

**6 BAHRAIN** (No. of branches 2)  
Tel: +973 17 155 555  
Fax: +973 17 104 860

**7 QATAR** (No. of branches 6)  
Tel: +974 4447 8000  
Fax: +974 4447 3710

**8 UAE** (No. of branches 2)  
Dubai Branch  
Tel: +971 4 2929222  
Fax: +971 4 2943337  
**NBK Capital - UAE**

Tel: +971 4 3652800  
Fax: +971 4 3652805

**9 EGYPT** (No. of branches 38)  
Al Watany Bank of Egypt  
Tel: +202 333 88816 / 17  
Fax: +202 333 79302

**10 TURKEY** (No. of branches 20)  
Turkish Bank  
Tel: +90 212373 6373  
Fax: +90 212225 0353

**11 SWITZERLAND**  
Tel: +41229064343  
Fax: +41229064399

**12 FRANCE**  
Paris Branch  
Tel: +33 1 5659 8600  
Fax: +33 1 5959 8623

**13 UNITED KINGDOM** (No. of branches

2)  
London Branch  
Tel: +44 20 7224 2277  
Fax: +44 20 7224 2101

**14 UNITED STATES OF AMERICA**  
New York Branch  
Tel: +1 212 303 9800  
Fax: +1 212 319 8269

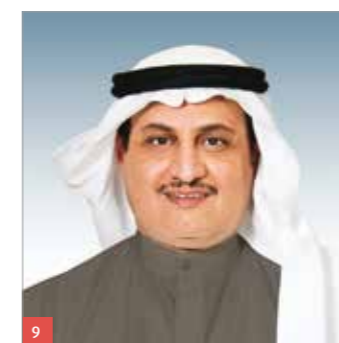
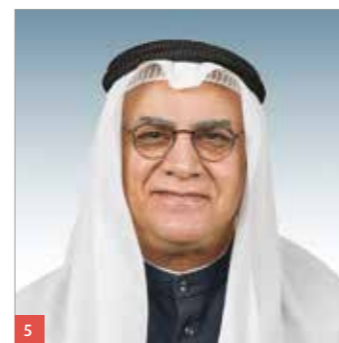
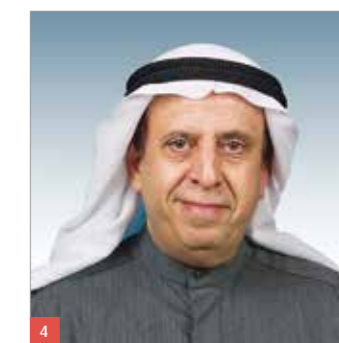
**15 CHINA**  
Shanghai Representative Office  
Tel: +86 21 6888 1092  
Fax: +86 21 5047 1011

**16 SINGAPORE**  
Singapore Branch  
Tel: +65 6222 5348  
Fax: +65 6224 5348

NBK maintained its lead in the domestic market where it has a dominant position. The bank strengthened its position in the region, where its expansion is part of a strategy to diversify revenue streams and to achieve growth. NBK made further consolidation of its regional operations, bringing the full benefits of its unrivalled core management and treasury function to extract synergies and enable closer integration. NBK's network now comprises 170 branches, subsidiaries and representative offices in 16 countries on four continents, of which 10 are in the Middle East.

# Board of Directors

- 1 Mohammad Abdul Rahman Al-Bahar**  
Chairman
- 2 Nasser MUSAED Abdullah Al-Sayer**  
Vice Chairman
- 3 Hamad Abdul Aziz Al-Sager**  
Board Member
- 4 Ghassan Ahmed Saoud Al-Khalid**  
Board Member
- 5 Yacoub Yousef Al-Fulaij**  
Board Member
- 6 Hamad Mohammed Abdul Rahman Al-Bahar**  
Board Member
- 7 Muthana Mohamed Ahmed Al-Hamad**  
Board Member
- 8 Haitham Sulaiman Hamoud Al-Khaled**  
Board Member
- 9 Loay Jassim Mohammed Al-Kharafi**  
Board Member



# Group's Board of Directors:

## **1 Mr. Mohammad Abdul Rahman Al-Bahar** (Chairman)

Mr. Mohammad Abdul Rahman Al-Bahar is the Chairman of the Board of Directors of National Bank of Kuwait. He is a founding-member of NBK founded in 1952. He joined the Board in 1959 where he was the Vice Chairman between 1983 and 1993, and has been Chairman of the Board since 1993. He has also been the Chairman of the Board Corporate Governance Committee.

He is a founding-member of the Kuwait Chamber of Commerce and Industry (1961) and was the Deputy Chairman from 1996 to 2000.

Mr. Al-Bahar is also the Vice Chairman of Machinery Group Holding Company and has substantive experience in banking operations, finance and strategic planning.

## **2 Mr. Nasser Musa'ed Al-Sayer** (Vice Chairman)

Mr. Nasser Musa'ed Al-Sayer has been a Board Member of NBK since 1980 and was appointed as the Board Vice-Chairman in 1993. He is the Chairman of both Board Nomination and Remuneration Committee and the Board Credit Committee.

Mr. Al-Sayer is also 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 (Chaired by H.E. The Prime Minister of Kuwait), and the Finance and Investment Committee of the Kuwait Chamber of Commerce and Industry since 2003. Mr. Al Sayer was the Deputy Director-General (1971-1978) and a Board member of the Kuwait Fund for Arab Economic Development from 1994 to 2000.

Mr. Al-Sayer brings to the Board considerable experience in banking, investment, strategic planning and governance from both private and public sectors. Mr. Al-Sayer holds Bachelor of Arts degree in Economics from Oklahoma State University, USA.

## **3 Mr. Hamad Abdul Aziz Al-Sager** (Board Member)

Mr. Hamad Abdul Aziz Al-Sager was a Board Member of NBK from 1975 to 1976 and, also, since 1983 to date.

He is also a member of the Board Credit Committee and Board Corporate Governance Committee.

Mr. Al-Sager is a Board member at Al Kout Industrial Projects Co., Kuwait. He has extensive experience in banking industry especially in Corporate Credit.

Mr. Al-Sager holds a Bachelor of Arts degree in Economics from Ireland.

## **4 Mr. Ghassan Ahmed Al-Khalid** (Board Member)

Mr. Ghassan Ahmed Al-Khalid has been a Board Member of NBK since 1987. He is member of the Board Credit Committee and also Board Nomination and Remuneration Committee.

Mr. Al-Khaled is the Vice-Chairman and Managing Director at ACICO Industries Co. He has rich background in Corporate Banking, Trade Finance, Credit and the Retail sector.

Mr. Al-Khalid holds a Bachelor of Science degree in Civil Engineering from West Virginia University, USA.

## **5 Mr. Yacoub Yousef Al-Fulaij** (Board Member)

Mr. Yacoub Yousef Al-Fulaij has been a Board Member since 1998 and was a General Manager in NBK during 1983 to 1998. Mr. Al-Fulaij is the Chairman of the Board Risk Committee and also, a member of Board Corporate Governance Committee.

Having been previously a General Manager at the Bank, 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, USA.

## **6 Mr. Hamad Mohammed Al-Bahar** (Board Member)

Mr. Hamad Mohammed Al-Bahar has been a Board Member of NBK since 2005. He is also the Chairman of the Board Audit Committee and a member of Board Nomination and Remuneration Committee.

Mr. Al-Bahar was on the Board of the Kuwait Investment Company from 1981 to 1991 where he served as the

Chairman and Managing Director. He was also the Managing Director of Bank of Bahrain and Kuwait. He has extensive experience in Investment Banking and Assets Management, in addition to internal controls.

Mr. Al-Bahar holds a Bachelor of Arts degree in Economics from Alexandria University, Egypt.

## **7 Mr. Muthana Mohamed Ahmed Al-Hamad** (Board Member)

Mr. Muthana Mohamed Al-Hamad joined the NBK Board in 2007. He is a member of the Board Credit Committee and Board Corporate Governance Committee.

Mr. Al-Hamad is the Chairman of Future Communication Company International and a Board Member in Alwatyah United Real Estate Company. He was previously a Board member of Arab European Company for Financial Management (AREF) from 1987 till 1993 and served on the Board of The Commercial Bank of Kuwait from 1993 till 1997 and the United Bank of Kuwait from 1996 till 1997. He has considerable experience in Finance and Business Economics.

Mr. Al-Hamad holds a Bachelor of Arts degree in Economic & Political Science from Kuwait University, Kuwait.

## **8 Mr. Haitham Sulaiman Al-Khaled** (Board Member)

Mr. Haitham Sulaiman Al-Khaled joined the NBK Board in 2010. He is a member of the Board Audit Committee and Board Risk Committee.

Mr. Al-Khaled is a Board Member of Al Shall Consulting & Investment Co. since 2006 and Al Arjan Real Estate Company since 2010. Mr. Al-Khaled previously held the following positions at the leading telecom operator Zain; Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer amongst other responsibilities.

He has a rich 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.

## **9 Mr. Loay Jassim Al-Kharafi** (Board Member)

Mr. Loay Jassim Al-Kharafi has been a Board Member of NBK since 2011. He is a member of the Board Audit Committee and Board Risk Committee.

Mr. Al-Kharafi has served as the Vice Chairman of the Industrial Bank of Kuwait from 1999 till 2003 and from 2005 till 2008 and was the Chairman of the Board Audit in the Industrial Bank during the same period.

He has assumed many advisory and commercial positions in Al-Kharafi Group of companies.

He also assumes the management of Al-Kharafi law office and legal consulting.

Mr. Al-Kharafi has substantial experience in regulatory compliance and legal matters.

Mr. Al-Kharafi holds a Bachelor of Law Degree from Kuwait University, Kuwait.

# Chairman's Message 2013



Dear Shareholders,

On behalf of the board members, I am pleased to announce another strong year of solid performance for the National Bank of Kuwait Group. In this Annual Report 2013, NBK marks 61 years of banking leadership in Kuwait and the region. Despite a protracted economic downturn in developed markets and geopolitical instability in the MENA region, NBK remained resilient, generating strong profits and further strengthening its sound financial position.

We are optimistic about the future and confident that NBK will play a leading role in partnering with private firms and the government for the development of Kuwait. In 2013, we witnessed a marked improvement in the overall operating environment in Kuwait. Implementation of long-awaited mega projects, part of Kuwait's long term development plans, have picked up. Aimed at improving and modernizing the country's aged infrastructure, the mega projects are expected to generate significant financial activity for years to come. The government is expected to accelerate spending which will further encourage economic activity and bolster greater positive sentiment among the private sector. NBK's leadership in the project finance and infrastructure lending ensures it will play a major role in structuring financing for the government's multi-billion dinar development plan.

NBK also continues to leverage its strong franchise and strategic leadership to further implement the Group's income diversification strategy. This included strengthening our presence in the Islamic banking market through our stake in Boubyan Bank and growing the contribution of the International Banking Group (IBG) to overall Group profits.

## Strong Financial Performance

Year after year NBK Group delivers solid financial results. In 2013, the NBK Group again generated strong earnings, reporting a net profit of KD 238.1 million. The Bank continued to deliver high returns for its shareholders, confirming that its conservative strategy, experienced leadership, resiliency and strong franchise remain pivotal in supporting the bank to successfully navigate economic and political challenges regionally and internationally.

Return on equity and return on assets remained stable by regional and international standards reaching 10.4% and 1.32%, respectively. As capital ratios become more important due to the challenging economic environment, NBK's capital adequacy ratio reached a comforting 17.3% at year-end ahead of most peers and significantly above all regulatory requirements.

NBK Group's balance sheet remained robust delivering strong growth indicators. Total Group assets reached KWD 18.6 billion, growing at 12.8% year-on-year and total shareholders' equity reached KD 2.37 billion, a 3.3% year-on-year growth.

NBK Board of Directors has recommended the distribution of 30 fils cash dividend per share, representing 30% of the nominal share value. The board has also recommended the distribution of a 5% bonus share (5 shares for every 100 shares owned) for the year 2013.

## Highest Rated in the Middle East

NBK is recognized as the premier Arab bank across the globe. Its highly valued reputation is grounded in its solid financial performance, experienced and strategic leadership and conservative and stable approach.

NBK continues to hold the highest credit ratings among banks in the Middle East, with rating agencies confirming the bank's leading franchise, strong financial position, robust asset quality and earnings generation capabilities that outpace peers. NBK has also been recognized for its clear and consistent strategic direction, its transparency and strong governance and the stability and professionalism of its management team.

In 2013 the three rating agencies affirmed NBK's ratings, confirming its position among the highest rated banks in the Middle East. NBK is rated "Aa3" by Moody's, "AA-" by Fitch Ratings and carries an "A+" rating from Standard and Poor's. All ratings have a stable outlook.

NBK has also maintained its standing among the '50 Safest Banks in the World' for the eighth consecutive time, ahead of the most prominent banks internationally. In 2013, NBK ranked 37 among the Global Finance magazine's annual list of the World's 50 Safest Banks.

## Improved Domestic Environment

After years of lackluster performance, the domestic operating environment is looking up. The year 2013 represented a turning point in the awards and execution of mega infrastructure projects as the government became more determined to accelerate capital spending. Closer to year-end and after several large development projects were awarded, the financial closure for a landmark project (IWPP) took place in the fourth quarter of 2013. North Al Zour power generation and water desalination project (IWPP) was a key step to the further improvement of the domestic operating environment. IWPP is the first project to be executed under the Public Private Partnership law (PPP) which is mainly aimed at increasing the role of the private sector and improving its contribution to overall economic growth. NBK played a major role in the financing of this project as the only Kuwaiti and Arab bank to participate in this USD 1.4 billion transaction along with other international financial institutions.

NBK also recently led and participated with several international banks in securing the financing needs for several other large development projects in Kuwait including, most importantly, the expansion of the Amiri Hospital. NBK has also played a significant role in financing the expansion plans of domestic and regional corporates of which the recent USD 1 billion dollar loan to KUFPEC is a great example.

As we continue to see implementation and execution rates for projects accelerating, NBK is confident of the positive impact this will have on the outlook for the domestic market and its growth potential. Given

the Bank's historic and pivotal role in much of the country's development, NBK is very well positioned to be at the forefront of the government's development plans moving forward and will continue to leverage its strong franchise and leading market position in Kuwait and the region.

### **Resilience Despite Regional Turmoil**

NBK Group's regional expansion strategy has been validated by the Arab world's changing geopolitical realities. Despite instability and a challenging operating environment, NBK's regional operations proved resilient.

NBK is confident of its strategy of balancing its revenues in Kuwait and outside, with the International Banking Group (IBG) division profits recording a year-on-year growth of 9.5% in 2013. The Bank is also keen on strengthening its presence where there are growth prospects in the GCC, especially in Qatar through our associate, International Bank of Qatar. This is also the case in Saudi Arabia and the United Arab Emirates, both of which have positive economic prospects because of mega infrastructure projects and high capital spending.

In this context, NBK opened a new branch in Abu Dhabi last year to strengthen its presence in the UAE market. Despite the ongoing political tensions, the Group's Egyptian subsidiary AWB continued to deliver positive growth on all fronts. NBK views Egypt as a long term strategic market despite the current political instability.

Recently, the Bank has witnessed some improvement in the overall environment in Egypt and is confident of the longer term positive trends moving forward.

### **Islamic Banking**

NBK has coupled its regional expansion plan with an expansion into the growing Islamic banking market as part of its long-term income diversification strategy. In 2013, a year after growing NBK's stake in Boubyan Bank to 58.4% and accounting for it as a subsidiary, NBK has benefitted from this strategic positioning.

Boubyan Bank continues to deliver strong performance, increasing its contribution to the Group and its presence

in the growing market of Islamic banking. Boubyan remains relatively a smaller player in that segment with potential for significant growth in profitability and market share. NBK will continue supporting Boubyan Bank by providing world class talent and expertise though we remain committed to operating as two separate entities.

### **Governance**

NBK has earned its success through a long standing and rigorous practice of independent risk management, a conservative and considered long term strategy, stable leadership and sound corporate governance systems and principles. Our long serving board and executive management team have taken the lead in implementing and enforcing strict risk management policies ring-fenced from outside interference and in full compliance with all policies and regulations promulgated by government authorities.

Through six decades of success and stability, NBK Group has constantly strived to maintain a sound Corporate Governance structure as an integral part of the Group's culture and philosophy. Transparency, Accountability and Protection of Stakeholders' rights are always at the forefront of our agenda.

As a response to the new requirements issued by the Central Bank of Kuwait (CBK) on Corporate Governance, there were significant transformation milestones in the Group Governance structure in 2013. The Governance transformation journey was led by the Board of Directors who determined the Governance strategy.

Significant time and effort have been devoted by the Board Members and Executive Management during the year to reach a tailor-made, practical and effective Governance framework which suits the size of NBK Group's business and maintains its banking leadership in the region.

### **Human Resources**

NBK remains highly committed to Kuwait's society and community. We believe that our people are our most valuable resource. In 2013, NBK focused on introducing numerous training and development programs that

are mainly aimed at grooming our next generation of leaders and providing a forum for them to acquire best practices in management, leadership and strategic thinking. Supporting the government's Kuwaitization initiative, NBK Group hired 243 nationals in 2013, with nationals now comprising at least 62 percent of the Group's employees. On that front, NBK was awarded the 'Best Institution in Recruiting Local Talent in the GCC' for the third consecutive year.

### **Corporate Social Responsibility**

NBK has been at the forefront of local corporate leadership, pioneering a variety of programs and initiatives aimed at contributing to the protection of our environment, the professional development of our youth and the adoption of a healthier lifestyle for our community as a whole. NBK's commitment to corporate social responsibility is evident in the numerous cultural, community and social activities and charities the Bank supported throughout 2013.

NBK Children's Hospital represents our proudest effort in contributing to the health and well-being of Kuwait's society. The Bank continued its efforts to establish a specialized center for the treatment of leukemia in children in the National Bank of Kuwait Hospital for Children. The bank also continued to support and sponsor organizations that promote a range of social welfare programs such as Bayt Lothan and LOYAC sponsorships.

Our Ramadan social program included providing iftar for hundreds in Kuwait daily while we continued our commitment and support for several activities aimed at protecting and preserving the environment. Moreover, NBK continued giving special attention to various initiatives including those focused on environmental conservation, educational and sports events. A great example was this year's NBK Annual Walkathon which celebrated its 19th anniversary.

### **Thanks to Ibrahim Dabdoub**

In addition to the strong performance and the overall improved domestic outlook, 2013 will be a special year in a different way. After serving for more than 53 years with the bank, including more than 30 years at its helm,

Group CEO Ibrahim Dabdoub has decided to retire.

On behalf of myself and the Board of Directors, I would like to express our greatest appreciation and gratitude to Ibrahim Dabdoub for his devotion and commitment in serving NBK for more than five decades. Under his guidance and leadership, NBK was transformed from a small local bank to a regional financial institution highly respected and globally recognized by international institutions and all rating agencies.

These successes and achievements will remain testimonials to Dabdoub's leadership and vision. We are highly grateful for his service and he will always be remembered by NBK for what he has contributed to the bank, its shareholders and its customers.

### **Thanks and Appreciation**

Finally, on behalf of the board and executive management of the Bank, I would like to thank the authorities and regulators for their ongoing support of Kuwait's economic stability and growth. We would also like to express our greatest appreciation and thanks to the Central Bank of Kuwait for its continued support and leadership and its steady guidance.

We thank our shareholders and our customers for the trust they place in us and for their continued support of NBK as the top financial institution in Kuwait and one of the leading banks in the MENA region.

I would like to thank our Executive Management team and our devoted employees for their commitment and professionalism. It has always been the people behind the Bank that have led the way forward and I am confident of a bright and profitable future. I am confident in NBK's strategy, its leadership and its way forward and am honored to chair the world's premier Arab bank.

### **Mohammed Abdul Rahman Al-Bahar**

Chairman of the Board of Directors



# International Advisory Board (IAB)

As a unique and advanced step towards the effective implementation of Corporate Governance, the role of the IAB focuses on acting as an advisory body for the Board of Directors on the Group's strategy and direction.

The IAB focuses on assisting the Group in aligning its strategy considering the following:

- Providing the Group with the expertise and consultation needed in assessing the Group's future strategy.
- Identifying business opportunities across different regions.
- Discussing challenges facing the global and regional financial markets and their implication on the GCC economies.

The International Advisory Board comprises of the members listed below:

Chairman:

- 1 Sir John Major**  
Former Prime Minister of the United Kingdom

Members:

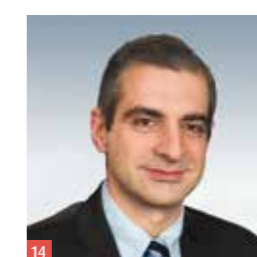
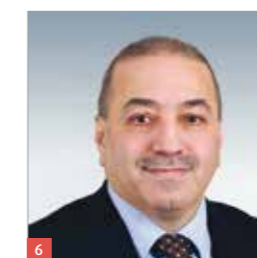
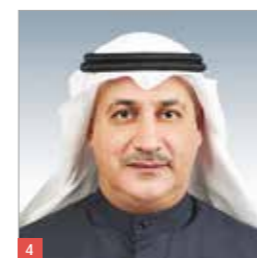
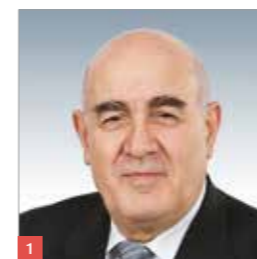
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| <p><b>2 HRH Prince Turki Al-Faisal</b><br/>Chairman, King Faisal Centre for Research and Islamic Studies, Saudi Arabia</p> <p><b>3 Abdlatif Al-Hamad</b><br/>Chairman and Director General, Arab Fund for Economic and Social Development, Kuwait</p> <p><b>4 Mukesh Ambani</b><br/>Chairman and Managing Director, Reliance Industries Limited, India</p> <p><b>5 William Rhodes</b><br/>Senior Advisor and Former Senior Vice Chairman, Citigroup, US</p> <p><b>6 Goh Chok Tong</b><br/>Emeritus Senior Minister and Senior Advisor, Monetary Authority of Singapore</p> <p><b>7 Suzan Sabancı Dincer</b><br/>Chairman and Executive Board Member, Akbank, Turkey</p> <p><b>8 Mohamed El-Erian</b><br/>CEO and co-CIO, PIMCO, US</p> <p><b>9 Klaus Schwab</b><br/>Founder and Executive Chairman, World Economic Forum, Switzerland</p> | <p><b>10 Lubna Olayan</b><br/>Deputy Chairman and CEO, Olayan Financing Company, Saudi Arabia</p> <p><b>11 Martin Feldstein</b><br/>President Emeritus of NBER and Professor of Economics, Harvard University, US</p> <p><b>12 Anthony Cordesman</b><br/>Arleigh A. Burke Chair in Strategy, CSIS, US</p> <p><b>13 Cees Maas</b><br/>Senior Advisor Cerberus Global Investment Advisors, Honorary Vice-Chairman and former CFO ING Group, Netherlands</p> <p><b>14 Tom De Swaan</b><br/>Chairman, Van Lanschot Bankiers, Netherlands</p> <p><b>15 Steve H. Hanke</b><br/>Professor of Applied Economics, Johns Hopkins University, US</p> <p><b>16 Edward Morse</b><br/>Managing Director, Global Head of Commodity Research, Citigroup, US</p> |
|---|---|



# Executive Management

- 1 Ibrahim S. Dabdoub**  
Group Chief Executive Officer
- 2 Isam J. Al-Sager**  
Deputy Group Chief Executive Officer
- 3 Shaikha K. Al-Bahar**  
Chief Executive Officer for Kuwait
- 4 Salah Y. Al-Fulaij**  
CEO- NBK Capital
- 5 Mazin Al-Nahedh**  
General Manager  
Consumer Banking Group
- 6 Georges Richani**  
General Manager  
International Banking Group
- 7 Jim Murphy**  
Group Chief Financial Officer
- 8 Parkson Cheong**  
Group Chief Risk Officer
- 9 Dr. Soliman Abdel-Meguid**  
General Counsel  
Head Legal Affairs Group
- 10 Dr. Elias Bikhazi**  
Group Chief Economist  
Economic Research

- 11 Pradeep Handa**  
General Manager Foreign Corporate,  
Oil & Trade Finance Group
- 12 Mustafa Al Gindi**  
General Manager - Corporate Banking Group
- 13 Malek J. Khalife**  
General Manager - Private Banking Group
- 14 Dimitrios Kokosioulis**  
General Manager - Operations Group
- 15 Adel Hechme**  
General Manager - Human Resources
- 16 Carl Ainger**  
Group Chief Internal Auditor
- 17 Srood Sherif**  
Chief Information Officer , IT
- 18 Ayman Zaidan**  
General Manager - Treasury Group



# Group's Senior Management

## **1 Mr. Ibrahim S. Dabdoub**

Group Chief Executive Officer

Mr. Ibrahim S. Dabdoub joined NBK in 1961 and has been the Group Chief Executive Officer since 1983. He is also a member of various Management Committees.

Mr. Dabdoub is the Chairman of NBK Banque Privee Suisse, Switzerland; Vice Chairman of NBK (International) PLC, United Kingdom and Vice Chairman of International Bank of Qatar, Qatar.

Mr. Dabdoub holds a degree from The Middle East Technical University in Ankara, Turkey. He attended several specialized programs in Stanford University, California. He is also a Board member of the Central Bank of Jordan and Board member of the International Institute of Finance (IIF) in Washington and member of the Bretton Woods Committee in Washington.

## **2 Mr. Isam Al-Sager**

Deputy Group Chief Executive Officer

Mr. Issam Al-Sager joined NBK in 1978, and has been the Deputy Group CEO since 2010. He is a member of various Management Committees.

Mr. Al-Sager is the Chairman of NBK Capital and Chairman of Al Watany Bank of Egypt. He also serves on the Board of Directors of NBK (International) PLC, United Kingdom; 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 in USA.

## **3 Ms. Shaikha K. Al-Bahar**

Chief Executive Officer - Kuwait

Ms. Shaikha K. Al-Bahar joined NBK in 1977 and has been the Chief Executive Officer since 2010. She is a member of various Management Committees.

Ms. Shaikha is the Chairperson of National Bank of Kuwait (Lebanon) and serves on the Board of NBK Global Asset Management Limited; International Bank of Qatar, Qatar and The Turkish Bank, Turkey. She is also a Board Member of Zain Group, Kuwait. She has extensive experience in privatization, project finance, advisory services, bond issues, Build/Operate/Transfer financing, Initial Public Offerings, Global Deposit Receipts programs and private placements.

Ms. Al-Bahar holds a Bachelor of Science degree in International Marketing from Kuwait University. She attended specialized programs at Harvard Business School,

Stanford University and Duke University.

## **4 Mr. Salah Y. Al-Fulaij**

Chief Executive Officer – NBK Capital

Mr. Salah Y. Al-Fulaij joined NBK in 1985 and has been the Chief Executive Officer of NBK Capital since 2007.

Prior to joining NBK Capital, Mr. Al-Fulaij held several key positions at NBK 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 degree in Industrial Engineering and his MBA in Business Management. He has participated in a number of Executive Programs at Harvard Business School, Stanford Graduate School of Business, and Duke University.

## **5 Mazin Al-Nahedh**

General Manager - Consumer Banking Group

Mr. Mazin Al-Nahedh joined NBK in 1993 and has been the General Manager of Consumer Banking Group, Kuwait since 2011. He is also a member of various Management Committees.

Former appointments at NBK include: Head of Treasury Group and Head of Corporate Banking Group, Kuwait. He has extensive experience in Finance, Treasury, and Banking services.

Mr. Al-Nahedh holds a Bachelor of Science degree in Finance from the California State University, Sacramento, USA.

## **6 Mr. Georges Richani**

General Manager, International Banking Group

Mr. Georges Richani joined NBK in 1987 and has been the Head of International Banking Group since 2012. He is also a member of various Management Committees.

Former NBK appointments include Head of Group Treasury and Asset Liability Management function. He has extensive experience in Treasury, Funding and Liquidity Management, Balance Sheet management and Market Risk management (foreign exchange and interest rate risks) in addition to investment management and capital markets including global fixed-income markets.

Mr. Richani holds a Bachelor of Science degree from the American University of Beirut, Lebanon and a Masters degree in Business Administration in Finance with distinction from the City of London Business School. He has participated in a

number of Executive Programs at Harvard Business School, Stanford Graduate School of Business, and Duke University.

## **7 Mr. Jim Murphy**

Group Chief Financial Officer

Mr. Jim Murphy joined NBK in 1999 and has been the Group Chief Financial Officer since 2010. He is also a member of various Management Committees.

Prior to joining NBK, Mr. Murphy was Head of Management Accounting for Ireland and 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 (Ireland).

## **8 Mr. Parkson Cheong**

Group Chief Risk Officer

Mr. Parkson Cheong joined NBK in 1993 and has been the Group Chief Risk Officer since 2008. He is Chairman or a Member of several Management-level Supervisory Committees at the Bank.

Mr. Cheong has rich experience in Commercial banking, Syndication Lending, Investment banking and Corporate Finance.

Mr. Cheong holds Bachelor of Science degree in Economics from the University of Wales, United Kingdom, and Masters degree in Business Administration (MBA) in Finance from the Wharton School, University of Pennsylvania, U.S.A.

## **9 Dr. Soliman AbdelMeguid**

General Counsel- Head of Legal Affairs Group

Dr. Soliman AbdelMeguid joined NBK in 2001, as General Counsel, heading the Legal Affairs Group of the Bank.

Upon his graduation, he started his career by joining the Egyptian judiciary system and by teaching at the university. He has extensive work experience of over 31 years in legal affairs at Kuwaiti banks.

He holds a Ph.D. in Law, with distinction, from Cairo University. He has been granted the Award of the Egyptian Society of International Law, and has authored several publications in the legal field.

## **10 Dr. Elias Bikhazi**

Group Chief Economist

Dr. Elias Bikhazi joined NBK in 2008 and has been the Group Chief Economist since early 2013. He is Deputy

General Manager and heads the bank's Economic Research Department. He is also a member of various Committees.

Prior to his current position, Dr. Bikhazi was the Head of Economic Research at NBK. He has extensive experience in economic analysis and financial markets, including over 20 years of 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 and a Philosophy Doctorate, both in Economics from the University of Southern California, USA.

## **11 Mr. Pradeep Handa**

General Manager - Foreign Corporate, Oil and Trade Finance Group

Mr. Pradeep Handa joined NBK in 1980 and has been the General Manager, Foreign Corporate, Oil and Trade Finance Group, since 2012. He is also a member of various Management Committees.

Former appointments at NBK include: Assistant General Manager, Executive Manager and Senior Manager at Corporate Banking Group- Kuwait. He has extensive experience of over 30 years in handling Foreign Corporate banking and Oil and Trade Finance matters.

Mr. Handa holds a Masters Degree from the University of Delhi, India.

## **12 Mr. Mustafa El-Gendi**

General Manager - Domestic Corporate Banking Group

Mr. Mustafa El-Gendi joined NBK in 1979 and has been the General Manager, Domestic Corporate Banking at NBK since 2013. He is also a member of various Management and Credit Committees.

Mr. El-Gendi has extensive experience in all credit aspects and Corporate Banking Management.

Mr. El Gendi holds a Bachelor of Science degree in Accounting from Ain Shams University- Egypt and attended extensive training courses and seminars at London Business School and Harvard University.

## **13 Mr. Malek Khalife**

General Manager - Private Banking Group

Mr. Malek Khalife joined NBK in 2005 and has been the General Manager, Private Banking Group- Kuwait at NBK since 2008. He is also a member of various Management Committees.

Mr. Khalife's last tenure prior to his current position was

as Director of Private Banking Representative Office at an American bank in Lebanon. He has extensive experience of over 31 years in Private Banking and Financial Markets in the Middle East and the Gulf Area.

Mr. Khalife holds a Masters degree in Economic Sciences from Saint Joseph University, Lebanon.

#### **14 Mr. Dimitrios Kokosioulis**

General Manager - Operations Group  
Mr. Dimitrios Kokosioulis joined NBK in 2013 as the General Manager, Operations Group. He is a member of various Management Committees at NBK.

Former appointments include: Chief Operating Officer, Deputy Chief Operating Officer, Head of International Consumer Finance Operations, Vice President and as the Head of Retail & Cards Operations at various local and international banks in Southeastern and Central Eastern Europe. He has extensive experience in Operations Management, Financial Planning & Analysis, Project Management, "Green Field" operations set up, M&A activities and restructuring.

Mr. Kokosioulis holds a Master of Business Administration Degree in Finance from DePaul University, Chicago, USA, as well as a Bachelor of Arts degree in Economics from the University of Rochester, Rochester, USA.

#### **15 Mr. Adel Hechme**

Group General Manager - Human Resources  
Mr. Adel Hechme joined NBK in 2009 as the Group General Manager, Human Resources. He is also a member of various Management Committees.

Former appointments includes: Assistant General Manager, Head of Human Resources, at various banks in Lebanon. He has extensive experience in Human Resources.

Mr. Hechme holds a Masters degree in Business Administration, from the La Verne University of California (Athens) and a Bachelor of Arts degree in Economics from American University of Beirut, Lebanon.

#### **16 Mr. Carl Ainger**

Group Chief Internal Auditor  
Mr. Carl Ainger joined NBK in 2009 and has been the Group Chief Internal Auditor since 2012.

Former appointments include: Deputy Chief Internal Auditor at NBK, and Head of Internal Audit at a regional bank in Bahrain. He has extensive experience in Internal Audit across the international banking industry and External Audit

/ Consulting in the United Kingdom.

Mr. Ainger holds a Masters Degree in Business Administration from the University of Strathclyde, United Kingdom.

#### **17 Mr. Srood Sherif**

General Manager - Chief Information Officer  
Mr. Srood Sherif joined NBK in 2013 as the General Manager, Chief Information Officer. He is also a member of various Management Committees.

Former appointments include Group Chief Information Officer at a leading bank in the United Arab Emirates. With over 30 years of solid IT experience in the financial services industry, he has widespread experience in system design, implementations and project management. Specific expertise includes diversified Information Systems environments, managing large Data Centres; major IT projects planning; mapping corporate business objectives into IT strategy and managing its implementation.

Mr. Sherif holds a Bachelor of Science degree from Al-Mustansiriya University, Iraq.

#### **18 Mr. Ayman Zaidan**

General Manager - Treasury Group  
Mr. Ayman Zaidan joined NBK in 2013 as the General Manager, Treasury Group. He is also a member of various Management Committees.

Former appointments include: Head of Treasury, Head of Structured Derivatives and Islamic Derivatives at various banks in the Middle East. He has over 21 years of experience in Treasury management, assets/liabilities and balance sheet management, extensive experience in derivatives and capital markets, and wide experience in balance sheet hedging and risk management.

Mr. Zaidan holds Bachelor of Arts degree in Accounting and Business Administration from University of Jordan, Jordan.

## Bank's Overall Strategy

NBK's strategy remains on course; we continue to strive to be the premier Arab bank, truly diversified in product offerings, competencies and earnings. On the domestic front, NBK continued to defend its leading position in the local market leveraging its solid financial standing, its unrivaled franchise and the profound understanding of its customer needs.

Since turning Boubyan into a fully consolidated subsidiary of NBK Group in 2012, the bank has increased its efforts to establish stronger presence in Kuwait's growing Islamic banking segment. This strategic acquisition complements NBK's strong offering in the Kuwaiti banking market and emphasizes the bank's strategy to further diversify its income stream, product offering and client base. NBK plans to continue with full commitment to Boubyan Bank to further strengthen its market position among domestic financial institutions and increase its contribution to the group.

On the regional front, and in light of the recent events and the political instability in the region, our expansion strategy has been put on hold while we continue to focus on integrating and consolidating our international operations to harness their values. This is being done through refining our positioning and offerings in each market, capitalizing on our international reach and relationships both in Kuwait and outside to support growth, and branding initiatives to build a household name across the region.

## Key Financial Highlights

NBK reported net profits of KD238.1 million in 2013 compared with KD305.1 million for 2012. The results for 2012 however incorporated a KD81.5m unrealized gain in respect of the Group's previously held equity interest in Boubyan Bank. Adjusting for this exceptional income, the results for 2013 therefore represent a 6.5% year on year growth. This was a very solid performance by the Group, reflecting the many successes in harnessing business opportunities to the extent presented, but also success in managing the on-going challenges that persisted in the Group's various operating environments.

The Group increased its holding in Boubyan Bank during the third quarter of 2012, to 58.4%. This had the effect of changing Boubyan Bank from associate to subsidiary status, with consequent consolidation into the Group's financial statements. Income statement comparisons between 2013 and 2012 are impacted accordingly.

Notwithstanding the lack of substantive lending opportunities in the non-retail domestic market, the Group grew its loan book by 8.5% in the year to December 2013. Customer deposits grew by 10.2% in the same period, a recurring testimony to the Groups reach and solid banking franchise. Total assets grew by 12.8%, to KD18.6bn.

Contributions from the Group's overseas operations continued to demonstrate the ongoing benefits of its well managed earnings diversification strategy. International operations grew at 9.5% during the year. As regards diversification into Islamic Banking, the Group continued to see positive momentum at Boubyan Bank, with the subsidiary delivering a strong 33.4% increase in year on year earnings. Group returns remained stable with Return on assets for the year at 1.32%, and return on equity at 10.4%.

Key asset quality indicators improved during the year, with period end NPL's/Gross loans at 1.96%, and coverage at 200%. Total shareholder's equity increased to KD2,374m, as compared to KD2,298m in December 2012. Capital adequacy remained comfortable, at 17.3%.

## Consumer Banking

Consumer Banking Group maintained its leadership position in the market by focusing on sustainable growth through a mix of superior customer service, product selection expansion and e-channel delivery.

Consumer Banking launched several initiatives to leverage the Bank's valued reliability and safety in the Kuwait market including opening a new first-of-its-kind premium banking lounge for exclusive customers in the iconic Hamra Tower in Sharq. Designed to provide specialized banking services through specially trained relationship managers and personal banking officers, the lounge is equipped with state-of-the-art technology and dedicated Premium Banking Teller Services.

In other initiatives, Consumer Banking broadened the Bank's product offerings through an expansion of Cards including prepaid and also revamped NBK-WOL to reach a broader online customer base. Consumer Banking also continued to aggressively invest in organic growth initiatives through product and promotion launches including a Summer Cards Campaign, an Azimut Yacht promotion and competitions with cash prizes up to KD 180,000.

## Customer service and satisfaction

Consumer Banking focused in 2013 on customer service and satisfaction. The Bank's 'I Am NBK' initiative resonated with customers, deepening relationships and strengthening the NBK brand across market segments.

The initiative, begun in 2012, bolstered the Bank's Customer Experience Index, which measures service delivery across segments, proving effectively a vehicle for customer feedback and service delivery enhancement. The Bank also leveraged customer trust and loyalty to expand engagement and activity across segments. NBK's Customer Service Index measures NBK customer satisfaction on an annual basis, reflecting year-on-year increased satisfaction with NBK products, services and staff.

## Distribution channels

NBK's Consumer Banking Group leads the Kuwait market in distribution and customer service and

satisfaction. The Bank currently operates 64 branches across Kuwait, 225 ATMs (including 77 CDM) a 24 hour, seven days a week call center and a Direct Sales Force (DSF). Several branches in Kuwait were successfully renovated and several aged ATMs replaced in 2013.

Consumer Banking continues to focus efforts on capturing new and converting existing customers to online or mobile channels. The Bank's successful adoption of the VIVA online payment system in 2013 added another payment utility to the Bank's growing list and created added value for customers.

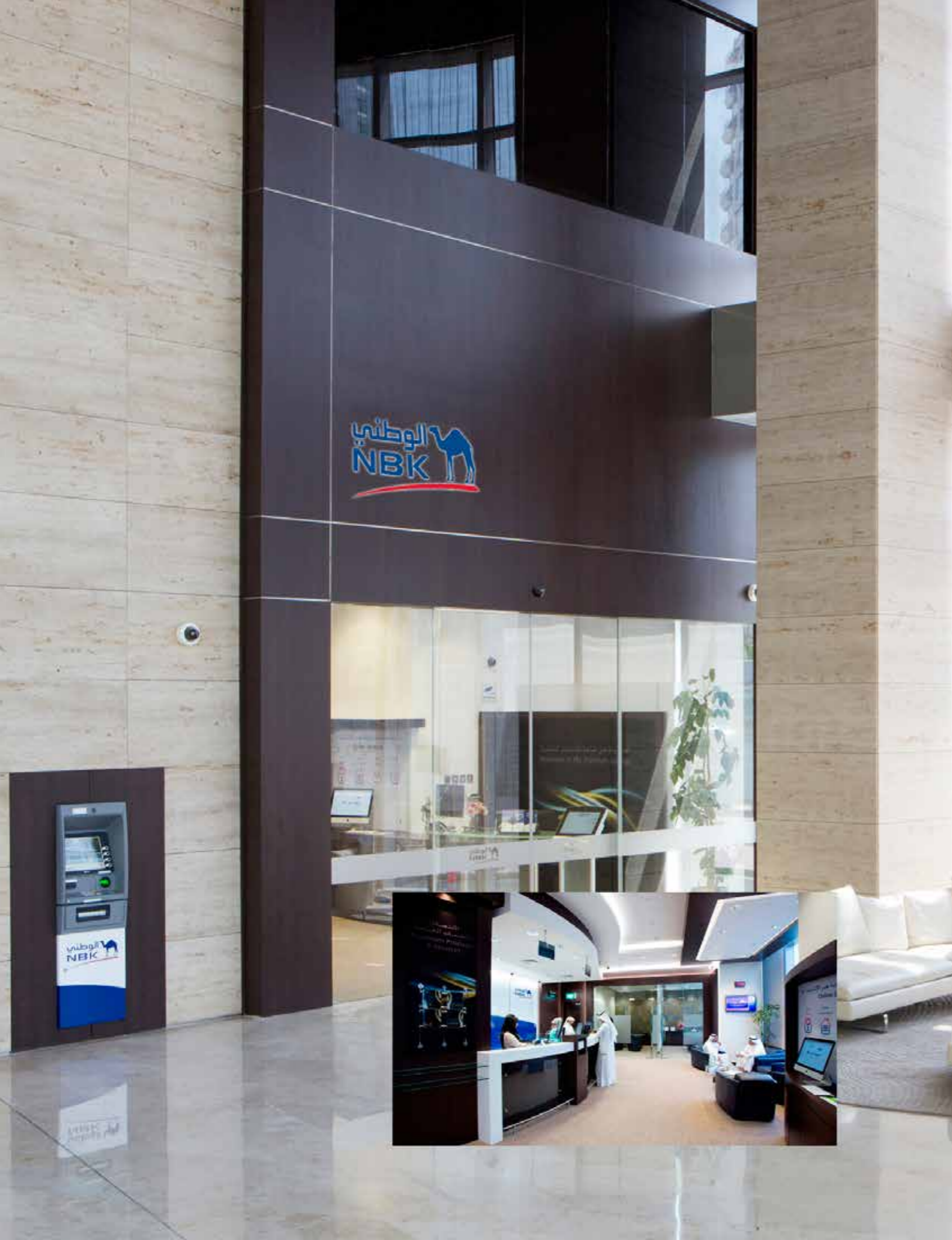
The Bank's popular online e-channel Watani Online maintains a positive adoption rate while Active Real Time SMS and Mobile Banking customers have reached a new record of registrations for 2013. The e-channels initiative has been supported through an array of options including Mobile Banking, which is now compatible with iPhone, iPad, iPod Touch, Blackberry and Android devices. Mobile Banking offers a safe and secure way to conduct transactions at any time and is available free of charge.

Consumer Banking also successfully migrated much of the Bank's mass consumer segment to self-service channels including Mobile Banking, Watani Online, ATM and Call Center / IVR. Consumer Banking also measures digital marketing and usage activities on owned, borrowed or bought digital channels to develop a long term view of consumer behavior using online and digital channels as well as product adoption and customer service delivery and satisfaction.

## Segment and product development

Consumer Banking revised its customer segmentation strategy, deepening segmentation in order to better identify and tailor products to meet a diversity of customer needs.

The Bank segmented affluent customers into two new categories: 'mass affluent' and 'privilege' and based upon data and customer insight identified needs and developed products more custom tailored for each segmentation.



Advancing Cards, Consumer Banking invested aggressively in organic growth initiatives through various campaigns including the UEFA Campaign, Azimut Summer Card Campaign, and a salary acquisition campaign designed to reward new salaried customers who transfer their salaries with a chance to win an annual salary.

Consumer Banking will continue to work aggressively to identify trends and opportunities in the local market and to understand customers' evolving needs to serve them better.

#### Private Banking Group

Private Banking has remained the preferred wealth management provider for generations of Kuwaiti families. Professional expertise, integrity, confidentiality and trustworthiness are the cornerstones of our relationship with our clients.

The Group has strengthened its leading position in this market segment through a wide portfolio of innovative private banking products and services tailored for its client base. Private banking saw a steady increase in its Assets Under Management (AUMs) in 2013 despite the regional political turmoil. Adhering to the bank's conservative strategy, Private Banking continued to advise clients to maintain safe and secure investments and built on these strong and trusted relationships.

The Private Banking Group continued to leverage NBK's international network extending its services to clients in Beirut, Cairo, Dubai, Geneva, London, Manama, New York and Paris. NBK implemented industry best practices in asset allocation and risk profiling. The Bank's product line includes enhanced regional and international brokerage capabilities and regional (MENA) discretionary portfolio management mandates.

In 2013, Private Banking was successful in issuing several new Islamic Equipment Leasing Funds. In addition it assisted clients in locating and investing in prime properties in the United Kingdom and the United States, and actively promoted Trust and other offshore services.

#### Corporate Banking Group

2013 proved a successful year for NBK's Corporate Banking Group (CBG). The Bank focused on maintaining its leading position as the number one corporate banker in Kuwait, capturing key mega financing opportunities by leveraging our deep relationships with Kuwait's premier private companies.

Corporate banking proved diligent in meeting corporate customers' needs through full package servicing that included serving as arranger and facilitator for mega deals both domestic and foreign, working with foreign banks to structure large financing deals and supporting the country's longer term development aspirations.

#### Domestic corporate deal highlights

On the domestic front, NBK Domestic Corporate Banking concluded several major financial deals that reaffirmed its status as the market leader in corporate banking in Kuwait. The mega projects will boost Kuwait's economic outlook and provide a fresh source of financing opportunities for NBK in the longer term.

Major deals captured include: A financing agreement with a consortium that was awarded a KD 98 million project for the expansion of Al Amiri Hospital; funding for the Gas Turbines Project of Al-Zour Power Station (KD 126 million); Kuwait Cancer Center Project (KD 173 million) and Boat Harbor Project (KD 137 million).

NBK Corporate Banking Group also landed the prominent deal to handle financing for the local private air carrier, Jazeera Airways' purchase of three airplanes for a total value of USD 90 million. This intricate arrangement also involved cooperation with the German bank DVB-SE, proving NBK's capabilities in handling sophisticated deals and building relationships with other international banks.

#### Foreign corporate deal highlights

On the foreign corporate side, NBK's major deals included the USD 300 million VIVA deal where NBK acted as a Coordinator and MLA (Mandated Lead Arranger).



NBK is also the only local bank participating in the first ever IWPP Project, in Kuwait (a 1500MW+ 100MIPGD Al Zour North Power and Desalination Project). NBK's role in the IWPP Project, besides MLA, included being a Local Security Agent and an Account Bank. In the oil and gas business, NBK acted as a Coordinator and MLA for the USD 750 million KUFPEC deal and as a Middle East Lead Bank for the KPI's NSRP deal in Vietnam, which required financing of USD 5 billion.

#### Loans and trade finance

In addition to the several mega project financing deals, NBK Corporate Banking Group has been very active and supportive to other non-listed clients. CBG approved substantial amounts of loans for existing customers and captured new clients including large multinational corporations entering the Kuwait market.

Some of these loans are to be drawn in Kuwait, while others were arranged for multinational clients through NBK subsidiaries in their respective markets of operation. CBG capitalized on the Bank's strategic client relationships, making NBK the first choice for expansion plans and increasing the Bank's market share.

CBG continues to dominate market share in most business lines, the outcome of a sophisticated service quality and advanced product offerings. On the Domestic Corporate side, the Bank maintains the highest market share of 25%. On the Foreign Corporate side, NBK's market share reports a strong estimated 75%.

NBK controls the Trade Finance business in the market through a share of export L/C business of around 80%; issuance of around 60% of the guarantees for major projects in the country and the rest of the trade finance products commanding a share of around 30%. At the same time, NBK enjoys supremacy as the bank of choice in Kuwait's Oil and Gas industry by being the banker to 100% of KPC group companies.

CBG successfully upheld NBK's position as the best Trade Finance Provider in Kuwait, as determined by international financial publication, Global Finance.

#### Watani Online corporate

NBK's Watani Online Corporate (WOLC) unit has upgraded its offerings too. WOLC has added functionalities in response to expanding clients' requirements and upgraded to new technology, better security and performance standards.

WOLC implemented new changes to meet Central Bank and international mandatory requirements and compliance. WOLC has grown corporate users for financial transactions by a solid 9%.

#### Treasury

Liquidity management remains a top priority for Group Treasury, especially in light of the prevailing global market conditions. Group Treasury has been actively working on improving the bank's funding profile as well as diversifying and expanding its funding sources by introducing new funding instruments.

NBK's funding costs remained the lowest relative to regional and international counterparts, supported by the bank's high credit worthiness and abundance of liquidity in the local market, both in local and foreign currencies.

Client activity in foreign exchange remained subdued on the back of stagnant economic growth and the absence of sizable government capital spending. That being said, NBK retained its position as the bank of choice for mega foreign exchange deals and was named the "Best Foreign Exchange Provider in Kuwait and the Middle East" by Global Finance for the second consecutive year.

Group Treasury continued to upgrade its IT systems and infrastructure in order to better serve the bank's clients.

#### NBK Capital

In 2013, NBK Capital maintained its position as a leading local and regional investment bank and was named again, "Best Investment Bank in Kuwait" by Global Finance magazine. NBK Capital has four lines of business: investment banking, alternative investments, asset management and brokerage & research. The firm continues to gain market share in many of its

businesses and has continued to develop a sustainable fee generating business model which is not heavily reliant on proprietary investments.

#### **Alternative Investments**

The Alternative Investments Group continued to successfully deploy capital in private equity and mezzanine transactions during 2013. The funds under management performed well, achieving strong returns for investors. The team successfully exited several companies and returned significant capital to investors. Several key achievements were realized during the year including:

- Successfully exited three companies during the year including; (1) an education company based in Kuwait, (2) a healthcare company based in Turkey and (3) a water utility company based in the UAE.
- Made further investments in private equity and mezzanine including: (1) a casual dining chain based in the UAE and (2) an education company based in Saudi Arabia.
- Continued to drive value at portfolio companies resulting in increases in valuations.
- Raised new funds to invest in growth opportunities in middle market companies across the MENA region.

#### **Asset Management**

##### Product Development:

The Product Development team at NBK Capital focused mainly on providing NBK clients with suitable investment products. These included fixed income products that offer low volatility and steady income streams on a monthly basis. In addition, detailed reporting on existing investment products offered transparency and frequent updates to investors.

##### MENA Equities:

During the year, our products performed very well both in absolute terms and relative to the respective benchmarks. In addition, the MENA Equities team managed to increase its assets under management by more than 70%. The team has taken on several portfolios containing listed securities and restructured them into regional discretionary portfolios. The team also managed to attract several new High Net Worth and Institutional clients while increasing

its product offerings. In 2013, NBK Capital received the "Kuwait Asset Manager of the Year" award from MENA Fund Manager Magazine.

##### Investment Advisory:

The Investment Advisory team at NBK Capital provided regular updates to NBK clients on their investment portfolios through client meetings and comprehensive performance reporting, incorporating NBK's views on global economic and financial developments. Investment Advisory continued to offer conservative, tailor-made fixed income portfolios in response to clients' demand for low risk, income-generating investments to mitigate against persistent market volatility, and separately managed account discretionary equity portfolios.

In addition, Investment Advisory continued to build and enhance relationships with NBK Private Banking by serving as a conduit between private bankers and NBK Capital's business lines. In doing so, Investment Advisory provided value-added services to clients by generating referrals for the Bank's business partners to deliver a more compelling client experience, while expanding the product mix of clients' portfolios and enhancing the company's revenue streams.

#### **Brokerage & Research**

##### Brokerage:

NBK Capital Brokerage received "Best Broker of the Year in Kuwait for 2013" by Global Investor magazine in recognition for the leading performance and professional services of the Brokerage offering, that includes Online Brokerage, HNW Brokerage, Watani Financial Brokerage and NBK Capital Securities-Egypt.

The Brokerage platform offers direct trading access to the GCC, MENA and US markets supported by a professional team of Brokers and Institutional Sales.

NBK Capital is now the sole provider offering its clients this wide array of brokerage services. The Online offering recently introduced mobile trading covering all GCC markets and Egypt.

##### Research:

During 2013, NBK Capital MENA Equity Research team

increased coverage in existing sectors. The research is widely disbursed to regional and international clients and is well respected for its objectivity. The firm's research is robust covering 50% of the total market capitalization of the GCC and Egypt. The coverage now spans over 100 companies across the following sectors:

- Banking
- Telecommunications
- Consumer Goods and Retail
- Petrochemicals and Oil
- Real Estate
- Building Materials
- Transportation and Logistics
- Contractors

#### **Investment Banking**

NBK Capital's Investment Banking division continued to cement its position as the preferred advisor on mergers & acquisitions, equity listings, equity raising, debt and restructuring advisory services. Overall client mandates have increased year-over-year with some notable transactions as follows:

- Advising prominent food and beverage conglomerate on acquisition of leading beverage distributor in the UAE.
- Advising alongside two international advisors on Zain Iraq's IPO, which is expected to be the largest in Iraq's history.
- Advising one of the leading family-owned FMCG businesses in Kuwait on an initial public offering.
- Advising a Saudi-listed company on the acquisition of a majority stake in a Kuwait-based retail company.
- Advising a local bank on the first local perpetual tier 1 capital securities. This will be the first issuance of its kind in Kuwait and the largest fixed income security ever raised by a private sector issuer.
- Advising on the project financing of a leading infrastructure project in Kuwait.

#### **International Banking Group**

NBK has repositioned its regional expansion strategy to take advantage of strategic linkages and focus growth

in select, highly profitable and stable markets outside Kuwait. NBK especially has targeted high growth markets in the affluent GCC which are benefitting from high oil prices and high government spending. The International Banking Group's excellent performance is reflected in its international portfolio's robust asset quality and steady growth. The shift in focus has led to stronger financial performance spearheaded by higher average loan volumes, productivity gains and stable asset quality.

NBK launched its strategic regional expansion in the 1980s, opening full service branches in regional hubs Bahrain and Lebanon. It also chose key international destinations – New York, London, Paris, Geneva and Singapore to add to its international presence. In 2004, NBK took the strategic decision to expand its presence in the Middle East and North Africa (MENA) region.

The Bank quickly established branches in Jordan, Saudi Arabia (Jeddah) and the UAE (Dubai and recently Abu Dhabi) and through acquisition entered simultaneously Egypt, Iraq, Qatar, and Turkey.

Today, NBK has an international network of subsidiaries and associates with close to 100 branches outside Kuwait. This network is complemented by a mix of alternative and remote distribution channels. All of the Bank's businesses outside Kuwait are successfully integrated. Most of these branches operate under the same brand.

NBK repositioned as well its consumer segment strategy outside Kuwait towards affluent individuals and high net worth individuals and as a result streamlined its branch networks in Egypt, Iraq, Jordan and Lebanon.

#### **GCC**

In the affluent GCC, NBK is well positioned to leverage its presence for future growth. NBK currently operates in Abu Dhabi, Bahrain, Dubai and Jeddah, where it offers corporate clients and High Net Worth Individuals (HNWI) a range of treasury and wholesale banking credit solutions, both conventional and Sharia-compliant, in addition to trade finance services and



basic retail services including personal loans and NBK's Premier Thahabi Account. The Bank is increasing its presence in GCC member states by extending online banking services in Bahrain and Dubai. It also opened a new branch on Airport Road in Abu Dhabi.

In Qatar, the Bank operates through its associate International Bank of Qatar (IBQ). NBK has a 30% stake in IBQ and has led the Bank's transformation from a single branch to a full service commercial bank through a management agreement signed in 2004. Currently, IBQ operates six branches and service centers in addition to 31 ATMs strategically located throughout Qatar. The Bank has active corporate, retail, private and treasury departments in addition to a direct sales team.

It has received several accolades that are testimony to its robust performance, notably Euromoney's award for the "Best Private Bank for Privacy and Security in Qatar 2013". IBQ customer service is supported by a fully-equipped platform including a 24/7 Call Center and online banking.

#### **Other MENA**

Outside the GCC, NBK's customer base continued to grow in 2013 despite the challenging geopolitical environment, with customers drawn by the Bank's strong brand and values of quality, confidence and security.

In Egypt, NBK operates through Al Watany Bank of Egypt (AWB), the subsidiary acquired in 2007. Under NBK management, AWB is experiencing a full transformation to become one of the top foreign-owned banks in the country. AWB has fully migrated to a new core banking system T24, and successfully expanded and upgraded its physical network, including doubling the number of ATMs (92) and the number of branches (38, including two that are fully Sharia-compliant). AWB improved customer service and availability by establishing a call center and online banking services. Incoming calls and emails are now answered around the clock.

AWB's emphasis in 2013 was on stabilizing its operations amid the unrest. In another difficult year for the Egyptian economy, loan losses remained at low

levels and while business activity dipped overall, AWB's commercial network was busy taking new deposits and capturing new customers seeking the safety guaranteed by the bank's affiliation with NBK.

In Iraq, Jordan and Lebanon, NBK's focus was on enhancing IT and network infrastructure to continue to provide customers data protection and a reliable and secure platform for their accounts and transactions.

There was continued emphasis as well during the year on staff security, especially in Iraq where there were spikes of violence. NBK operates in Iraq through its subsidiary Credit Bank of Iraq (CBI), in which the Bank owns a controlling 81% stake. CBI offers transfers and trade finance to Kuwaiti corporate clients and foreign contractors as well as basic retail products for Iraqi customers. It operates 13 branches throughout the country and is among the largest private banks in Iraq.

In Lebanon and Jordan, the bank operates a small network of branches under the NBK brand strategically located to service niche customers for the bank.

#### **International markets**

In Geneva, London, New York, Paris and Singapore, NBK continued to see a strong inflow of capital and deposits from HNWIs, financial institutions, oil companies, correspondent banks and government agencies, all seeking the safety and stability found only with NBK.

NBK's network outside Kuwait provides clients access to a wide range of markets and investment offerings. The international mortgage program is one example where NBK provides financing for customers wanting to purchase a property in their country of choice (Egypt, France, Jordan, Lebanon, UAE, UK and USA). A dedicated center in the Ras Salmiya branch provides the infrastructure needed for customer applications. The program has been running now for over two years and has been very successful.

#### **Corporate Social Responsibility**

NBK has been at the forefront of local corporate leadership, pioneering a variety of programs aimed

at contributing to the protection of our environment, the professional development of our youth and the adoption of a healthier lifestyle for our community as a whole. It is a responsibility we take very seriously and in line with this responsibility, we integrate social growth and development as a fundamental part of the Bank's mission and objectives. As a result, NBK continues to lead by example in corporate social responsibility in Kuwait.

In the healthcare area, NBK continued its efforts to transform the children's hospital into one of the region's leading specialized treatment centers for children suffering from chronic diseases. NBK earlier donated KD 4 million for the establishment of a specialized pediatric leukemia treatment center and in 2013 continued to support efforts to develop this center's contribution to the health of children in Kuwait. NBK also supports the transfer of knowledge and skills by hosting teams of experts from abroad including specialized medical staff from the prestigious Great Ormond Street Hospital in London. In 2013, NBK continued to promote healthcare and awareness for its staff and customers through various programs including its Breast Cancer Awareness and Prevention Campaign. The Bank also organized several seminars and lectures on the issue aimed at encouraging greater awareness of breast cancer among female staff and clients.

In 2013, NBK also gave continued attention to philanthropic initiatives including the 'Do Good Deeds in Ramadan' initiative for the 22nd consecutive year. The bank also continued to support and sponsor organizations that promote a range of social welfare programs such as Bayt Lothan and LOYAC sponsorships.

The educational initiatives focused on National Bank of Kuwait's commitment to encouraging a merit-based educational system that promotes the best and the brightest the country has to offer and rewards students for their hard work and excellence. Among other things, 2013 saw NBK's continued honoring of outstanding high school graduates of public schools, sponsoring of the Kuwait University Architecture

Students Association, and sponsorship of the first Arab Open University international conference.

Environmentally, NBK is proud to be the first environment-friendly bank in Kuwait through its pioneering CSR initiatives aimed at protecting and preserving the environment. Some of the 2013 initiatives included, most importantly, NBK's 'Think Twice' environmental campaign, now in its sixth year, which encourages the Kuwaiti community to adopt sustainable practices for protecting the environment and well as efforts for conserving energy through a range of initiatives as well as beach and desert clean up campaigns.



# Economic and Financial Developments in the MENA and Kuwait in 2013

## MENA and the GCC:

The performance of MENA economies through 2013 remained mixed. High oil prices and rising government spending continued to support growth in key oil exporting countries, particularly the GCC. Other parts of MENA, however, were still marred by political and armed conflict, which – aside from the human cost – depressed economic growth and reinforced expectations of a protracted and complex transition to a more stable political climate.

The devastating war in Syria raged on, affecting neighboring countries and threatening to draw the US and other international powers into a broader regional conflict. The swift recovery of activity in post-revolution Libya was setback by a collapse in oil output, as oil workers went on strike over perceived political injustices. Meanwhile, after riots following the ouster of its President in July, Egypt managed to return to relative stability with the help of financial aid from its GCC neighbors. Across these ‘transition’ countries, however, the inability to forge political consensus has damaged economic prospects by deterring investors and postponing much-needed economic reforms.

High oil prices continued to benefit the GCC region’s economy. Brent crude averaged \$109 per barrel (pb) in 2013, only slightly below the record \$112 average of 2012. Oil market fundamentals in fact loosened slightly in 2013, but any negative effect on prices was counterbalanced by the impact of geopolitical tensions in the Middle East. OPEC’s aggregate oil output fell over the year due to the impact of sanctions or outages in Iran, Libya and Nigeria. Yet output among the Gulf’s main exporters remained elevated. Average production levels in Saudi Arabia (9.6 mbpd), Kuwait (2.9 mbpd) and the UAE (2.8 mbpd) remained close to or above the modern day highs recorded in 2012. Although growth in hydrocarbon sector output in the GCC slowed to 0.7%, strong oil receipts kept the region’s fiscal and trade balances at buoyant levels.

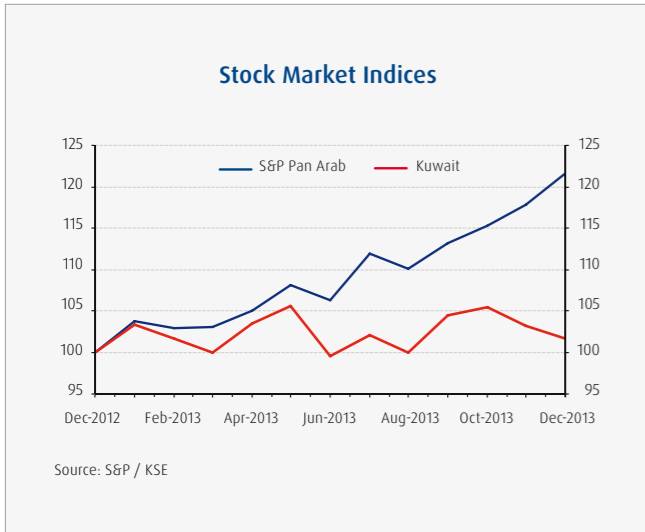
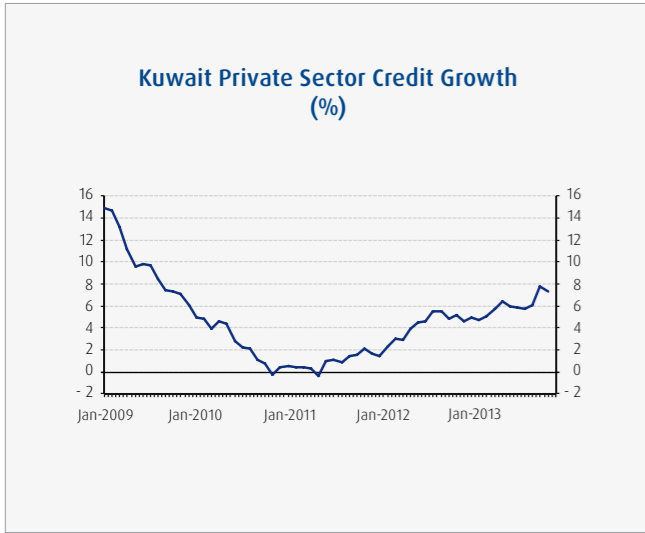
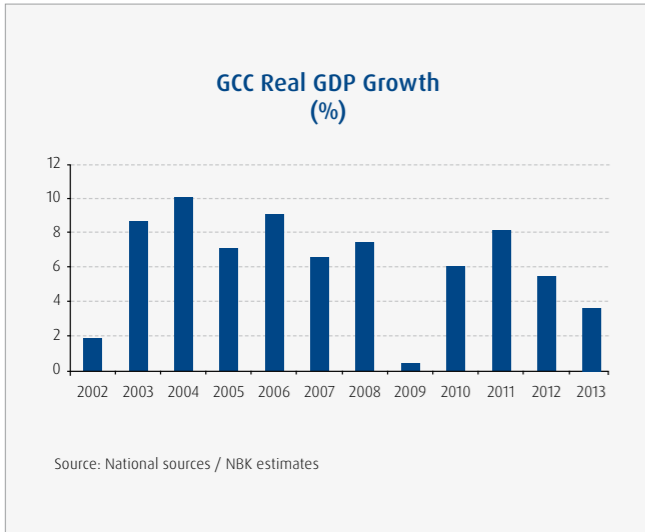
Beyond the oil sector, GCC economic activity remained solid and mostly unaffected by the conflict in Syria.

Qatar was once again the region’s stellar performer, recording estimated non-oil growth of 10% driven by the government’s investment and economic diversification program. A construction slowdown and new employment regulations have affected growth in Saudi Arabia, though non-oil growth should remain in the 4-5% range. Meanwhile, survey evidence suggests that private sector activity in the UAE has strengthened on the back of the tourism and trade segments, as well as a revival of the property market in Dubai.

More broadly, the GCC region looks reasonably well positioned to withstand any renewed turbulence in the global economy – perhaps linked to the start of tapering by the US Federal Reserve. Well-capitalized banks, low government debt ratios, vast financial reserves and large fiscal and trade surpluses provide an effective buffer against volatility in international markets. Moreover, many of the excesses of the pre-financial crisis environment have been purged: economic growth is now at a more moderate but sustainable level, equity markets are still well off their highs, and policymakers are more actively monitoring and regulating potential risks to the financial system.

While significant long-term challenges on issues such as fiscal policy and employment remain, the near-term outlook for the GCC economy looks fairly robust.

It was generally a good year for regional capital markets with the S&P Pan Arab Composite up a notable 25%. However, performance varied across markets, and while all GCC markets registered healthy gains, most other MENA markets were off on the year. UAE markets were by far the best performing in 2013 with the Dubai Financial Market and Abu Dhabi Stock Exchange up 108% and 63%, respectively. The rally in the UAE was at least partly driven by MSCI’s decision to upgrade both the UAE and Qatar from “Frontier” market status to “Emerging”. Gains in other GCC markets, albeit decent, were more modest and averaged 19%. Meanwhile, political tensions and security issues continued to weigh on non-GCC markets and with the exception of the Egyptian Exchange most were off or



flat on the year. The Beirut Stock Exchange was the worst performing, down 18%.

**Kuwait:**

Overall economic growth is expected to have slowed sharply last year to 0.3% from a hefty 8.3% in 2012. But the slowdown entirely reflected policy-related changes in oil production, which fell slightly after surging the previous year, rather than a deterioration of the broader business climate. By contrast, non-oil growth is expected to have been sustained at a solid, if unspectacular pace of 4% or so, close to the previous couple of years. While the balance of non-oil growth remained weighted towards the consumer sector, there were signs of a modest shift as a number of long-delayed government infrastructure projects moved closer towards execution. This filtered through to improved business sentiment, a pick-up in lending growth and a stock market rally.

Available indicators show that consumer-level activity remained very solid. The value of point-of-sale transactions grew 18% in the first 9 months of 2013 (y/y), compared to 13% a year earlier, unemployment remained low at around 2%, while employment growth (excluding household workers) stood at a reasonable-looking 3% y/y at mid-year. Activity in the residential property market was also strong: sales of apartments and villas rose 17% and 10% respectively, in the first 11 months of 2013 compared to a year earlier, while the number of home loans approved by the Savings and Credit Bank also surged. The introduction of debt relief for Kuwaiti nationals - interest write-offs and maturity extensions - under the Family Fund law also provided fresh support for the consumer sector. Though initial signs were that the scale of the relief would be smaller than the KD 0.8 billion in loans eligible under the scheme.

Consumer spending also remained crucial for the banking sector. Growth in consumer credit (excluding securities purchases) accelerated to 18% y/y in the first 11 months of 2013, from 14% a year earlier. Credit to the rest of the economy was much softer at 2% y/y in the first 11 months, reflecting soft demand. Yet even this was skewed downwards by continued



deleveraging at investment companies; in fact 'core' business lending accelerated slightly to 5% y/y in the 11 months to November. Private sector deposit growth also improved, reaching 10% y/y in the first 11 months from an average of 6% through 2012.

The Central Bank of Kuwait (CBK) left its main interest rates unchanged, at 2.0% for the discount (lending) rate and 1.5% for the one-week repo (deposit) rate. Market interest rates have been more or less steady, after dipping in 2012 on the CBK's last interest rate cut. Low interest rates have been maintained in order to stimulate lending and boost the economy, as well as to manage the exchange rate setup, which – unlike other Gulf countries – sees the Kuwaiti dinar pegged to a basket of key trading currencies. The dinar traded in a fairly narrow range of KD1 = \$3.486 to 3.558 against the US dollar through most of 2013, despite considerable volatility in international currency markets. Since the US dollar itself strengthened against a number of emerging market currencies, the dinar also gained some ground.

Fiscal policy continued to provide key support for the economy, helped by the huge resources accumulated by the government from strong oil receipts. Government spending (excluding transfers to the social security fund) rose 16% in FY 2012/13, close to its average of the previous two years. Once again, however, nearly all of the increase came from current spending, including employment costs and the cost of purchasing fuel for power generation. Capital spending – which accounts for only 9% of government spending – rose by just 2% and came in at just 69% of its budgeted allocation, well below the historic average.

The budget for FY 2013/14 projects a year-on-year decline in spending by 1%, including a 3% fall in capital spending. However, owing to an underspend last year, there is still room for spending to rise significantly while remaining within the overall budget targets.

Ministers from the new government have been vocal about the need to reform state spending practices and in particular curb the rapid growth in subsidies seen over the years; food and fuel subsidies alone accounted

for 18% of public spending last year, up from 7% a decade earlier. Although this could set the stage for slower growth in government spending over the years ahead, it also represents an important step on the path of much-needed economic reform.

Spending under the government's 4-year, KD 31 billion development plan (FY2010/11 to FY2013/14) remained lackluster owing to a combination of technical, administrative and politically-driven delays. However, as the year wore on, optimism surrounding the prospects for capital spending improved. At least two large Public Private Partnership projects – the al-Zour North Independent Water and Power Plant and Kuwait Health Assurance Company schemes – moved closer towards financial close, while contracts for a number of smaller projects in the areas of health, transport and oil were also signed. Higher investment spending will both improve the economy's long-run growth potential, and support demand in the event of slower growth in government current spending going forward.

Inflation remained low, despite continued strong growth in consumer spending. Inflation was on course to average 2.6% in 2013, down from 3.3% in 2012. Excluding food and housing – two important but sometimes erratic items – inflation was lower still, at around 1.5%. Aside from the modest economic growth environment, a key factor in reducing inflation has been the Kuwaiti dinar, which has been steadily climbing for the past few years (helped by the stronger US dollar), helping to depress import prices. While inflation could see a small rise in 2014, it is unlikely to become a major policy concern.

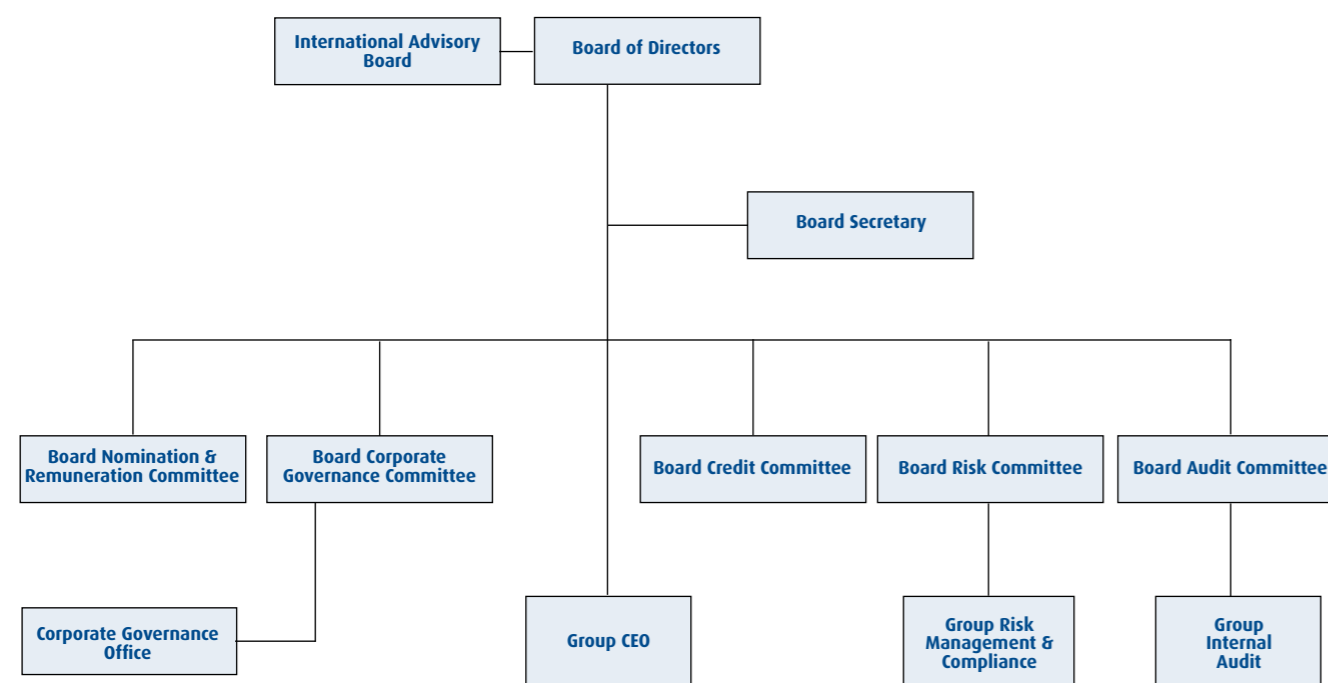
The Kuwaiti banking sector continued its gradual recovery in 2013 driven by healthy revenue growth. The recovery continued to be hampered by the high level of loan loss provisions which weighed on bottom lines. Bank profits during the nine months ending September 2013 fell by 5.9% year-on-year. The sector's average return on equity ratio remained subdued at 8.4%. Still, banks saw robust 15% growth in their adjusted operating income as credit growth picked up on the back of healthy household lending and the recovery in business credit.

# Corporate Governance

## Corporate Governance Framework

NBK Group has implemented its Corporate Governance framework in compliance with global practices and regulatory requirements. The framework is designed at the Group level, and governs all subsidiaries and branches, taking into consideration differences in jurisdictions, business complexity, and geographical spread.

The Group's governance structure including all the Board-level Committees is illustrated as follows:



The Group's Board of Directors and its Committees oversee the Governance structure and ensure Executive Management contributes substantially to the Bank's sound corporate governance.

NBK Group's Governance structure is transparent and efficient. The Board sets direct communication channels between the Group's entities and itself, allowing for smooth information flow and centralized control functions at the Group level.

The Board has approved the Group's Strategy and Risk Appetite. The Strategy incorporates all strategic plans of Subsidiaries and Overseas branches. The Board monitors the strategy implementation through approved key performance indicators and mitigation actions plan.

The Board and Board Committees supervise the Group's operations on timely basis; any strategic changes in the entity's structure or its operating model are discussed and approved by the Board of Directors.

NBK Group actively ensures the Corporate Governance framework is implemented effectively; the Board has taken an important initiative to establish the Group's Corporate Governance Office. This was a strategic decision which has been made to have a centralized and independent function at the Group level which reports to the Board Corporate Governance Committee. The Office is responsible for managing all Governance aspects and ensures effective implementation of the Governance framework. Furthermore, during the year, it played a vital role in supporting the Board Secretary, managing the Disclosure Unit and coordinating all regulatory inspections in relation to the Governance framework.

The Group was able to accomplish the following key milestones during the year in implementing its Governance framework:

- Fulfilled all the regulatory / compliance requirements of Central Bank of Kuwait by developing and updating the Group's Governance manual, policies and charters.
- Published a summary of the Group Corporate Governance Manual on Group's website (<http://www.nbk.com/Corporate Governance>).
- Reviewed and developed the Group's Governance structure and aligned governance policies, procedures and charters of respective Group entities.
- Developed measurements and framework for information flow among the Group's entities, to maintain a robust control environment.
- Established the structure of Board Committees and activated their roles and responsibilities based on approved Charters.
- Reviewed and strengthened the Group's Risk Management Governance.
- Conducted awareness sessions and training programs for the Board and Executive Management members to emphasize the importance of Corporate Governance concepts and its implementation, in addition to enhance the Board and Executive Management's awareness of the Group's governance structure and relevant risks.
- Evolved and aligned the Group's Remuneration Framework in accordance with regulatory requirements and business strategy.
- Enhanced the Group's disclosure framework through advanced tools and methodologies.

## Board of Directors

### Board Structure

The Group's Board of Directors is composed of a total of nine (9) Members; all are Non-Executive Members who were elected during General Assembly meetings for a period of three years.

The Board Members collectively have a deep knowledge and experience relevant to the banking industry, including finance, accounting, banking operations, strategic planning, governance, risk management, internal controls, and bank's bylaws. The Board has sufficient understanding of local, regional and global economic environment, as well as the regulatory and supervisory environment.

The primary mandate of the Board is to align the Group's strategic objectives, risk appetite and overall Corporate Governance framework to the best interests of the Group and maximize the value to shareholders. These are coupled with monitoring and maintaining the Group's financial and economic stability and safeguarding the rights and benefits of all stakeholders. Primarily, this is done through paying meticulous attention to the Governance, Risk Management, and internal control environment of the Group.

### Group Board Chairman and Group Chief Executive Officer

The roles of the Board Chairman and Group CEO are separate and independent of one another and there is a clear segregation of duties and responsibilities.

The Chairman's responsibilities are set out in the Group's Board Charter and in the Terms of Reference of the Board of Directors. The Chairman has a significant role in leading and monitoring the work of the Board Committees to ensure they operate effectively and discharge their responsibilities fully; this process includes quarterly performance reports submitted by each Board Committee.

Furthermore, the Chairman plays a vital role in maintaining high standards in effective implementation of Corporate Governance. The Chairman also ensures a relationship of trust and productivity between Board Members and Executive Management is maintained.

## Board and Board's Committees Activities

The Board has met thirteen (13) times during the year 2013. As per the requirements of Central Bank of Kuwait, the Board convenes once at least each quarter. Minutes of all meetings have been recorded and are part of the Bank's records.

Board Key Corporate Governance Achievements:

- Discussed and approved the newly-enhanced Corporate Governance framework and its related policies and charters.
- Discussed and approved a purposeful Group-wide direction through the reassessment and enhancement of business strategy, risk appetite and remuneration strategies.
- Conducted periodic meetings with Executive Management, discussed Group's matters and results through timely management reports.
- Attended several workshops and awareness sessions conducted by global subject-matter experts in the fields of Corporate Governance, Risk Management, Remuneration, Strategic Planning and Internal Controls, to ensure an appropriate balance of skills, knowledge and experience throughout the Board.
- Conducted an independent review over the Corporate Governance Framework through the Group Internal Audit Function to highlight key enhancements and developments.
- Reviewed, approved and confirm the completeness of Corporate Governance disclosures within the Annual Report including Management Discussion & Analysis.

## Board of Committees

The Board has established a number of Committees in light of its evolving supervisory role in Strategic Planning, Governance, Risk Management and Internal Controls. These committees are:

- **Board Corporate Governance Committee**
- **Board Risk Committee**
- **Board Audit Committee**
- **Board Nomination and Remuneration Committee**
- **Board Credit Committee**

The key roles of the Board-level approved Committees are described in their respective "Charters". The roles and authorities of each Committee are defined and delegated by the Board. All Committee members are Non-Executive members of the Board and hold relevant experience as per the mandate of the respective Committee.

Each Committee reviews its charter on a periodic basis and submits recommendations for amendments or updates (if any) to the Board for approval. These Committees submit periodic reports to the Board's Chairman regarding their respective duties. For the year 2013, the number of Committee meetings held was in compliance with CBK Corporate Governance requirements.

## A. Board Corporate Government Committee (BCGC)

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### Key Mission:

Assists the Board in its oversight of the development and the regular assessment of the Group's approach to corporate governance issues. The Committee is responsible for monitoring the robustness of the policies and procedures developed, and the effective implementation of the disclosure framework.

### Key achievements in 2013:

The Committee met once during 2013 and the following are the key duties achieved:

- Discussed and reviewed the Corporate Governance Framework and provided recommendations to the Board for approval.
- Facilitated & supervised the implementation process of Corporate Governance instructions.
- Reviewed, approved and govern the functioning of the Corporate Governance Office.
- Reviewed and discussed the designed Disclosure framework.
- Supervise the process of monitoring and reporting of Conflict of Interest, Whistleblowing & Related-Party Transactions.
- Coordinated with the Group Internal Audit team and conducted an annual review over the Corporate Governance framework.

The Committee consists of four (4) Board Members including the Committee Chairman:

- Mr. Mohammad Abdul Rahman Al-Bahar (Board and Committee Chairman)
- Mr. Yacoub Yusef Al-Fulaij
- Mr. Hamad Abdul Aziz Al-Sager
- Mr. Muthana Mohamed Al-Hamad

## B. Board Risk Committee (BRC)

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### Key Mission:

Assists the Board in fulfilling its Risk Management responsibilities through assessments and monitoring of the risk governance framework, risk appetite, risk strategy and capital planning.

### Key achievements in 2013

The committee met two (2) times and following are the key duties achieved:

- Reviewed and recommended the Group's Risk Strategy, Risk Appetite statement and Key Risk Indicators.
- Reviewed and approved the structure of the Group Risk Management Function and ensuring its independence from business units. The Committee also identified and discussed the roles and responsibilities of each unit within Risk Management function.
- Reviewed and discussed the implementation of the Capital Requirements Directive, particularly in relation to the Group's Internal Capital Adequacy Assessment Process ("ICAAP") and stress-testing results.
- Monitored the effectiveness of NBK Group's internal control systems through the Internal Control Review performed by an external audit firm. The Committee discussed the findings along with appropriate periods for closure of the issues raised.
- Reviewed and discussed the risk profile of the Group including key risks.
- Coordinated with the Board Nomination and Remuneration Committee to evaluate the incentives proposed.

The Committee consists of three (3) Board Members including the Committee Chairman:

- Mr. Yacoub Yusef Al-Fulaij (Chairman)
- Mr. Haitham Sulaiman Al-Khaled
- Mr. Loay Jassim Al-Kharafi

## C. Board Audit Committee (BAC)

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### Key Mission:

Assists the Board in the oversight of financial statements, internal controls, as well as internal and external audit independence and validation. The Committee reviews the reports presented by Internal Auditors and other regulatory bodies in its deliberations and provides guidance and direction in the areas of internal controls and compliance.

### Key achievements in 2013:

The Committee met five (5) times during the year and following are the key duties achieved:

- Collaborated with the External Auditors and reviewed the quarterly and annual Financial Statements, providing recommendations on the same to the Board of Directors.
- Discussed the results of the annual Internal Controls Review report.
- Reviewed and discussed the Internal Auditor's reports on the effectiveness of the Group's systems for internal financial control, financial reporting, risk management, and the Corporate Governance framework, including the Group's Structure.
- Reviewed and approved the Group's Internal Audit Risk-Based Audit Plan for the year 2014 considering the internal audit focus areas.
- Reviewed and discussed with the Group Chief Internal Auditor the adequacy of the internal audit function, infrastructure and the overall annual assessment of the function's performance.

- Met the External Auditor, Group Chief Internal Auditor, and Compliance Head without the presence of Executive Management and received reports on External Auditor's strategy in relation to audit of financial statements and the progress of audit. The Committee also looked into the terms of engagement and approved the fees to be paid to the External Auditors in respect of the audit services provided.
- Reviewed the Group's Whistleblowing procedures and received regular updates from the Group Chief Internal Auditor on the cases reported (if any).
- Reviewed the process of handling transactions with related parties.

The committee consists of three (3) Board Members including the Committee Chairman:

Mr. Hamad Mohammed Al-Bahar (Chairman)

Mr. Haitham Sulaiman Al-Khaled

Mr. Loay Jassim Al-Kharafi

#### D. Board Nomination and Remuneration Committee (BNRC)

##### Key Mission:

Assists the Board to carry out the Nomination and Remuneration responsibilities pertaining to the Directors and Executive Officers. The Committee thus supports the Board in reviewing and enhancing the Board Structure and develops the calibre of Board Members.

Furthermore, the Committee assists the Board in setting up the Group's Remuneration Framework and ensures effective implementation in accordance with Group Remuneration Policy.

##### Key achievements in 2013:

The Committee met once during the year and following are the key duties achieved:

##### Nomination Side

- Approved and initiated the annual process of assessing the Board, including the assessment of the Board Structure and performance of the Board and its Members in collaboration with an independent party.
- Identified and circulated to Board Members certain publications on "thought leadership" and key banking matters in order to enhance Members' knowledge and expertise.

##### Remuneration Side

- Reviewed and discussed the existing Remuneration Framework and its progress, along with the key components of the Group's Remuneration policy.
- Discussed and reviewed the changes to the existing Employee Stock Option Plan and recommended to Board for approval.
- Provided recommendations to the Board regarding the remuneration criteria and remuneration components of eligible staff including Executive Management.

The Committee consists of three (3) Non-Executive Directors including the Committee Chairman:

Mr. Nasser Musaed Al-Sayer (Chairman)

Mr. Ghassan Ahmed Al-Khalid

Mr. Hamad Mohammed Al-Bahar

#### E. Board Credit Committee (BCC)

##### Key Mission:

Responsible for reviewing the quality and performance of the Group's credit portfolio. The Board has delegated limits to the Committee to approve credit facilities which are above the limits of Senior Management, all as set out in the Credit Policy and Authorities Manual.

##### Key achievements in 2013:

During 2013, the Committee met on a regular (weekly) basis and the following are the key duties achieved:

- Reviewed and approved credit decisions within the discretionary authority delegated by the Board.
- Coordinated with the Board Risk Committee to discuss credit-risk limits.

The Committee consists of four (4) Board Members including the Committee Chairman:

Mr. Nasser Musaed Al Sayer (Chairman)

Mr. Hamad Abdul Aziz Al Sager

Mr. Ghassan Ahmed Al-Khalid

Mr. Muthana Mohamed Al-Hamad

The table below shows the number of Board and Board Committees' meetings along with the extent of each Member's attendance at relevant meetings during the year:

##### Frequency of Board of Directors and Board Committees' Meetings:

Total Number of meetings held during 2013	Board of Directors	BCGC	BRC	BAC	BNRC	BCC
	13	1	2	5	1	47
Board Members	Number of meetings attended by the Board Members					
Mr. Mohammad Abdul Rahman Al-Bahar	3	1				
Mr. Nasser Musaed Al-Sayer	11				1	36
Mr. Hamad Abdul Aziz Al-Sager	9	1				32
Mr. Ghassan Ahmed Al-Khalid	8				1	20
Mr. Yacoub Yousef Al-Fulaij	11	1	2			
Mr. Hamad Mohammed Al-Bahar	8			2	1	
Mr. Muthana Mohamed Al-Hamad	13	1				28*
Mr. Haitham Sulaiman Al-Khaled	12		2	5		
Mr. Loay Jassim Al-Kharafi	10		0	3		

\* Mr. Muthana Al-Hamad joined Board Credit Committee in March 2013

 Not a Committee Member

##### Board of Directors Assessment Framework

Under the supervision of the Board Chairman and through the Board Nomination and Remuneration Committee (BNRC), a review for the Board's current structure along with the performance of the Board and each member has been arranged in collaboration with an independent external party. This review aims at addressing Board's structure, responsibilities, processes and effectiveness in accomplishing its remits and responsibilities along with the performance of each Member of the Board, including the expertise, knowledge, responsibilities and leading characteristics of the Members. The ultimate objective is to increase the efficiency and effectiveness of the Board and its Members.



The following factors were approved for the assessment of the Board and its Members:

- Composition and Competence
- Process and Operations
- Communications
- Oversight role

It is the intention of the Board to continue to undertake an evaluation of its structure, overall performance and performance of its individual Members annually.

## Internal Controls

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The Board assumes full responsibility for maintaining a sound system of internal control for the Group whereby specific policies, procedures, guidelines and controls covering the entire Group's transactions have been adopted and implemented in accordance to the Group's internal culture and in compliance with regulatory requirements.

### Internal Control Adequacy Report

#### Board Statement on Adequacy of Internal Control Systems:

The Board strives consistently to ensure the adequacy and efficiency of the control systems required to protect the Group's operations, whilst ensuring compliance with such internal controls and establishing that those controls provide the necessary protection for the Group against risks from within or outside the Group.

The Board ensures that an effective Internal Control System and Risk Management function are in place with sufficient authority, independence, resources and access to the business lines. The Board regards the internal audit function and external audit activities as integral parts of key control tools for independent review of information reported by Executive Management to the Board. The Board Audit Committee is responsible for the oversight of the Group's internal control framework along with the selection and rotation of External Auditors in compliance with regulatory requirements.

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

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

#### Executive Management Responsibilities for Setting Internal Control Systems:

Executive Management is responsible for implementing appropriate internal control systems with the direction given by the Board. Executive Management exercises day-to-day supervision and control over 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 policies are reviewed and approved by the Board.

The Group's internal control framework is based on the "Three lines of defence" model with oversight by the Board of Directors.

The Unit undertaking the specific business or operating activity concerned has the primary responsibility for risk identification, assessment, monitoring, reporting, mitigation and control. It acts as the 'first line of defence' in the overall risk management set-up of the Group.

Group Risk Management & Compliance (GRMC), which reports directly to the Board Risk Committee, is an independent control function, monitoring the performance of business and operating units against the control framework and benchmarks agreed. In order to maintain independence and objectivity in performing their duties and responsibilities, the Group Risk Management & Compliance function is not assigned any executive responsibilities. It plays a vital role by providing interpretation of regulations / leading practices relating to risk management and disseminating them to the business units. GRMC is responsible for designing and

deploying the overall risk management framework across the organization along with monitoring the adherence of business units to the risk management framework approved by the Board.

The Group's Internal Audit Function is an independent control function, primarily responsible for assessing the adequacy and effectiveness of the Group's internal controls. In order to maintain independence and objectivity in performing their duties and responsibilities, the Group's Internal Auditors are not assigned any executive responsibilities. The Internal Audit function reports directly to the Board Audit Committee which is accountable for monitoring the overall performance of the function. Internal Audit's risk-based Audit Plan was successfully accomplished for the year 2013 and the Board Audit Committee has approved the 2014 plan. Group Internal Audit plays the assurance role, independent of the Group Risk Management and Compliance. It provides independent testing and verification of the efficacy of corporate standards and compliance by business line, validate the effectiveness of the Group's overall risk management framework, and assess and provide assurance on the internal control environment and that the risk management process is functioning as designed.

The External Auditor provides the Board Audit Committee with a copy of the Audit Report, and meets with the Board Audit Committee to discuss the results of its report and other relevant significant observations.

The Group has a Business Continuity Plan for its operations with key focus on the management of its operations and key accumulated data in the event of contingencies or disasters. Advanced systems and procedures are in place to protect the Data Centre from unauthorized physical access, fire and power-supply failure. These systems are checked and tested on a regular basis. A Business Continuity Committee is also in place with clearly-defined authorities and responsibilities.

## Internal Control Review by Independent External Party:

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An Internal Control Review (ICR) of NBK is conducted annually by an external audit firm in accordance with CBK requirements. ICR examines accounting and other records, and, evaluates the internal control systems with regard, but not limited, to Corporate Governance, Financing/Credit 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.

A summary of ICR report for the year ended 31 Dec 2012 was presented to the Board of Directors during 2013. The report does not highlight any significant issues.

### The Board of Directors National Bank of Kuwait SAK State of Kuwait

Dear Sirs,

In accordance with our letter of engagement dated 20 January 2013, we have examined your accounting and other records and have also examined and evaluated the internal control systems at State of Kuwait; your branches in Kingdom of Bahrain, Hashemite Kingdom of Jordan, Kingdom of Saudi Arabia, United Arab Emirates – Dubai Emirate; and subsidiaries National Bank of Kuwait (Republic of Lebanon) SAL and Al Watany Bank of Egypt (together referred to as the Group) during the year ended 31 December 2012 with regard to Risk Management, Money Laundering, Consumer Banking, Corporate and Consumer Credit, Treasury, Financial Control, Funds Control and Operations Information Technology, Human Resources and Administration, Internal Audit and Legal.

The examination was conducted in accordance with the requirements stated in the general guidelines manual issued by the Central Bank of Kuwait on 14 November 1996; the guidelines relating to corporate governance issued by the CBK on May 3, 2004; and in accordance with International Standards on Auditing. We have also examined the Bank's compliance on the following matters as per the instruction issued by CBK on 10 January 2013:

- a Section III and IV of the Principles of Good Corporate Governance in Financial Institutions relating to Internal Control Systems;
- b CBK instructions regarding anti money laundering and finance of terrorism;
- c Financial Securities activities of the Bank.

National Bank of Kuwait (International) PLC, United Kingdom, National Bank of Kuwait, New York, National Bank of Kuwait SAK, Republic of Singapore Branch and National Bank of Kuwait (Suisse) S.A., Switzerland, are subject to evaluation of internal controls and annual supervision by the respective local regulators which is in line with the Central Bank of Kuwait requirements and hence excluded from the scope of our review by Central Bank of Kuwait.

As members of the Board of Directors of National Bank of Kuwait S.A.K., you are responsible for establishing and maintaining adequate accounting and other records and internal control systems. In fulfilling that responsibility, estimates and judgments must be made to assess the expected benefits and related costs of management information and of control procedures. The objective of the internal controls review is to provide reasonable, but not absolute, assurance that the Group has a system of internal controls to ensure assets are safeguarded against loss from unauthorized use or disposition, that banking risks are properly monitored and evaluated, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent manner.

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

In our opinion, having regard to the nature and scale of its business during the year ended 31 December 2012, the accounting and other records and internal control systems examined by us at the locations referred to in paragraph 1 above, were established and maintained in all material respects in accordance with the requirements of the General Guidelines Manual issued by the Central Bank of Kuwait on 14 November 1996.

We have also conducted a follow-up review of the previous year exceptions, and in our opinion, the bank maintained, in all material respects, effective internal control over the follow up and resolution of the exceptions in accordance with their undertaking.

**Dr. Shuaib A. Shuaib**

Licence No. 33-A  
RSM Albazie & Co.

State of Kuwait  
19 June 2013

### Corporate Values

The Group is committed to achieving high standards of corporate values. These are constructed through a number of entrenched pillars; these pillars were formed through a set of policies and procedures detailed below:

### Code of Conduct

The Board has taken the lead in establishing professional standards and corporate values which promote integrity across the Group. To demonstrate an essential foundation of sound Governance, the Board ensures corporate culture is in place to support and provide appropriate norms and incentives for professional and responsible behaviour. The Board is responsible for the Group's adherence to the Code of Conduct, ethical business practices and transparency standards, all to maintain corporate values.

In accordance with the instructions from the CBK, the Group has rolled out a Bank-wide Code of Conduct which stipulates the ethical standards expected from the Board Members, the Group's employees and other stakeholders in the conduct of its business. Any breaches are thoroughly investigated and disciplinary and corrective action is taken as appropriate.

### Conflict of Interest

The Board monitors and manages any potential/actual conflict of interest of Board Members and major shareholders, including any abuse of the Group's resources and any act or omission which disrupts, or negatively impacts, the Group's business potential. The Group has in place a Conflict of Interest Policy which sets out guiding principles and protocols for the identification, reporting, disclosure, prevention, and strict limitation of potential conflict of interest, including rules concerning transactions with related parties and potential conflicts of interest. The Board has the ultimate authority to monitor Directors' conflicts of interest. A "Conflict of Interest Declaration" Form, created and circulated to gauge the level of conflict if any exists, is required to be submitted by relevant parties for periodic review by the Board.

### Confidentiality

The Board, Executive Management and employees preserve the confidentiality of information and data on the Group's stakeholders in compliance with all applicable laws, and rules and instructions issued by CBK and other regulatory bodies. The Group has an established Confidentiality Policy which provides rules to be adhered to by Board Members, Executive Management and employees of the Group in maintaining confidentiality of information. During 2013, the Group successfully carried out an exercise wherein all employees were required to read the Confidentiality Policy and sign the Confidentiality Declaration. Declaration forms have also been signed by all Board Members.

### Whistleblowing

The Group has established channels which enable all employees to raise concerns in good faith and confidence directly to the Chairman. The Group has created a link on its "intranet" and has also set up a dedicated e-mail address which receives such information directly from the employees. This procedure is handled independently by the Board Secretary who provides regular reports to the Chairman of the Board. All information received/collected as a part of this procedure is kept confidential and, if necessary, anonymous, along with the required protection of the employee. During the year, the Group has raised awareness amongst its employees and encouraged them to refer to the Whistleblowing mechanism.

### "Related Party" Transactions - Policy and Disclosure

NBK Group has disclosed, in its Annual Report (page 104), information with respect to the nature and volume of the Group's transactions or loans concluded with the related parties which have or may have influence or control over the Bank, including Executive Management staff associated to such parties. The Group adopts the definition of related parties in accordance with relevant prescriptions such as the International Financial Reporting Standards. Records of transactions with related parties are maintained and subject to the Board's periodic review, along with a review by Internal Audit to determine their accuracy.

During the year, the Group has successfully monitored and reviewed "Related Parties" transactions through well-structured monitoring tools of reporting and disclosure by all stakeholders.

## Group Risk Management

The Group Risk Management & Compliance function reports directly to the Board Risk Committee with responsibility for identifying and assessing the key risks, measuring the Banks' exposure to such risks, monitoring this exposure in light of Bank's risk appetite, determining the corresponding capital needs on an ongoing basis, as well as monitoring and assessing decisions related to taking certain risks. The risk profile that is consolidated at the Group level incorporates the key risks at overseas branches and subsidiaries.

The Group Risk Management and Compliance function is responsible for ensuring the Group adheres to all applicable rules and regulations issued by regulators including CBK, Capital Markets Authority and any other applicable regulatory authorities. The Board assumes ultimate responsibilities for articulating the risk appetite and strategy, approving the risk management framework, policies and procedures, monitoring risks on a regular basis and implementing the risk-adjusted performance evaluation mechanism (to balance risks and returns).

### Risk Management & Compliance Structure

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

- Domestic Credit Risk Management Unit
- International Credit Risk Management Unit
- Operational Risk Management Unit
- Market Risk Management Unit
- Portfolio Risk Management and Controls Unit
- Compliance Risk Management Unit

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

### Risk Strategy

The key elements of the Board-approved Risk Strategy are summarized below:

- Balanced performance across the Group's functions
- Maintain stability and sustainability during crisis
- Align risk framework with the overall business strategy of the Group
- Effective and adequate compliance with regulatory capital requirements, in keeping with the Business Strategy
- Effective planning of risk through an appropriate risk appetite
- Perform stress tests consistently to assess the impact on capital requirements, capital base and liquidity position

### Risk Appetite

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

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

The Group Chief Risk Officer in coordination with the Board Risk Committee has played a vital role on raising awareness and understanding in regards to the Risk Structure along with setting up Risk Limits and assisting the Board Nomination and Remuneration Committee in formulating a Risk-Based approach to remuneration, where applicable.

The Group Risk Management & Compliance function has worked on identifying early warnings of breaches to the Risk Limits and Risk Appetite, bringing them to the attention of the Board Risk Committee and consequently to the Board of Directors. Please refer to Risk Management Section on Page (53-68) for further information pertaining to Risk Management.

## Remuneration Policy and Framework

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

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

For the purpose of granting remuneration, the Group has differentiated, in its staff categories, between "material risk-takers," and financial and risk control functions. The remuneration for the material risk-takers has been linked with the risk limits which were cascaded as per the approved Risk Appetite. The Key Performance Indicators for the Financial and Risk Control functions are, however, based on the objectives of the control function itself. Any claw-back to be applied is based on the performance standard of the function.

During the year 2013, the Board Nomination and Remuneration Committee coordinated with the Board Risk Committee and the Group Chief Risk Officer to align risk appetite with performance objectives.

The Group operates a "total reward" philosophy taking account of all components of financial remuneration. The key components being:

- Fixed remuneration (salaries, benefits, etc.)
- Variable Remuneration (performance-based remuneration) which includes cash bonus and equity shares (as per Employee Stock Option Plan - ESOP)

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

The Employee Stock Option Plan (ESOP) is available selectively to certain Eligible Employees. The Group applies a deferment approach up to three years (final vesting of the variable component). Vesting of the variable component is subject to achieving the long-term performance targets and risk materialization. Claw-back applies on the non-vested portions in case long-term targets are not met or risk materializes. The claw-back mechanism is applicable on the ESOP component of variable compensation.

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

### Remuneration Disclosures

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

The five senior executives who received the highest remuneration packages, plus the Group Chief Financial Officer (CFO), Group Chief Internal Auditor (CIA) and Group Chief Risk Officer (CRO) (i.e., eight (8) officers in total) received together as a group compensation aggregating KWD 4,256 thousand for the year ended in December 2013.

The following table details the Remuneration Paid (in KWD) to Staff Categories:

Employees Categories	Number of Employees	Fixed Remuneration KD'000	Variable Remuneration KD'000		Total KD'000
			Cash	ESOP	
Senior Management	51	4,667	2,960	833	8,460
Material Risk Takers	23	2,613	2,735	627	5,975
Financial and Risk Control	16	1,233	440	169	1,842

### **For Disclosure purposes**

- Senior Management includes all staff above and equivalent to the position of Assistant General Manager for all business units excluding Control Functions.
- Material Risk-Takers are defined as staff-members whose activities and decisions have a material impact on the risk profile of the Group.
- Financial & Control functions includes all staff equivalent and above the level of an Assistant General Manager in Financial Control, Risk Management and Compliance, Internal Audit and Anti-Money Laundering Unit.

## **Stakeholder's Rights**

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The Group has implemented a well-defined process in managing a transparent and open dialogue and communication with its stakeholders. Such a process specifies the protocols which will be followed in communicating with stakeholders and the level and degree of information which can be disclosed.

### **Shareholders**

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

### **Shareholding Structure**

The key shareholder(s) of NBK which own or has/have control over more than 5 % of the share capital is set out below:

<b>Name of the Major Shareholders</b>	<b>Percent(%) of shares owned</b>
Public Institution For Social Security (PIFFS)	5.04% (directly 3.33% and indirectly 1.71%)

### **Investor Relations**

NBK Group promotes open and transparent dialogue with both its institutional and private investors. The Investor Relations function serves as the primary contact with shareholders, investors and financial analysts.

The Group publishes information for investors and stakeholders on a regular basis through its website as well as other media.

### **Customers**

To enhance transparency with stakeholders, mainly for current and prospective customers, the Group has implemented a Customer Management System in place to ensure customers are assisted/guided accordingly, including remediation of customer complaints, in an efficient, appropriate and timely manner.

### **Employees**

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

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

A "High-Fliers" program has been tailored to provide employees identified as possessing leadership potential with cross-functional exposure to various departments within the Bank, as a part of NBK's strategy to invest in human capital with future promise. In line with its commitment to develop and invest in this key "human capital" resources the Bank has collaborated with world-class universities to provide such identified employees with training in a wide range of leadership discipline.

### **Community (Corporate Social Responsibility)**

The Group has been at the forefront of corporate leadership in social responsibility, which it considers to be a priority to foster a sustainable economic and social environment across the community. The Group discloses its relevant social activities on its website and, also, in the form of a separate "Corporate Social Responsibility Report 2013".

# Risk Management

- 1 Group Structure
- 2 Capital Structure
- 3 Capital Adequacy Ratios
- 4 Profile of Risk - Weighted Assets and Capital Charge
- 5 Risk Management

# Risk Management

In December 2005 the Central Bank of Kuwait (CBK) issued directives on the early adoption of the Capital Adequacy Standards under the Basel II framework applicable to licensed banks in Kuwait. These directives set out the capital adequacy rules for calculating and maintaining the minimum capital required for credit, operational and market risks under the "Standardised Approach". The CBK Basel II framework is intended to strengthen risk management and market discipline and to enhance the safety and soundness of the banking industry in Kuwait. Furthermore, in June 2009, CBK issued its circular amending & replacing the section covering "Capital Adequacy Assessment Process". The new amendments related mainly to Pillar two of Capital Adequacy Standard pertaining to the Supervisory Review Process and emphasised the importance of Internal Capital Adequacy Assessment Process (ICAAP) performed by banks. As such, and in compliance with the aforementioned instructions, National Bank of Kuwait S.A.K.P. (NBK) has developed an ICAAP and Stress Testing framework along with its underlying models, policies and procedures. NBK continually enhances its ICAAP and Stress Testing framework to maintain its capital commensurate with the overall risks to which the Bank is exposed.

## 1. GROUP STRUCTURE

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

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

A brief description of the Bank's principal subsidiaries is as follows:

- **NBK (International) plc (United Kingdom)** is a wholly owned subsidiary of the Bank with two offices in London and one in Paris which provides retail, private and corporate banking, treasury and trade finance-related services.
- **NBK (Lebanon) S.A.L. (Lebanon)** is 85.5% (2012: 85.5%) owned by the Bank and provides retail, commercial and private banking and real estate related services through a network of eight branches.
- **NBK Banque Privee (Suisse) S.A. (Switzerland)** is a wholly owned subsidiary of the Bank headquartered in Geneva. In addition to traditional banking services it provides portfolio management services and family trust, advisory and custody services to individuals with high net worth and to institutions.
- **Credit Bank of Iraq S.A. (Iraq)** is 81.0% (2012: 81.0%) owned by the Bank and provides retail and commercial banking services through a network of fourteen branches in Iraq.
- **National Investors Group Holdings Limited (Cayman Islands)** is a wholly owned subsidiary of the Bank and was established as an investment company.
- **Watani Investment Company K.S.C.(Closed) (Kuwait)** is 99.9% (2012: 99.9%) owned by the Bank and provides corporate finance, private equity and debt capital markets services.
- **Al Watany Bank of Egypt S.A.E** is 98.5% (2012: 98.5%) owned by the Bank and provides retail, private and corporate banking, treasury and trade finance-related services through a network of forty-two branches.
- **Watani Financial Brokerage Company (Closed)** is 86.7% (2012: 86.7%) owned by the Bank and provides brokerage services.
- **Boubyan Bank K.S.C.P. (Kuwait)** is 58.4% (2012: 58.4%) owned by the Bank and provides banking services in Kuwait through a network of twenty-two branches, in accordance with Codes of Islamic Sharia'a. It is licensed by the CBK.

## 2. CAPITAL STRUCTURE

The Group's regulatory capital comprises (a) Tier 1 capital which is considered as the core measure of the Group's financial strength and includes share capital, reserves, retained earnings and non-controlling interests (net of treasury shares and goodwill) and (b) Tier 2 capital which consists of the allowed portions of revaluation reserves and general provisions.

The Bank's share capital as at 31 December 2013 comprised 4,571,172,506 issued and fully-paid up equity shares (2012: 4,353,497,625). The total regulatory capital for the Group was KD 1,948,046 thousand (2012 restated: KD 1,883,268 thousand). Tier 1 and Tier 2 capital were KD 1,891,918 thousand and KD 56,128 thousand respectively (2012 restated: KD 1,820,791 thousand and KD 62,477 thousand respectively) as detailed below:

	31 December 2013	31 December 2012 (Restated)	KD 000's
<b>Tier 1 capital</b>			
Share capital	<b>457,117</b>		435,349
Proposed bonus shares	<b>22,856</b>		21,768
Reserves:			
Statutory reserve	<b>228,559</b>	217,675	
Share premium account	<b>699,840</b>	699,840	
Treasury share reserve	<b>16,224</b>	17,957	
General reserve	<b>117,058</b>	117,058	
	<b>1,061,681</b>		<b>1,052,530</b>
Retained earnings	<b>934,274</b>		864,498
Foreign currency translation reserve	<b>(69,766)</b>		(35,522)
Share-based payment reserve	<b>13,603</b>		12,313
Non-controlling interests in the equity of subsidiaries ( 2012 Restated)	<b>202,950</b>		189,480
Deductions from Tier 1 capital:			
Treasury shares	<b>(80,302)</b>		(79,171)
Significant minority investments (50%)	<b>(89,736)</b>		(67,700)
Goodwill (2012 Restated)	<b>(560,759)</b>		(572,754)
Shortfall transferred from Tier 2 capital			
<b>Total Tier 1 capital</b>	<b>1,891,918</b>		<b>1,820,791</b>
<b>Tier 2 capital</b>			
Revaluation reserves	<b>15,669</b>		11,952
General provisions (2012 Restated)	<b>130,195</b>		118,225
Significant minority investments (50%)	<b>(89,736)</b>		(67,700)
<b>Total Tier 2 capital</b>	<b>56,128</b>		<b>62,477</b>
<b>Total eligible capital base</b>	<b>1,948,046</b>		<b>1,883,268</b>

## 3. CAPITAL ADEQUACY RATIOS

The Group's total capital adequacy ratio as at 31 December 2013 was 17.31% and Tier 1 ratio was 16.81% (2012 restated: total capital adequacy ratio was 18.29% and Tier 1 ratio was 17.68%) against regulatory requirements of 12% and 6% respectively. The Group ensures adherence to CBK's requirements by monitoring its capital adequacy against higher internal limits. This process is supported by the use of proprietary capital-planning methodology.

## Risk Management Continued

### 3. CAPITAL ADEQUACY RATIOS (Continued)

Each banking subsidiary is directly regulated by its local banking supervisor which sets and monitors its capital adequacy requirements. In addition, CBK monitors capital adequacy at the Group level.

The Tier 1 and total capital ratio of the banking subsidiaries were as follows:

Subsidiary Banks	31 December 2013		31 December 2012	
	Tier 1 ratio	Total capital ratio	Tier 1 ratio	Total capital ratio
NBK (International) plc (United Kingdom)	23.22%	24.71%	25.19%	26.79%
NBK (Lebanon) S.A.L. (Lebanon)	33.05%	34.19%	29.26%	30.64%
NBK Banque Privee (Suisse) S.A. (Switzerland)	81.56%	84.39%	65.31%	67.46%
Credit Bank of Iraq S.A. (Iraq)	211.85%	212.77%	172.80%	174.50%
Al Watany Bank of Egypt S.A.E. (Egypt)	20.48%	21.47%	18.28%	19.17%
Boubyan Bank K.S.C.P.(Kuwait)	17.49%	17.49%	23.85%	24.39%

Other than restrictions over transfers to ensure minimum regulatory capital requirements are met there are no further impediments on the transfer of funds or regulatory capital within the Group.

### 4. PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE

The Group's risk-weighted capital requirement for credit, market and operational risks are shown below. The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary (note 21 of the consolidated financial statement). 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 CBK regulations applicable to banks providing banking services compliant with Codes of Islamic Shari'ah. 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 CBK. The comparative numbers in the tables presented for 31 December 2012 have been restated to reflect the fair-value adjustments carried out in the consolidated statement of financial position (note 26 of the consolidated financial statements).

#### 4.1. Credit risk:

The total capital charge in respect of credit risk as at 31 December 2013 was KD 1,227,769 thousand (2012 restated: KD 1,115,717 thousand) as detailed below:

	31 December 2013			31 December 2012 (Restated)		
	Gross credit exposure	Risk-weighted assets	Capital charge	Gross credit exposure	Risk-weighted assets	Capital charge
Cash	173,376	-	-	118,130	-	-
Claims on sovereigns	3,652,676	130,097	15,612	3,050,364	99,293	11,915
Claims on public sector entities	495,390	97,681	11,722	381,449	41,656	4,999
Claims on banks	3,346,873	867,739	104,129	2,847,315	687,897	82,548
Claims on corporates	8,907,623	5,174,914	620,990	8,299,385	4,878,391	585,407
Regulatory retail exposure	3,453,440	3,159,084	379,090	2,996,648	2,772,948	332,754
Past due exposures	102,613	47,113	5,654	150,533	53,076	6,369
Other exposures	916,468	754,782*	90,572	911,567	764,385*	91,725
<b>Total</b>	<b>21,048,459</b>	<b>10,231,410</b>	<b>1,227,769</b>	<b>18,755,391</b>	<b>9,297,646</b>	<b>1,115,717</b>

\*Other exposures above includes an amount of KD 184,190 thousand negative (2012 restated: KD 160,346 thousand negative) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk Weighted Assets, which is allowed in arriving at Tier 2 capital.

#### 4.2. Market risk:

The total capital charge in respect of market risk was KD 30,159 thousand (2012: KD 30,979 thousand) as detailed below:

	31 December 2013 Capital charge	31 December 2012 Capital charge
Interest rate risk	2,314	3,130
Equity position risk	-	-
Foreign exchange risk	27,845	27,849
<b>Total</b>	<b>30,159</b>	<b>30,979</b>

#### 4.3. Operational risk:

The total capital charge in respect of operational risk was KD 92,436 thousand (2012: KD 89,130 thousand). This capital charge was computed by categorising the Group's activities into 8 business lines (as defined in the Basel II framework) and multiplying the business line's three-year average gross income by a pre-defined beta factor.

### 5. RISK MANAGEMENT

The complexity in the Group's business operations and diversity of geographical locations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital to derive an optimal risk/return ratio. The Group manages its risks in a structured, systematic and transparent manner through a global risk policy which embeds comprehensive risk management into the organisational structure and risk measurement and monitoring processes. The Group's Risk Management function is independent of business units, it reports directly to the Board Risk Committee and takes a holistic and objective approach assisting the Board and Executive Management in managing Group's risks.

During 2009 the Group augmented its overall framework for governance and capital planning and management by undertaking an ICAAP, which includes "scenario testing" at periodic, regular intervals. Amongst the key objectives of the ICAAP is to quantify potential inherent risks that the Group faces not covered under Pillar 1. In line with guidelines from the Basel Committee and CBK, key principles of the Group's ICAAP include:

- Responsibilities of the Board and Senior Management.
- Sound capital management.
- Comprehensive assessment of Pillar II risks, e.g., Credit (sector and name concentration), Liquidity, Legal, Reputational and Strategic Risks, etc.
- Monitoring and reporting.
- Control and review of the process.

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

- The Board of Directors provides overall risk management direction and oversight.
- The Group's risk appetite is proposed by the Executive Committee and approved by the Board of Directors.
- 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, operational and liquidity risks in a co-ordinated manner within the organisation.
- The Group's internal audit function reports to the Board Audit Committee and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Group-wide basis.

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

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

The Group regularly assesses the adequacy and effectiveness of its risk management framework in light of the changing risk environment, including at its subsidiary acquired in 2012 (see note 21 of the consolidated financial statements).

#### 5.1. Scope and nature of risk reporting tools

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

# Risk Management Continued

## 5. RISK MANAGEMENT (Continued)

### 5.1. Scope and nature of risk reporting tools (Continued)

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

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

### 5.2. Risk management processes

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

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

#### 5.2.1. Credit risk

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

#### 5.2.2. Credit risk management strategy

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

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

#### 5.2.3. Credit risk management structure

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

The Group's Executive Committee, chaired by the Group CEO and comprising senior executives from the business divisions, meets regularly to review the Group's corporate and consumer credit portfolios and advises the Board appropriately.

#### 5.2.4. Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of re-payment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer-group.
- In compliance with CBK regulations, lending to individual Board Members and related parties is fully secured and monitored by the Senior Credit Committee. Such transactions are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board of Directors in line with the relative authorities from the Shareholders' General Assembly.
- Internal credit-rating models are regularly reviewed by the Group risk management function in co-ordination with line management and the Executive Committee and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by the appropriate credit committee outlined below:
  1. Board Credit Committee
  2. Senior Credit Committee
  3. International Credit Committee
  4. Management Credit Committee (for small and medium-sized enterprises).

- The credit facility administration process 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.
- Country limits are determined based on the outlook of economic and political factors, along with the review of reports by rating agencies on the country (where available) and application of local business and market knowledge.
- Cross-border exposures are controlled by senior management in charge of relevant branches or subsidiaries and monitored by the central credit risk management function.

#### 5.2.5 Key features of consumer credit risk management

- Credit risk management oversees the "consumer" segment through an independent unit directly reporting to Group Risk Management but working in partnership with the Consumer Banking business. Within this framework, limits and approval authorities are exercised by the officers with defined approval authorities.
- Consumer Credit Risk Management functional areas are aligned with key concepts of Risk Management, namely, Governance, Control, Measurement and Reporting.
- Consumer credit risk is managed with three lines of defence. As the first line of defence, the consumer business lending group (i.e. underwriting) is responsible for adherence to the credit policies, controls and processes. As second line of defence, the consumer risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline & policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management & implementation of policies & procedures.
- All credit policies and amendments to policies are reviewed and approved annually by the Executive Committee and ratified by the Board.
- Credit risk "scorecard" models (such as Instalment Loan "Applicant" models) have been used to facilitate underwriting and monitoring of credit facilities to 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 Kuwait Credit Bureau statistics, to assist in assessing an applicant's ability to repay and the probability of default. This model has been under revision.

#### 5.2.6. Group credit risk monitoring

The Group's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilisation and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the internal rating process.

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.

Consumer credit risk reporting also includes a "dashboard" for consumer and small-business lending, classification and delinquency monitoring.

A specialised and focused problem loan "workout" team handles the management and collection of problem credit facilities.

#### 5.2.7. Group 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.

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Group limits its credit concentration per entity to 15% of the Bank's regulatory capital.

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



## Risk Management Continued

### 5. RISK MANAGEMENT (Continued)

#### 5.2.8. Management of credit collateral and valuation

The main types of collateral accepted by the Group are:

1. Cash collateral
2. Quoted shares
3. Bank guarantees
4. Commercial real estate
5. Sovereign debt instruments
6. Bank debt instruments
7. Collective investment schemes
8. Residential real estate.

In accordance with the Group's credit policies, banks and creditworthy companies and individuals with high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel II framework, only cash collateral, quoted shares, commercial real estate, debt instruments of sovereigns and banks and collective investment schemes are recognised as risk mitigation for capital adequacy purposes.

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

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

KD 000's

	31 December 2013			31 December 2012 (Restated)		
	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees
Cash	173,376	-	-	118,130	-	-
Claims on sovereigns	3,652,676	7	-	3,050,364	7	-
Claims on public sector entities	495,390	2,353	-	381,449	3,746	-
Claims on banks	3,346,873	5,243	735,115*	2,847,315	2,310	641,519*
Claims on corporates	8,907,623	2,897,626	-	8,299,385	2,640,116	-
Regulatory retail exposure	3,453,440	61,860	-	2,996,648	61,794	-
Past due exposures	102,613	39,113	-	150,533	83,068	-
Other exposures	916,468	-	-	911,567	-	-
<b>Total</b>	<b>21,048,459</b>	<b>3,006,202</b>	<b>735,115</b>	<b>18,755,391</b>	<b>2,791,041</b>	<b>641,519</b>

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

#### 5.2.9. Gross, average and net credit exposures

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

#### Gross credit exposures

KD 000's

	31 December 2013			31 December 2012 (Restated)		
	Gross credit exposure	Funded exposure	Unfunded exposure	Gross credit exposure	Funded exposure	Unfunded exposure
Cash	173,376	173,376	-	118,130	118,130	-
Claims on sovereigns	3,652,676	3,652,542	134	3,050,364	3,050,241	123
Claims on public sector entities	495,390	483,187	12,203	381,449	371,223	10,226
Claims on banks	3,346,873	2,461,745	885,128	2,847,315	2,010,166	837,149
Claims on corporates	8,907,623	7,093,277	1,814,346	8,299,385	6,610,722	1,688,663
Regulatory retail exposure	3,453,440	3,398,962	54,478	2,996,648	2,952,426	44,222
Past due exposures	102,613	102,613	-	150,533	150,533	-
Other exposures	916,468	916,468	-	911,567	911,567	-
<b>Total</b>	<b>21,048,459</b>	<b>18,282,170</b>	<b>2,766,289</b>	<b>18,755,391</b>	<b>16,175,008</b>	<b>2,580,383</b>

#### Average credit exposures

KD 000's

	31 December 2013			31 December 2012 (Restated)		
	*Average credit exposure	Funded exposure	Unfunded exposure	*Average credit exposure	Funded exposure	Unfunded exposure
Cash	139,087	139,087	-	111,584	111,584	-
Claims on sovereigns	3,790,961	3,790,822	139	3,059,374	3,059,261	113
Claims on public sector entities	497,666	484,311	13,355	358,721	345,788	12,933
Claims on banks	3,407,365	2,575,355	832,010	2,555,089	1,801,420	753,669
Claims on corporates	8,595,667	6,845,102	1,750,565	7,678,491	6,136,019	1,542,472
Regulatory retail exposure	3,230,689	3,184,502	46,187	2,642,361	2,597,127	45,234
Past due exposures	154,129	154,129	-	150,922	150,922	-
Other exposures	802,035	802,035	-	819,675	819,675	-
<b>Total</b>	<b>20,617,599</b>	<b>17,975,343</b>	<b>2,642,256</b>	<b>17,376,217</b>	<b>15,021,796</b>	<b>2,354,421</b>

\* Based on monthly average balances

## Risk Management Continued

### 5. RISK MANAGEMENT (Continued)

#### 5.2.9. Gross, average and net credit exposures (Continued)

##### Net credit exposures KD 000's

	31 December 2013			31 December 2012 (Restated)		
	Net credit exposure	Funded exposure	Unfunded exposure	Net credit exposure	Funded exposure	Unfunded exposure
Cash	173,376	173,376	-	118,130	118,130	-
Claims on sovereigns	3,652,602	3,652,542	60	3,050,296	3,050,241	55
Claims on public sector entities	489,653	481,391	8,262	372,817	368,033	4,784
Claims on multilateral development banks	-	-	-	-	-	-
Claims on banks	2,898,057	2,456,557	441,500	2,416,369	2,007,963	408,406
Claims on corporates	5,121,578	4,250,762	870,816	4,828,598	4,013,511	815,087
Regulatory retail exposure	3,362,644	3,337,993	24,651	2,910,970	2,891,736	19,234
Past due exposures	63,500	63,500	-	67,465	67,465	-
Other exposures	916,468	916,468	-	911,567	911,567	-
<b>Total</b>	<b>16,677,878</b>	<b>15,332,589</b>	<b>1,345,289</b>	14,676,212	13,428,646	1,247,566

The Group uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

As at 31 December 2013, 36% (2012 restated: 34%) of the Group's net credit risk exposure was rated by accredited External Credit Assessment Institutions (ECAIs), as detailed below:

	31 December 2013			31 December 2012 (Restated)		
	Net credit exposure	Rated exposure	Unrated exposure	Net credit exposure	Rated exposure	Unrated exposure
Cash	173,376	-	173,376	118,130	-	118,130
Claims on sovereigns	3,652,602	3,030,136	622,466	3,050,296	2,526,495	523,801
Claims on public sector entities	489,653	-	489,653	372,817	-	372,817
Claims on banks	2,898,057	2,738,846	159,211	2,416,369	2,233,315	183,054
Claims on corporates	5,121,578	189,833	4,931,745	4,828,598	214,703	4,613,895
Regulatory retail exposure	3,362,644	-	3,362,644	2,910,970	-	2,910,970
Past due exposures	63,500	-	63,500	67,465	-	67,465
Other exposures	916,468	-	916,468	911,567	-	911,567
<b>Total</b>	<b>16,677,878</b>	<b>5,958,815</b>	<b>10,719,063</b>	14,676,212	4,974,513	9,701,699

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

	31 December 2013					Total
	Middle East and North Africa	North America	Europe	Asia	Others	
Cash	141,099	834	31,443	-	-	173,376
Claims on sovereigns	2,588,214	980,177	62,841	14,711	6,733	3,652,676
Claims on public sector entities	440,625	-	-	54,765	-	495,390
Claims on banks	1,740,800	150,508	590,472	796,430	68,663	3,346,873
Claims on corporates	7,874,265	314,454	448,549	152,392	117,963	8,907,623
Regulatory retail exposure	3,445,622	493	7,323	2	-	3,453,440
Past due exposures	98,584	-	909	3,120	-	102,613
Other exposures	799,521	35,050	42,270	30,359	9,268	916,468
<b>Total</b>	<b>17,128,730</b>	<b>1,481,516</b>	<b>1,183,807</b>	<b>1,051,779</b>	<b>202,627</b>	<b>21,048,459</b>

31 December 2012 (Restated)	31 December 2012 (Restated)					Total
	Middle East and North Africa	North America	Europe	Asia	Others	
Cash	94,363	1,095	22,672	-	-	118,130
Claims on sovereigns	2,434,241	531,162	64,649	20,312	-	3,050,364
Claims on public sector entities	381,343	-	106	-	-	381,449
Claims on banks	1,630,249	76,141	542,918	565,360	32,647	2,847,315
Claims on corporates	7,409,491	257,699	432,419	100,449	99,327	8,299,385
Regulatory retail exposure	2,993,544	410	2,694	-	-	2,996,648
Past due exposures	148,640	-	1,351	542	-	150,533
Other exposures	734,638	39,541	78,353	46,039	12,996	911,567
<b>Total</b>	<b>15,826,509</b>	<b>906,048</b>	<b>1,145,162</b>	<b>732,702</b>	<b>144,970</b>	<b>18,755,391</b>

# Risk Management Continued

## 5. RISK MANAGEMENT (Continued)

### 5.2.10. Maturity profile of gross credit exposure

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

31 December 2013	KD 000's			Total
	Up to 3 months	3 to 12 months	Over 1 year	
Cash	173,376	-	-	173,376
Claims on sovereigns	2,391,862	801,935	458,879	3,652,676
Claims on public sector entities	43,251	260,373	191,766	495,390
Claims on banks	1,781,909	875,152	689,812	3,346,873
Claims on corporates	4,196,444	1,636,841	3,074,338	8,907,623
Regulatory retail exposure	167,726	347,961	2,937,753	3,453,440
Past due exposures	102,613	-	-	102,613
Other exposures	92,071	53,734	770,663	916,468
<b>Total</b>	<b>8,949,252</b>	<b>3,975,996</b>	<b>8,123,211</b>	<b>21,048,459</b>

31 December 2012 (Restated)	KD 000's			Total
	Up to 3 months	3 to 12 months	Over 1 year	
Cash	118,130	-	-	118,130
Claims on sovereigns	1,974,693	637,593	438,078	3,050,364
Claims on public sector entities	29,780	210,153	141,516	381,449
Claims on banks	1,771,481	317,141	758,693	2,847,315
Claims on corporates	4,242,204	2,092,756	1,964,425	8,299,385
Regulatory retail exposure	159,485	261,038	2,576,125	2,996,648
Past due exposures	150,533	-	-	150,533
Other exposures	39,264	17,558	854,745	911,567
<b>Total</b>	<b>8,485,570</b>	<b>3,536,239</b>	<b>6,733,582</b>	<b>18,755,391</b>

### 5.2.11. "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/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 Group's impaired loan portfolio as at 31 December 2013 was KD 217,894 thousand (2012: KD 283,506 thousand) against which a specific provision of KD 135,061 thousand (2012: KD 151,047 thousand) has been made, as detailed below:

31 December 2013	KD 000's		Specific provision written off, net of exchange movement
	Past due and impaired financing	Related Specific provision	
Claims on sovereigns	42	42	-
Claims on banks	-	-	(6,088)
Claims on corporates	136,919	71,194	(143,881)
Regulatory retail exposure	80,933	63,825	(2,378)
<b>Total</b>	<b>217,894</b>	<b>135,061</b>	<b>(152,347)</b>

31 December 2012	KD 000's		Specific provision written off, net of exchange movement
	Past due and impaired financing	Related Specific provision	
Claims on sovereigns	51	51	-
Claims on banks	5,638	2,819	-
Claims on corporates	213,101	97,115	(47,895)
Regulatory retail exposure	64,716	51,062	(8,528)
<b>Total</b>	<b>283,506</b>	<b>151,047</b>	<b>(56,423)</b>

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

31 December 2013	KD 000's				Total
	Middle East and North Africa	Europe	Asia	Others	
Past due and impaired financing	217,876	13	-	5	217,894
<b>Specific provision</b>	<b>135,052</b>	<b>4</b>	<b>-</b>	<b>5</b>	<b>135,061</b>

31 December 2012	KD 000's				Total
	Middle East and North Africa	Europe	Asia	Others	
Past due and impaired financing	283,498	3	-	5	283,506
<b>Specific provision</b>	<b>151,040</b>	<b>2</b>	<b>-</b>	<b>5</b>	<b>151,047</b>

# Risk Management Continued

## 5. RISK MANAGEMENT (Continued)

### 5.2.11. "Past-due" and impairment provisions (Continued)

In accordance with CBK regulations, a general provision of 1% for cash facilities and 0.5% for non-cash facilities (2012: 1% for cash facilities and 0.5% for non-cash facilities) is made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

The adequacy of provisions are regularly evaluated and monitored by the Credit Provisions Committee.

The Group's total provision as at 31 December 2013 was KD 461,135 thousand (2012 restated: KD 471,439 thousand) inclusive of a general provision of KD 314,385 thousand (2012: KD 278,572 thousand) as detailed below:

	KD 000's
<b>31 December 2013</b>	<b>General provision</b>
Claims on sovereigns	279
Claims on banks	6,778
Claims on corporates	266,537
Regulatory retail exposure	40,791
<b>Total</b>	<b>314,385</b>
	KD 000's
<b>31 December 2012</b>	<b>General provision</b>
Claims on sovereigns	199
Claims on banks	3,981
Claims on corporates	237,742
Regulatory retail exposure	36,650
<b>Total</b>	<b>278,572</b>

The total general provision above includes KD 24,303 thousand (2012: KD 23,844 thousand) relating to "non-cash" facilities in accordance with CBK regulations.

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

	KD 000's					
31 December 2013	Middle East and North Africa	North America	Europe	Asia	Others	Total
General provision	281,819	1,924	3,592	1,011	1,736	<b>290,082</b>
	KD 000's					
31 December 2012	Middle East and North Africa	North America	Europe	Asia	Others	Total
General provision	248,646	1,394	3,265	373	1,050	<b>254,728</b>

The analysis of specific and general provisions is further detailed in note 11 of the Group's consolidated financial statements.

### 5.3 "Market" risk

"Market" risk is defined as the potential loss in value of financial instruments caused by adverse movements in market variables such as interest rates, foreign exchange rates and equity prices.

Market risk results from uncertainty in future earnings arising from changes in interest rates, exchange rates, market prices and volatilities.

The Group assumes market risk from financial claims and loans, position-taking, and trading and investment activities.

The 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.
- Rigorous testing of pricing, trading and risk management systems.

#### 5.3.1. Market-risk management framework

The market-risk management framework governs the Group's 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 the primary responsibility of the Group Asset and Liability Executive Committee, supported by the regional Asset and Liability Committees. All activities giving rise to market risk are conducted within a structure of approved credit and position limits.

#### 5.3.2. Monitoring of "market" risk from "trading" activities

The Group risk management function independently monitors the regional and global trading market risk exposure through a Value-at-Risk methodology (VaR) 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. VaR is calculated using a 99% "confidence level" and a holding period of ten days in line with Basel Committee guidelines.

On a daily basis, VaR is supplemented with stress-testing 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 also produces stressed VAR using the same framework. Computations are based on stressed historical data.

#### 5.3.3. Monitoring of exposures under interest-rate swap transactions

The Group risk management function independently monitors risk exposures under "interest-rate swap" transactions using the concept of Potential Future Exposure. Potential Future Exposure (PFE) is defined as the maximum exposures over a specified period of time calculated at 99% confidence level. As such, the risk is an upper bound at the selected confidence interval for future exposure and not the maximum risk exposure possible.

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

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

The interest-rate risk in the "banking book" is managed through a "gap" limit structure which is supplemented by periodic analysis of scenarios (instantaneous parallel shift of +/-5 bps and +/-10bps to the yield curve) to capture the extreme indicative measure of exposure to interest rate changes. The analysis of scenarios showed an impact in the banking book as follows:

	KD 000's			
31 December 2013	+ 5bp	-5bp	+10bp	-10bp
	500	(500)	999	(999)
	KD 000's			
31 December 2012	+ 5bp	-5bp	+10bp	-10bp
	808	(808)	1,616	(1,616)

# Risk Management Continued

## 5. RISK MANAGEMENT (Continued)

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### 5.3.4. Monitoring of non-trading market risk in the banking book (Continued)

The Group does not use the result of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in the scenario analysis. Such assumptions includes 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.

The Group’s total equity investment portfolio as at 31 December 2013 was KD 120,878 thousand (2012: KD 136,912 thousand), 45.8% (2012: 24.0%) of which related to quoted investments. The cumulative realised gains arising from sale of equity investments during 2013 were KD 1,074 thousand (2012: KD 4,964 thousand).

All revaluation gains or losses during the year relating to equity investments were recorded in the consolidated statement of financial position. The cumulative net unrealised gain for equity investments recognised in the consolidated statement of financial position were KD 19,568 thousand (2012 : KD 15,089 thousand) of which KD 8,806 thousand (2012: KD 6,790 thousand) is included in Tier 2 capital of the Group. For additional details of the accounting policies related to the valuation of equity holdings, refer to notes 2.19 and 2.20 of the Group’s consolidated financial statements.

### 5.4. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

#### 5.4.1 Operational-risk management framework

The Group monitors its operational risks on a regional and global basis through an operational-risk management framework which defines roles and responsibilities for managing and reporting operational risk. The key components of this framework are comprehensive documented policies, procedures and internal controls.

Through the framework, line management is able to identify, assess and decide in what form and scale it can accept, control and reduce operational risk, together with the form of risk-prevention measures which are necessary. Furthermore, it embeds a culture of transparency of information, escalation of key issues and accountability for issue resolution. Group risk management collates and reviews actual and potential loss data arising from the Group’s day-to-day operations to continuously refine its control arrangements.

The operational-risk framework is supplemented by regular reviews from the Group internal audit function. The Group has a business continuity plan together with a fully-equipped disaster recovery centre which is tested periodically.

The Group’s business processes are closely monitored to identify, assess, control and prevent potentially illicit use of the Group’s services for laundering money and/or financing terrorism. The Group’s “anti-money laundering” and “combating terrorism-financing” initiatives are regularly reviewed to ensure full compliance with local legal and regulatory requirements and international best practices.

### 5.5. Liquidity risk

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

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets, or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of the liabilities.

### 5.6. Reputation and fiduciary risk

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

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

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

During the year, Assets under Management at the Group increased by 8.9% to reach KD 3,067 million on 31 December 2013 (2012: KD 2,817 million)