الوطني
NBK

NBK AT 65: A YEAR FOR INNOVATION

Annual Report 2017

HH Sheikh

Sabah Al-Ahmad Al-Jaber Al-Sabah

Emir of the State of Kuwait

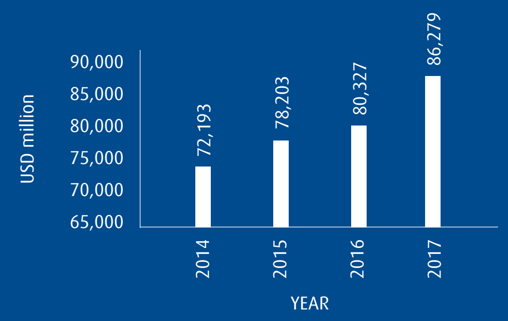
HH Sheikh

Nawaf Al-Ahmad Al-Jaber Al-Sabah

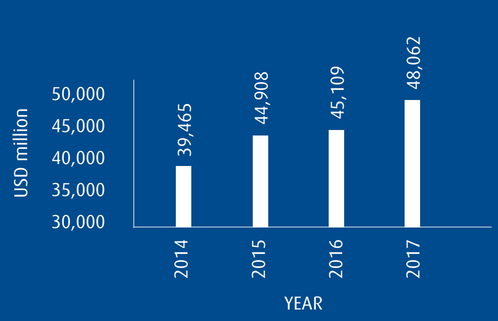
Crown Prince of the State of Kuwait

FINANCIAL HIGHLIGHTS

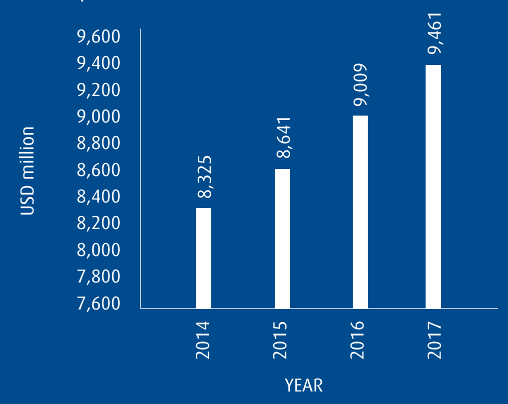
TOTAL ASSETS



LOANS, ADVANCES AND ISLAMIC FINANCING

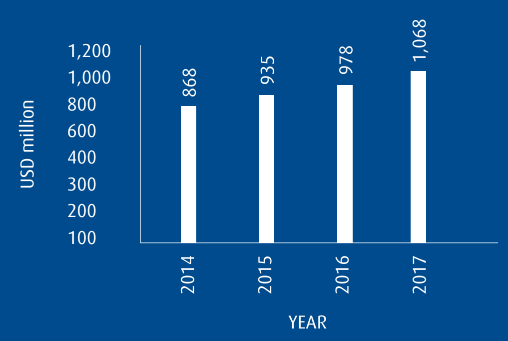


TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS

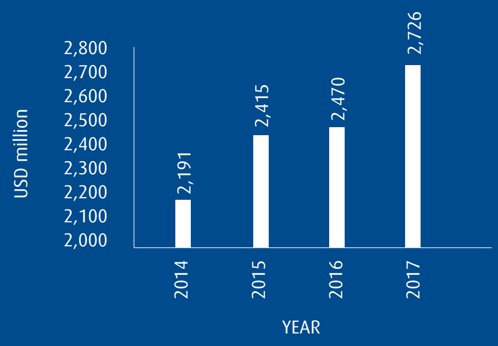


CUSTOMER DEPOSITS

NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK



NET OPERATING INCOME



%	2014	2015	2016	2017
Cost to Income	32.5%	32.2%	33.8%	32.3%
Net Interest Margin	2.45%	2.42%	2.47%	2.61%
NPL Ratio	1.50%	1.34%	1.28%	1.42%
Loan Loss Coverage Ratio	276.1%	322.4%	365.2%	287.5%
Return on Average Equity	10.5%	10.5%	10.2%	10.8%
Tier 1 Ratio	13.3%	14.7%	15.7%	15.8%
Capital Adequacy Ratio	14.5%	16.8%	17.7%	17.8%

2017 AT A GLANCE

65 Years of Operation

86.3bn Total Assets USD

143 Total Branches

68 Kuwait Branches

15 Countries

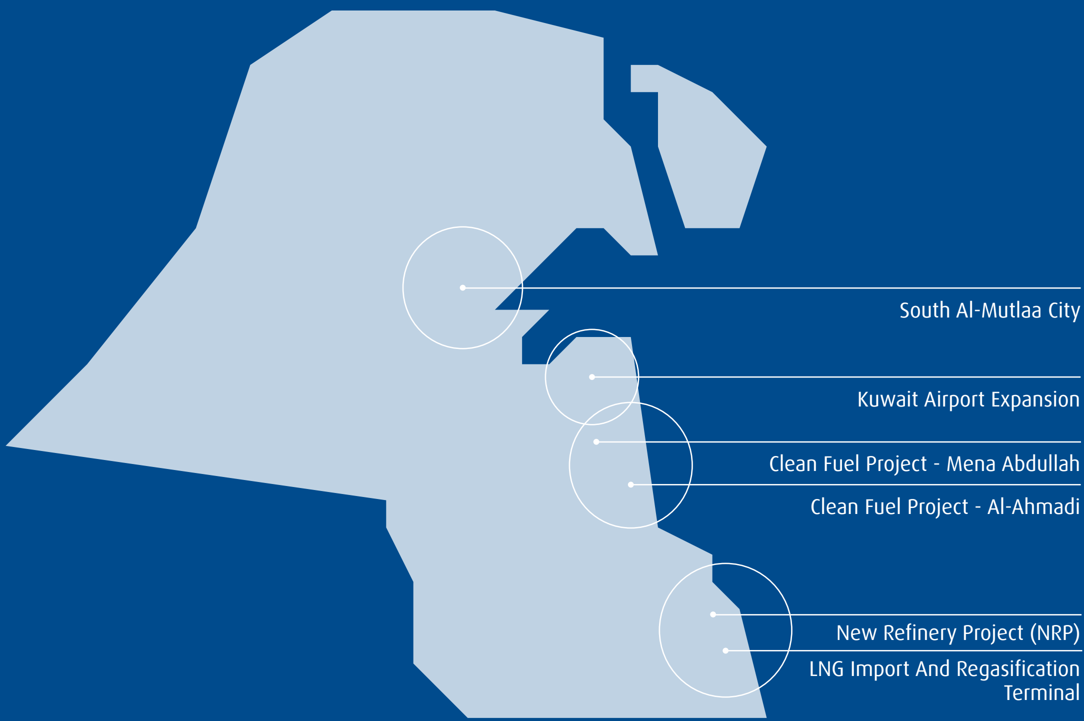
6,058 Group Employees

#1 Most Valuable Banking Brand in Kuwait (Brand Finance)

Long Term Credit Ratings:

Moody's: Aa3
Fitch Ratings: AA-
Standard & Poor's: A+

Flagship mega projects for which NBK has provided a leading financing and/or arranging role



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BANK PROFILE

NBK is Kuwait's longest-serving bank, having served customers for over 65 years. The Group's operations extend across the Middle East and beyond, with more than 140 branches across 15 countries and on 4 continents.

ABOUT NBK

Founded in Kuwait City in 1952, the National Bank of Kuwait S.A.K.P. ('NBK' or the 'Bank') is the country's longest-serving local bank – and the first shareholding company in Kuwait and the Gulf Cooperation Council ('GCC'). Over 65 years, NBK has established itself as Kuwait's leading financial institution, extending its franchise across the Middle East and beyond, to global markets. Today, NBK has more than 140 branches in 15 countries across 4 continents.

The Bank has a reputation for experienced and stable management, with a clear strategy for strengthening its core business and expanding into new segments and markets. It has consistently achieved profitability, supported by high quality assets and a strong level of capitalization. NBK offers customers a comprehensive range of financial products and investment services, with solutions for individuals, corporates and financial institutions.

NBK is Kuwait's leading banking group in terms of assets, customer deposits, and customer loans and advances. In 2017, Global Finance named NBK among the 50 Safest Banks in the World for twelve consecutive times, while Brand Finance named it the most valuable banking brand in Kuwait and among the top ten banking brands in the Middle East.

Ownership

Established by a group of leading Kuwaiti merchants, NBK has retained its core shareholder base since inception. Its shares have been listed on the Kuwait Stock Exchange since 1984, with a single shareholder (the Public Institution for Social Security) owning more than 5% of the share capital (5.53% as at 31 December 2017). NBK's market capitalization as at 31 December 2017 was USD 14.0 billion.

Operations

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

The Bank's core business segments are:

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

Credit ratings

	Long-term rating	Standalone rating	Outlook
Moody's	Aa3	a3	Stable
Standard & Poor's	A+	a-	Stable
Fitch Ratings	AA-	a-	Stable

OUR VISION

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

OUR MISSION

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

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

To support the communities in which we operate

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

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

OUR VALUES

Passion

Integrity

Conservatism

Knowledge

CHAIRMAN'S STATEMENT

"NBK has a long, established and celebrated track record for stability and conservatism. But this reputation does not preclude innovation for driving future growth."

On behalf of the Board of Directors, I am pleased to introduce the National Bank of Kuwait's 2017 Annual Report, on the occasion of our 65th Anniversary. The year saw another strong performance by the Bank, in which we increased profitability across the Group, while maintaining a leadership position in our home market of Kuwait. Our operations are reviewed in more details on the following pages, and it will be apparent to readers that our commitment to truly integrated banking solutions for our customers around the world is stronger than ever.

The economic environment

NBK continued to benefit from Kuwait's economy, which remains largely influenced by public sector spending. With the lowest industry break-even oil prices in the GCC, the Kuwaiti government has maintained spending on the Oil and Gas sector – and while still primarily reliant on oil revenues, the country is experiencing a growing GDP contribution from other industries. NBK has participated in financing for most of the country's major public/private projects, in Oil and Gas as well as other sectors. Kuwait's leadership has a clear plan for the future - 'New Kuwait 2035' - and NBK is proud of the role it is playing to support this development program. The country remains a financial safe haven in a region experiencing both economic and political uncertainty. This is borne out by the strong sovereign ratings that have been issued by Moody's, Standard & Poor's and Fitch.

NBK at 65: a year of innovation

NBK has a long, established and celebrated track record for stability and conservatism. But this reputation does not preclude innovation for driving future growth. In 2017, the Bank's leadership and staff made considerable progress in the enhancement of internal technology and systems, as well as in the roll-out of industry-leading digital and smart banking platforms that directly benefit customers. Through constant innovation, NBK secures its future, and ensures both the acquisition and retention of customers.

Innovation and development are made possible by the people behind them. During the year we maintained our commitment to professional training, development and succession planning. This means we can be sure that – across the Bank – we have the right talent in the right place for the challenges ahead. Innovation is also apparent in the way we run our business, particularly at an international level. This year we successfully strengthened the synergies between our global branches, improving connectivity and ultimately delivering a more complete customer experience.

Governance

The Board of Directors continued to perform its duties in 2017. NBK's Ordinary (AGM) and Extraordinary (EGM) General Assembly meeting for 2016 was held on 11 March 2017, at which there was a quorum of 79.52%. The AGM and EGM approved the Board of Directors' recommendations to distribute a cash dividend to shareholders equivalent to 30 fils per share. No changes were made to the composition of the Board of Directors or its Committees in the course of the year. The Board and its Committees held a total of 70 meetings during 2017.

"We increased profitability across the Group, while maintaining a leadership position in our home market of Kuwait."

Creating shareholder value

NBK's total market capitalization as at 31 December 2017 was KD 4.2 billion. The Board of Directors will recommend a dividend distribution of KD 174.5 million, which is equivalent to 30 fils per share, at the Annual General Meeting to be held in March 2018. In addition, the Board has also recommended the distribution of a 5% bonus share (five shares for every 100 shares owned) for the year 2017. The proposed cash dividends represent 54.1% of NBK Group's Net Profit for the year.

Valuing all stakeholders

I would like to extend my sincere thanks to the NBK Group Board of Directors for their wise counsel and leadership. On behalf of the Board, I would like to record our thanks to NBK's Executive Management, who have not only worked tirelessly in discharging their duties, but have devised an innovative strategy that will ensure the Bank's continued growth. I am particularly grateful to our customers in Kuwait, across the Middle East and around the world for their loyalty and ongoing support. Our gratitude is due to employees of NBK across the world, who make the experience of our customers so rewarding, as well as to Kuwait's Central Bank and Capital Markets Authority, who continue to steer our industry on its steady path. I would, lastly, like to thank our shareholders for their ongoing commitment to – and support for – NBK. With the successes of the last 65 years in mind, I am confident that we have a bright future ahead.

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

A 65-YEAR JOURNEY

1952

Emiri decree issued to establish National Bank of Kuwait with a capital equivalent to KD 1 million

1950 - 1959

NBK supports the establishment of some of Kuwait's most prominent companies, including Kuwait Airways, Kuwait Petroleum Corporation, Kuwait Oil Tanker Company, Kuwait Flour Mills and Bakeries

1959

Indian Rupee substituted for Gulf Rupee, issued by Reserve Bank of India and traded for the first time in Kuwait. NBK supports the substitution process

2002

NBK is the first bank in the GCC and Middle East to issue international bonds in global markets, worth USD 450 million

2004

NBK is the only bank in the GCC and Middle East granted a license to operate in Iraq

2007

NBK acquires Al Watany Bank of Egypt

2008

NBK avoids the negative impact of the global financial crisis, continuing to support its Kuwait and Middle East customers with all their international requirements

2012

NBK acquires a majority stake in Boubyan Bank

2015

NBK issues USD 700 million in capital securities and KD 125 million in subordinated bonds

1961

NBK replaces the Gulf Rupee with the Kuwaiti Dinar

1982

During Al-Manakh crisis, NBK records no losses due to its conservative leadership

1990

Iraqi invasion of Kuwait forces NBK to manage its operations from its permanent branch in London

1991

NBK supports the Kuwaiti government with the region's largest loan, worth USD 5.5 billion

1995

NBK provides a loan worth USD 1.2 billion to support the establishment of EQUATE Petrochemical Company

1998

NBK introduces the first internet banking service in the Middle East

2000

- NBK is the first bank in the Middle East to offer electronic US stock trading through its website
- Opening of the NBK Children's Hospital in the Al-Sabbah medical area

2016

NBK provides financing for the largest clean fuel project

2017

- NBK issues USD 750 million in senior unsecured notes
- Opening of the NBK Stem Cell Hospital for Children
- NBK reaches a new milestone with record profits exceeding USD 1 billion

الوطني
NBK

NBK AT 65: A YEAR FOR INNOVATION

Innovation is vital for the Bank to remain relevant to its clientele and secure its successful future as an institution.

2017 was NBK's 65th year of operation, marking a long history of providing trusted financial services to customers. However, it also saw a strong focus on innovation as a key driver for future growth. Important achievements across the Bank's business segments and support functions have been instrumental in pushing technology, systems enhancement, digitization and smart banking to the forefront of its strategic pathway. Innovation is vital for the Bank to remain relevant to its clientele and secure its successful future as an institution.

In a region where many financial institutions have proved vulnerable, NBK has a history of stability and security. Maintaining the Bank's leadership position for the future is underpinned by the innovative and forward-thinking strategy of its leadership.

For NBK's delivery of a truly innovative offer, its employees have an instrumental role to play. The Bank continues to emphasize the importance of training, professional development and succession planning as integral to its corporate strategy. Many important initiatives delivered in 2017 have already borne fruit.

As Kuwait's leading financial institution, the Bank enjoys a close relationship with the Kuwaiti government. It directly participates in landmark mega projects that will play an important role in the diversification of the economy – and its stability for future generations. Such projects, which include major infrastructure enhancements, highlight the innovative approach that the State of Kuwait's leadership is adopting towards national progress, and NBK is pleased to support its program.

Beyond Kuwait, NBK has continued to grow its international operations, growing its international assets by close to 10%. The Bank's international growth is only possible if synergies and communications across its networks and markets can be seamlessly delivered. Important process and technological initiatives in 2017 have made this possible.

NBK is a fundamentally strong institution, with a leading position in its home market. The following chapters show how it has brought a commitment to innovation into its strategy for growth, and how the Bank will continue to deliver value to all stakeholders.


THE
LITTLE
BLACK
JACKET
MAGNET ON THE GO
FEC

AWARDS AND ACCOLADES

A long and consistent track record of recognition.

GLOBAL FINANCE

	YEAR
Best Trade Finance Bank in Kuwait	2008-2017
World's Top 50 Safest Banks	2009-2017
Best Emerging Market Bank in the Middle East	2010-2013, 2015
Best Emerging Market Bank in Kuwait	2010-2016
Best Provider of Money Markets Fund in Kuwait	2011-2012
Best Foreign Exchange Provider in the Middle East	2013-2017
Best Bank in Kuwait	2014-2017
Best Bank in Middle East	2015
Best Private Banking in Kuwait	2015-2017
Innovator in Trade Finance	2016
Best Bank for Financial Risk Management Middle East	2016

EUROMONEY

	YEAR
Best Bank in Kuwait	1994-2017
Best Private Banking in Kuwait	2006-2017
Best Bank in the Middle East	2007-2013
Outstanding Contribution to Middle East Banking	2008
Best Investment Bank in Kuwait	2009
Best Managed Company in the Middle East	2012-2013

The Banker

	YEAR
Best Deal of the Year in Kuwait	2001-2007
Best Deal of the Year in the Middle East	2007-2009
Bank of The Year - Middle East	2007-2011
Bank of The Year - Kuwait	2007-2016
Best Customer Service and Project Finance in the Middle East	2009
Best Bank in Kuwait	2014-2017

STRATEGIC REVIEW

The Bank's strategy is designed to respond to a shifting operating environment and the headwinds within it. To achieve superior returns for shareholders, we will defend the leadership of our core business, grow beyond our core and improve our profitability.

GROUP CEO'S MESSAGE

"With a prevailing backdrop of low but stabilizing oil prices, we maintained our leadership across core banking segments in Kuwait, defending our position as the country's foremost financial services provider."

NBK's 65th year of operations saw another period of sustained growth and stability, while many regional banks suffered in the face of adverse macroeconomic conditions. Our regional and global presence continues to help us resist these headwinds, as does our leadership position in Kuwait. I am pleased to report that 2017 was a year in which our team across the Group continued to meet and exceed the expectations of our customers, our employees and our shareholders.

Group performance

With a prevailing backdrop of low but stabilizing oil prices, we maintained our leadership across core banking segments in Kuwait, defending our position as the country's foremost financial services provider. Total Assets reached KD 26.0 billion (USD 86.3 billion), increasing by 7.4% on 2016, with Customer Deposits increasing by 9.3% and Customer Loans and Advances growing by 6.5%. Net Profit Attributable for the year ended 31 December 2017 was KD 322.4 million (USD 1,068.3 million), a rise of 9.2% on the previous year.

The Bank's international operations contributed 27.7% of the bottom line (32.0% in 2016). We will continue to actively grow this part of our business, thereby mitigating risk through further diversification.

Growth in revenues from Islamic Banking continued through Boubyan Bank, our fully consolidated Kuwaiti subsidiary, leading to a growing contribution to Group consolidated profits. In 2017, Boubyan Bank's Total Assets grew by 14.0%. The Bank is led by a highly experienced and committed management team, which is fully aligned with NBK's corporate culture.

Innovation at NBK

At NBK, the word 'innovation' has many meanings. In terms of international growth, it signifies our judicious and strategic identification of new and profitable markets. In 2017, we began the process of establishing our wealth management business in Saudi Arabia. Having completed the licensing requirements, a CMA-regulated entity will launch in 2018. This new franchise, which will marry the services of both our Private Banking unit and NBK Capital, is designed to tap into the GCC's largest economy, as well as into its considerable depth of investible assets. Likewise, in China, we opened a new branch in Shanghai, which will service the financing requirements of Chinese contractors participating in Kuwait's strong pipeline of infrastructure projects.

Innovation also applies to our achievements in developing in-house technology and improving digitization, both in the back office to control costs and in the front office to provide new services to customers. In 2017, we took a 'mobile first' approach to digital banking platforms, growing our contactless payment services through Tap & Pay, which allows customers to make purchases with wearables and contactless cards. Internally, we are in the process of developing a new and improved cash management offering, as well as enhancing synergy and connectivity between our global branches. The effect of this approach has been to improve cross-selling across the Bank, while delivering a more holistic customer journey. With more digital solutions in the pipeline for 2018, we are confident of maintaining our regional leadership position, distinguishing ourselves from the competition by increasing ease-of-use and our relevance to the millennial generation.

"The word 'innovation' has many meanings. In terms of international growth, it signifies our judicious and strategic identification of new and profitable markets."

Sustainability

NBK's six Sustainability Focus Areas concentrate on economic development, customers, Corporate Governance, people, the environment, and the community. These are discussed in detail later in the report, but I would like to highlight two in particular.

In terms of economic development, we remain committed to supporting the program of the Kuwait Government, as outlined by the New Kuwait 2035 development plan. NBK continues to play a leading role in financing a wide range of mega projects: from clean fuels to education, infrastructure and housing. We have a long history of contributing positively to Kuwait's economic growth – and look forward to doing so in the years to come.

In terms of people, we have maintained a commitment to delivering a wide range of high-quality training and development programs for employees at all levels. We are proud of the opportunities that we provide for our people because we know that our ongoing success depends on attracting and retaining the best talent. In the same vein, this year's 'I am NBK' campaign has been vital for instilling the Bank's most important values in employees, allowing them to take ownership and responsibility for the quality of their work.

Strategic pathway

Looking ahead, NBK will deliver superior returns to shareholders via three strategic pillars. We will defend the leadership of our core business, by maintaining a dominant share of the Kuwaiti market, while achieving above-market growth in key segments and leveraging our international footprint. Additionally, we will grow beyond our core business. This will be achieved by scaling up existing customer activity and expanding our Middle East business, growing our franchise in Egypt, and pursuing growth opportunities in Islamic Banking, both at home and abroad. We will improve profitability focusing on key ratios.

In conclusion, I would like to thank NBK's Management and staff for their enduring efforts to deliver consistently excellent results. I would also like to express the Bank's gratitude to our Board of Directors, whose guidance over the years has proved invaluable. Finally, I would like to personally thank our customers: our most important stakeholders for the last 65 years, to whom we will remain wholly committed.

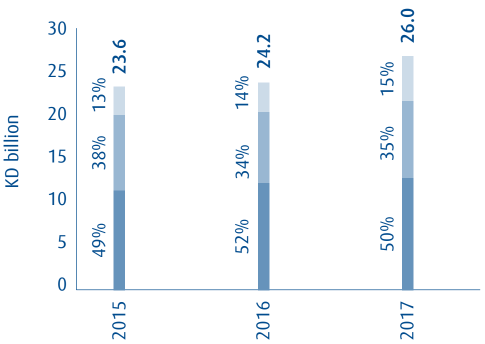
Isam J. Al-Sager
Group Chief Executive Officer

GROUP CFO'S REVIEW

NBK is pleased to have delivered strong financial results for the year ended 31 December 2017, reflecting a period of solid growth and robust operating performance. The financial results for the year again demonstrated the resilience, quality and diversity of earnings and earning drivers. NBK is a highly diversified banking group, by geography and by line of business, and is uniquely placed to compete in both conventional banking and Islamic banking. The strength of the NBK franchise consistently underpins the Group's financial performance, with 2017 being no exception.

In further reinforcing its dominant leadership position in Kuwait through the ongoing delivery of innovative and value-adding customer service offerings, NBK also played a key financing role in support of the Kuwait Government's development program. In addition, the advancement of the Group's strategic agenda saw continued growth in NBK's profile as a leading financial institution in Middle East and North Africa.

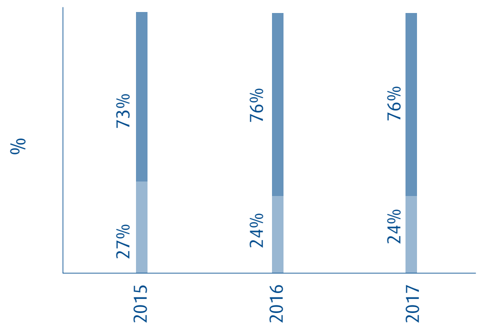
TOTAL ASSETS



KUWAIT
INTERNATIONAL
BOUBYAN BANK

The Group reported Net Profit of KD 322.4 million (USD 1,068.3 million) for the period, a 9.2% increase on 2016. The growth in operating surplus (Net Operating Income less Operating Expenses) was particularly strong, growing 13.0% to KD 557.2 million (USD 1,846.7 million). Growth in earnings was underpinned by robust growth in business volumes and by careful margin management. Total Assets increased by 7.4% to KD 26.0 billion (USD 86.3 billion), Loans and Islamic Financing increased by 6.5% to KD 14.5 billion (USD 48.1 billion) and Customer Deposits increased by 9.3% to KD 13.8 billion (USD 45.7 billion). Non-Interest Income increased by a healthy 10.3% to KD 193.7 million (USD 642.0 million). Rigorous attention to cost management saw cost growth contained at 5.3%. The resultant Cost to Income ratio declined by 1.5% to 32.3%, demonstrable evidence of core revenue-generating capability and operational efficiency throughout the Group's network. Profitability metrics grew accordingly, with Return on Average Assets increasing to 1.28% (1.22% in 2016) and Return on Average Equity increasing to 10.8% (10.2% in 2016).

OPERATING INCOME COMPOSITION



NON-INTEREST INCOME
NET INTEREST INCOME & NET INCOME FROM ISLAMIC FINANCING

The contribution to Group earnings from our international operations continued to demonstrate the benefits of NBK's long-established strategy of earnings diversification. The Group's international operations contributed 27.7% of 2017 earnings (32.0% in 2016). Similarly, and in the context of earnings diversification, we are pleased to see solid and continued growth at

"NBK is a highly diversified banking group, by geography and by line of business, and is uniquely placed to compete in both conventional banking and Islamic banking."

NBK's Islamic banking subsidiary, Boubyan Bank. Profits at Boubyan Bank grew by 15.9% to KD 47.6 million (USD 157.8 million).

The Group maintained a strong level of capitalization throughout the year. NBK's capital adequacy ratio at year end was 17.8% (17.7% in 2016). This level of capitalization is in keeping with NBK's risk appetite and is comfortably in excess of NBK's Basel III capital adequacy requirement as determined by the Central Bank of Kuwait. The Group reported a Basel III leverage ratio of 9.2% (9.2% in 2016) and a Basel III liquidity coverage ratio of 168.7% (160.2% in 2016).

Asset quality metrics remained strong. The ratio of Non-Performing Loans to Gross Loans at year end was 1.42% (1.28% in 2016), with coverage at a comfortable 287.5% (365.2% in 2016). These ratios compare favorably with other banks, both local and international, evidencing NBK's prudent and trusted approach to credit risk.

During the course of 2017, the Group engaged in a range of initiatives to further diversify sources of funding, already a source of competitive strength for the Group. A major highlight was the establishment of a USD 3 billion Global Medium Term Note (GMTN) program. As part of this program, the Group issued 5-year senior unsecured notes amounting to USD 750 million, priced at a fixed interest rate of 2.75% per annum payable semi-annually in arrears. The issue was well received by the market, with bids totalling USD 2.2 billion, a 2.9x oversubscription. Other initiatives included the launch of a multi-currency CD program at NBK International (UK), as well as the launch of a range of innovative deposit products for new and existing clients.

NBK prides itself on its proven ability to deliver value to shareholders. The Group's attention to focused strategy formulation and careful execution, coupled with disciplined and rigorous financial management and prudent risk management, helps ensure the maximization of added value to shareholders. The Group operates a policy of investing heavily in enabling technologies and innovative solutions that increase market competitiveness, customer satisfaction and operational efficiency.

Earnings per Share (EPS) increased in 2017 to 53 fils, (49 fils in 2016), with Equity attributable to shareholders of the Bank increasing to KD 2.9 billion (KD 2.7 billion in 2016). Market capitalization at year - end was KD 4.2 billion (KD 3.6 billion in 2016).

Jim Murphy
Group Chief Financial Officer

ECONOMIC ENVIRONMENT

The MENA region endured another year of geopolitical uncertainty, which led to some volatility in the markets. However, the GCC states benefited from the stabilizing of global oil prices, which will have a direct and positive impact on GDP in 2018. Kuwait's economy, while heavily dependent on oil industry revenues, has one of the lowest fiscal break-even oil prices globally – and the lowest in the GCC – making it more resilient to low oil prices than its neighbors. Moreover, substantial fiscal and external surpluses accumulated over the years have acted as an important buffer since 2014.

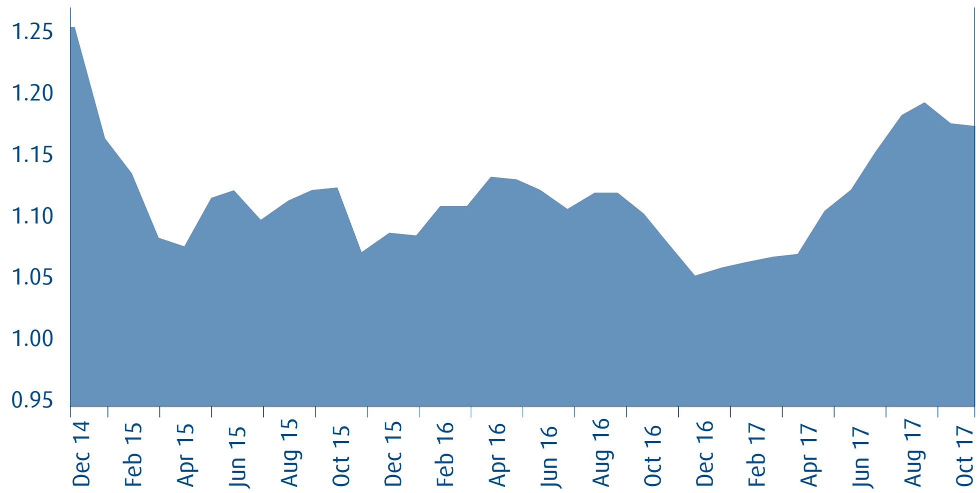
Global snapshot

At the end of 2017, international markets and the global economy were on a steady track, with stocks largely going up – and in some countries, such as the US, Germany and the UK, reaching record highs. Interest rates in 2017 trended slowly higher, but ended the year lower in some developed markets. In the currency markets, the US Dollar experienced considerable pressure, particularly from the Euro. Oil prices continued to stabilize, receiving an important boost from OPEC's announcement at the end of November that the existing production cut agreement would remain in place for a further nine months.

Equity market volatility remained lower for most of the year. It increased in August and September, following political and security uncertainties caused by threats exchanged between the US and North Korea, as well as a series of natural disasters including hurricanes in Central and North America. The US Federal Reserve raised interest rates three times in 2017, with most analysts predicting another hike in the first quarter of 2018. Further increases are likely to follow in 2018, supported by steady growth in the US economy, a tightening labor market and inflation that the Federal Reserve believes is heading towards 2%.

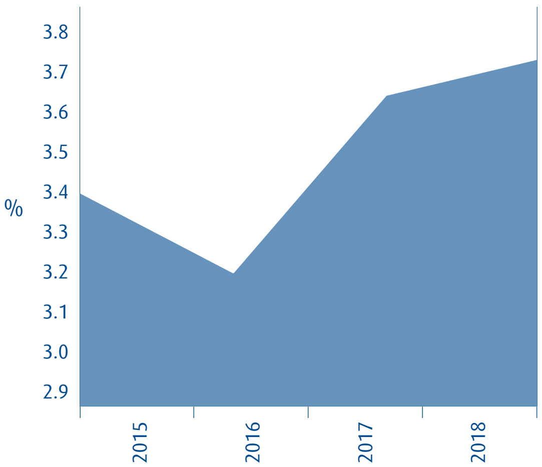
Globally, there has been steady enough growth for central banks to start adjusting their course. The gradual reduction of the US Federal Reserve's post-2008 balance sheet will have limited impact on interest rates and it is likely that adjustments will be made if rates start to rise unduly quickly. The main concern for markets will be if other central banks, such as the European Central

USD vs. EUR



Bank (ECB) and the Bank of England (BoE) begin doing the same. This still seems some way off, and with the Federal Reserve's tapering, the ten-year US Treasury note ended 2017 at 2.4%, approximately where it was in January 2017.

GLOBAL GROWTH



Currencies

Expectations of the US Dollar rising during the year proved inaccurate. Its value declined and appeared not to benefit from a favorable yield spread environment. As a result, Dollar-pegged GCC currencies in the region declined. The Kuwaiti Dinar, which is only partially pegged to the US Dollar, also declined in trade-weighted terms. Factors weighing against the US Dollar included improving economies in Europe and the rest of the world, a shift in ECB expectations to become relatively more hawkish and US domestic politics.

As at 31 December 2017, the US Dollar was trading at 1.20 to the Euro, with the Euro's rise now probably having run its course. Political turmoil in Spain following the Catalan referendum and uncertainty in Germany following general elections hampered further increases in its value towards the end of the year, although both have since subsided.

Growth consensus

Consensus and IMF projections for global growth in 2017 sit at 3.6%. The US is expected to experience growth of 2.2%, with the Eurozone coming in near 2.1% and Japan around 1.5%. Most countries performed in line with – or above – expectations, with China (predicted to grow by 6-7%) so far succeeding in controlling debt while maintaining growth.

The EU performed better than expected throughout 2017, leading analysts to suggest that the 'extra-easy' ECB stance is about to end. The ECB continued to engage in Quantitative Easing (QE), buying EUR 60 billion worth of bonds each month to December 2017. In 2018, the ECB is expected to gradually taper the monthly amount purchased throughout the year.

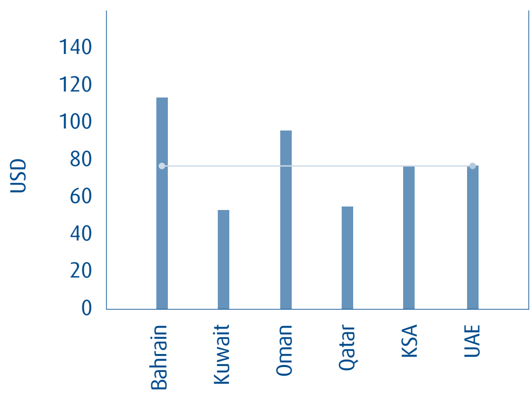
For most of 2017, the Trump administration failed to pass any meaningful legislation in the US. However, at the end of November the Senate passed landmark tax reforms, marking a major win for both the White House and the Republican Party. Most economists expect the tax cuts to provide a moderate fiscal stimulus and to have a positive impact on corporate earnings.

Kuwait

The New Kuwait 2035 development plan encompasses six strategic aims: increasing GDP growth, encouraging the private sector, supporting human and social development, promoting demographic policies, enhancing and improving the effectiveness of government administration and consolidating the country's Arab and Islamic identity.

Kuwait benefits from a low fiscal break-even oil price, estimated by the IMF at USD 53 per barrel, which is comparable only to that of Qatar. The break-even for other GCC countries is considerably higher, with the UAE and Saudi Arabia standing at USD 75 per barrel, and Bahrain and Oman at USD 115 per barrel and USD 91 per barrel respectively. This has made Kuwait resilient to the oil price environment that has prevailed since 2014.

FISCAL BREAK-EVEN OIL PRICE



STRATEGIC REVIEW

Additional underlying strengths of Kuwait's economy include the recovery of its current account into a surplus for full year 2017 and robust sovereign wealth estimated at USD 565 billion at year end. Kuwait's public debt as a share of GDP is relatively low, accounting for 19% of GDP or USD 23 billion in 2017. Other key indicators demonstrate the fundamental stability of Kuwait's economy:

Key indicators	2016	2017 (estimate)
Sovereign ratings	Aa2 (Moody's) AA (S&P) AA (Fitch)	Aa2 (Moody's) AA (S&P) AA (Fitch)
Current account	USD 5.0 billion	USD 5.9 billion
Government revenues (% GDP)*	39%	40%
Public debt (% GDP)**	9.8%	18.8%

*Fiscal year
**Calendar year

Recent developments

GDP growth showed improvement, despite sustained low oil prices, resulting mainly from the strengthening non-oil sector. Fiscal and external buffers continue to give Kuwait plenty of capacity to sustain current spending plans, and non-oil growth is expected to accelerate as capital spending on projects remains on track and the consumer sector stabilizest. Non-oil growth for 2017 and 2018 is forecast to reach 3-3.5%.

Public finances are essentially healthy. Fiscal deficits are likely to persist in the short term, due to lower oil revenues, but are expected to remain at manageable levels. Inflation reached 1.5% in November 2017, as increasing utility tariffs were offset by softer domestic pricing dynamics and muted global inflation levels. Inflation is likely to increase in 2018 in response to the recovery of the residential housing market.

Household debt growth slowed but remains steady, standing at 7.4% in November 2017, in keeping with its expected pace. Kuwaiti employment remained healthy throughout the year, growing moderately. Some weakness in private sector employment was offset by solid public sector hiring.

Credit growth was broadly robust in 2017, although the headline figure was hurt by sizable one-off corporate repayments. Credit was supported by government project implementation and recovery of the real estate sector, with acceleration towards between 7% and 9% expected for 2018. As at November 2017, credit grew by 4.3% on a year-on-year basis. Major government project awards sustained a strong pace and the pipeline of tenders for 2018 remains strong.

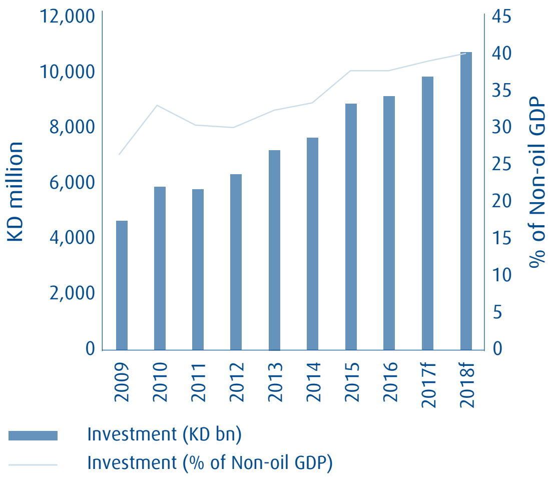
Real estate activity showed signs of recovery, supported mainly by improvements in the residential housing sector. Following two years of contraction, total sales were flat during the eleven months ended 30 November 2017, at approximately KD 2.0 billion. Residential property prices, which had experienced an orderly correction for over two years, appeared to stabilize in 2017.

Oil prices and the GCC

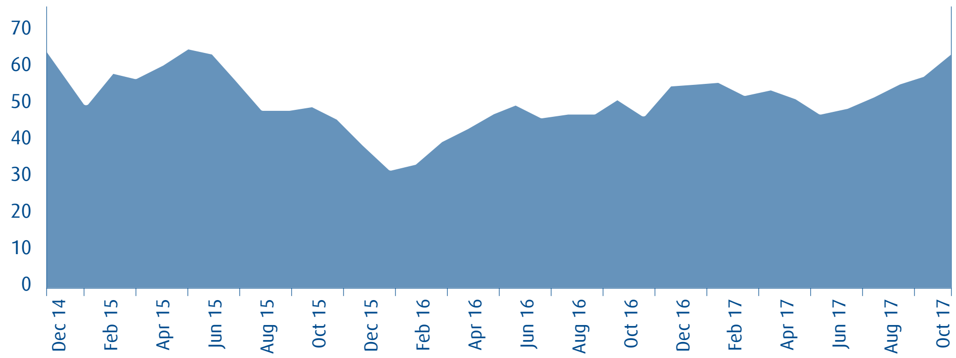
Towards the end of the year, OPEC oil producers agreed to extend production cuts by nine months, until the end of 2018. The aim is to support ongoing stabilization and recovery of global oil prices, which in 2017 saw the Brent Crude benchmark average USD 55 per barrel, up by 22% on the previous year's high.

Gulf markets were mixed, but most received the OPEC announcement positively. Extended curbs on oil output are likely to see economic growth forecasts for the GCC revised slightly downwards, probably to below 2%. All GCC countries are participants in the OPEC deal, although not all are members. Some, including the UAE and Bahrain, are still producing volumes in excess of their quotas, meaning that improved compliance may have a more negative impact on oil GDP than for other countries. In broader terms, oil prices breached USD 60 per barrel (with Brent Crude as the benchmark), after showing sustained signs of strength towards the end of 2017.

INVESTMENT



BRENT CRUDE $/BARREL



With oil prices having negatively influenced GCC equities, they are expected to have a more positive impact in the immediate future, as stronger oil demand and improved OPEC/non-OPEC resolve sees prices shoring up. Consequently, GCC equity markets saw some improvement towards the end of the year, supported by lower levels of austerity and both potential and confirmed Emerging Market (EM) index upgrades. Kuwait's upgrade to Emerging Market status was confirmed by FTSE in 2017, with the possibility of an MSCI EM upgrade in due course. Saudi Arabia's upgrade is thought to be on the same track, with both FTSE and MSCI likely to award the kingdom EM status. Qatar remained under considerable economic pressure, with the diplomatic row within the GCC showing little sign of relief.

Egypt

The macroeconomic picture in Egypt, one of NBK's key markets, saw strong signs of improvement following the implementation of the government's fiscal and structural reform program. Investor sentiment towards Egypt improved markedly, with subsidy cuts, the introduction of VAT and wage bill controls all welcomed by the market. Economic reform in Egypt received endorsement from the IMF, which has been important for attracting funding.

Private sector inflows to Egypt in 2017 showed considerable improvement, and a pick-up in GDP growth to 5.2% y/y in 3Q 2017 at the end of the year demonstrated further promise. The devaluation of the Egyptian Pound was an important – and successful – initiative by the Egyptian Government for supporting exports, driving tourism and creating a generally more flexible currency. Again, this move received positive feedback from the IMF.

In general, economic reform in Egypt has had a favorable impact on the country's banking sector and economic growth will directly support credit growth. That said, while inflation pressure has eased, it remains high – an issue that the Central Bank has sought to address by keeping policy rates elevated.

Opportunities and headwinds

Within the GCC, oil prices remain relatively low – but appear to have reached a strong level of stability, therefore softening the risk to the regional economy. Economic reform across the Gulf remains a key growth driver, particularly for the private sector. In Kuwait specifically, a high level of PPP activity on major development and infrastructure projects is having a directly beneficial impact on the economy.

Increased economic liberalization means a greater requirement for banking services across industries and sectors, which will further support growth in credit and investment. The proposed privatization of assets in major markets, including Saudi Arabia, should stimulate capital market activity, as well as direct participation by overseas investors, providing capital inflows for the region. Growing debt issuance, both conventional and Islamic, from sovereigns and corporates, is also providing additional opportunities for the Investment Banking sector – and will continue to do so in 2018. Meanwhile, major advances in technology and 'smart services' are providing new growth opportunities in both the Consumer and Corporate Banking space.

The major headwind for the MENA region is political instability, in both the Gulf and Egypt. The ongoing diplomatic row between Qatar and other GCC member states is creating serious economic difficulties for the former, while security concerns relating to Yemen remain a thorn in the side of an otherwise insulated GCC. Recent security issues in Egypt have brought into question the country's stability, despite the positive and effective economic reform measures implemented recently.

STRATEGY AND KPIs

Responding to a shifting operating environment and the headwinds within it, NBK adjusted its strategic priorities to maintain leadership in the core business and pursue growth outside the core. With the increasing pace of change in technology and consumer preferences, innovation has become a Group-wide, top-of-the-agenda item for Executive Management. In Consumer Banking, NBK adopted a 'mobile first' strategy to remain relevant to young customers and to continuously engage clientele in their daily lives. In Wholesale Banking, NBK adopted new technologies to improve communication and collaboration across the Bank and to deliver new products and services to clients at a lower cost.

Meanwhile, NBK has sought to better use capital, introducing measures to deploy it where the highest returns will be achieved, while delivering tactical solutions for optimizing the balance sheet in key areas. To further enhance NBK's Return on Equity, growth in capital-light businesses is at the heart of the Group's strategy, with an increased emphasis on wealth management and payments.

Strategic cornerstones

Defend leadership at the core:

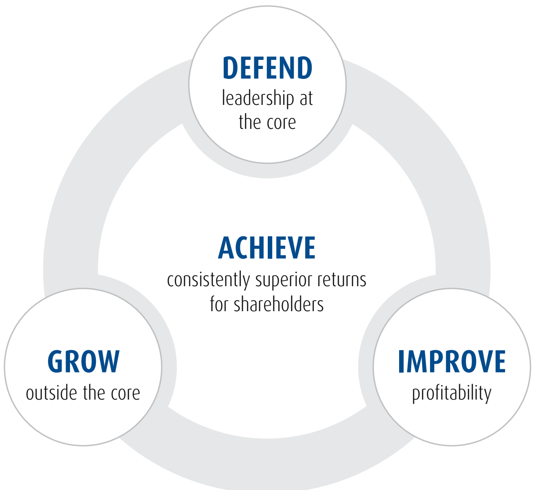
- Maintain market share for key products in Kuwait, keeping ahead of the competition by leveraging NBK's
  - Customer franchise
  - Balance sheet
  - Reputation
  - Size
- Achieve above-market growth in target segments, leveraging NBK's international footprint and ratings

Grow outside the core:

- Scale-up customer activity and build the regional business
- Explore building a bigger franchise in Egypt
- Pursue growth in Islamic Banking in Kuwait via Boubyan Bank
- Pursue Islamic Banking expansion in new geographies via Boubyan Bank

Improve profitability:

- Strike a balance between the focus on year-end profits and profitability (Return on Assets, Return on Equity, Return on Capital)
- Incorporate Return on Capital (ROC) into day-to-day decision making



Strategic priorities

To deliver on our three strategic cornerstones, NBK's senior leadership has developed a set of priorities for each unit, aligned with overall Group strategy, enabling achievement of the Bank's growth program. These are outlined below.

Consumer Banking	Corporate Banking	Private Banking	International Banking	Treasury	NBK Capital	NBK Suisse	Boubyan Bank
Defend market share	Defend market share	Expand across the region	Continue transformation in Egypt	Launch new products	Gradually roll out new investment products	Grow with market and defend against Swiss banks tapping into GCC	Maintain aggressive growth trajectory
Enhance digital customer offering with focus on mobile banking	Maintain Return on Equity	Broaden product portfolio	Enhance collaboration across the franchise	Enhance transfer pricing	Explore new distribution channels	Leverage Private Banking expansion to acquire clients	Explore Group synergies
Introduce new products	Aggressively grow in mid-corporate segment				Drive fund performance		
	Enhance cross-selling across the Group				Pursue mandates with active clients		

Operations
Improve efficiency and effectiveness through automation, restructuring, change management and centralization

IT
Further enhance infrastructure and continue to support the Group's innovation agenda

Risk Management
Enhance capabilities to manage risks associated with new products and with growth in priority markets

Finance
Invest in Management Information Systems (MIS)

Human Resources
Enhance talent management

Key Performance Indicators (KPIs)

A new set of key performance indicators (KPIs) were established in 2014 for the Board of Directors to periodically review the performance of the Group against its strategic goals. The KPIs are categorized as 'financial' and 'non-financial', as outlined below.

	DIMENSION	KPIs	OBJECTIVES
FINANCIAL	Profitability	Return on Assets Return on Equity Cost-to-Income ratio	Gradually improve Gradually improve Gradually improve
	Growth	Core asset growth	Maintain current level
	Resilience	% of FX, fees and commissions to total income % of income from international business	Maintain current level Recover to pre-divestment of IBQ
NON-FINANCIAL	Customer perception	Attitude and behavior survey results	Maintain perception as leading bank in Kuwait
	Market perception	Ratings assigned by credit agencies	Maintain NBK's high credit ratings
	Maintenance of leadership position in Kuwait	Market share of salaried Kuwaitis Market share of corporate assets in Kuwait	Gradually improve Maintain current level

Note: *The objectives for the Bank's KPIs assume the execution of the Kuwait Government's development plans towards the long-term goals defined in New Kuwait 2035. They also depend on gradual improvements in the political and economic stability of the MENA region, provisions returning to pre-financial crisis levels, no major acquisitions and a capital increase to cover the requirements stipulated by Basel III.*


الوطني
NBK

OPERATIONAL REVIEW

NBK remains the country's top-performing banking group, with a market-leading position that provides a stable foundation that our growth strategy builds upon.

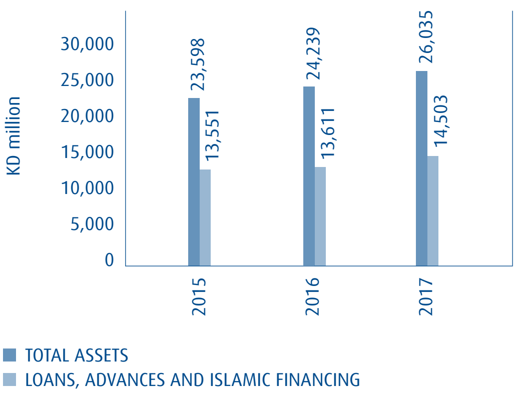
Group performance

In 2017, we maintained our leadership position across business segments in Kuwait

NBK remains the country's top-performing banking group, with a market-leading position that provides a stable foundation for our growth strategy. Total Assets reached KD 26.0 billion, increasing by 7.4% from KD 24.2 billion in 2016. Customer Deposits reached KD 13.8 billion (an increase of 9.3%) and Customer Loans and Advances amounted to KD 14.5 billion, increasing by 6.5%. The Bank's Net Profit Attributable was KD 322.4 million, an increase of 9.2% on 2016.

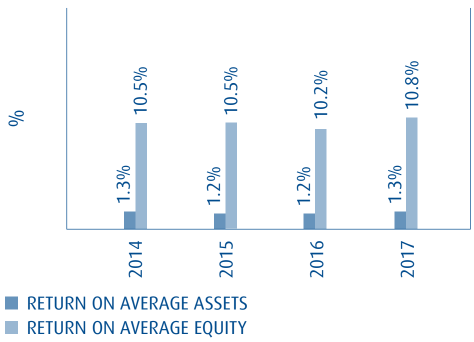
NBK's international operations contributed 27.7% of the Bank's bottom line and we continue to strive to increase this proportion. Across our network, we are committed to carefully managing risks and costs to improve efficiency and deliver long-term savings and productivity gains. Net Operating Income for the Group reached KD 822.7 million in 2017, up by 10.4% from KD 745.3 million in 2016.

TOTAL ASSETS; LOANS, ADVANCES AND ISLAMIC FINANCING



In 2017, NBK continued to deliver strong and stable returns. Return on Average Assets for the year was 1.28%, improving marginally from previous years (1.22% in 2016, 1.22% in 2015 and 1.28% in 2014). Return on Average Equity also improved to 10.8% in 2017 (against 10.2% in 2016, 10.5% in 2015 and 10.5% in 2014).

RETURN ON AVERAGE ASSETS; RETURN ON AVERAGE EQUITY



As the Islamic Banking sector continued to gain ground in the Kuwaiti market, NBK's subsidiary – Boubyan Bank – maintained its role of driving the growth of our Islamic Banking revenues. As at 31 December 2017, Boubyan Bank's Total Assets were KD 4.0 bn, increasing by 14.0% on 2016, with Deposits of KD 3.4 billion, an increase of 15.4% on the previous year. Boubyan Bank is led by an experienced and proficient management team, many of whom are NBK veterans with extensive regional banking experience.

Consumer Banking Group (CBG)

CBG's smart banking development program has added further strength to NBK's leading retail position

The Consumer Banking business has a clear mandate to strengthen the already dominant position of the Bank in its domestic market, as well as to secure its future by achieving consistent growth and profitability. CBG continued to expand its footprint in Kuwait, where it operates 279 ATMs (out of which 93 are CDMs), with transactions growing by 10%. This is further supported by the largest network of 68 branches, the largest POS (11,000+) and near-field communication (NFC) enabled POS (4,000+) network, as well as the largest rewards program in Kuwait. In terms of customer support, we have the country's largest and most responsive banking call centre, a dedicated 24/7 digital social response team, online chat, WhatsApp messaging and NBK Global Access, which offers international toll-free services from 8 foreign locations to better serve our domestic customers when they travel abroad.

There were several important drivers behind CBG's success in 2017. These included efforts to maintain and further strengthen our leadership position in credit cards, personal loans and liabilities. Important in this regard was building an analytics-driven approach for customer lifecycle management along with structural changes for the Consumer Banking business.

CBG's most important objective is to attract – and retain – customers from the rapidly growing 'millennial' population. These young adults prioritize the convenience of their banking experience, with a 'mobile first' approach to future banking. This has meant an almost complete removal of both cash and paper from the customer journey. The launch of NBK's NFC-enabled 'Tap & Pay' in 2017 was a vital aspect of this program, putting the Bank truly in its customers' pockets. Furthermore, the launch of mobile stickers and wearables revolutionized the contactless payment experience. CBG engaged with leading social media influencers to launch these products and effectively reach its target audience. The Tap & Pay capability has been instrumental in advancing CBG's mobile first strategy and, due to our dominant market share in the merchant acquiring business, we are proud to say that NBK took the lead in introducing a new payment solution to the Kuwaiti market, for both NBK customers and non-NBK customers.

CBG's smart banking development program has added further strength to NBK's leading retail position. This was, in part, achieved by improved outreach to target demographics based on our segmentation and product strategy, all of which required an enhanced level of digitalization across the Bank's touchpoints, which was delivered by the upgraded NBK website, a new mobile banking application and an enhanced internet banking platform.

Internally, CBG pursued a data-driven approach to decision-making. An industry-leading analytics centre provides sophisticated tools for reviewing and improving customer acquisition, relationship deepening and retention.

CBG's human capital is its most valuable asset, and the future of the business is assured by the development of in-house talent, a strong credit culture that balances risk and rewards and a career development program focused on strengthening Kuwaiti leadership.

Private Banking Group

Its principal values of integrity, confidentiality and trust are the foundations of its client relationships

NBK's Private Banking Group has a well-deserved reputation as the preferred wealth management provider for generations of Kuwaiti families. Its principal values of integrity, confidentiality and trust are the foundations of its client relationships.

Private Banking in Kuwait benefited from greater liquidity among customers looking to deploy capital into strategic investments – both at home and overseas. Several successful wealth management programs from 2016 continued into 2017, while new Asset Management products were introduced. Both legacy and new products performed well throughout the year, with the Private Banking Group registering a solid increase in Assets under Management (AuM). New and existing Private Banking clients showed their increased appetite for cash flow yielding products, such as Real Estate and Ijara, to which the unit responded with solutions to meet their specific requirements.

Beyond Kuwait, the Private Banking Group began the process of establishing a global wealth management offering, initially by acquiring a license to operate in Saudi Arabia. This will be part of a CMA-regulated entity commencing operations in 2018 and will provide both Asset Management and Private Banking services. This will be a unique value proposition in a market that offers significant opportunities.

In the Private Banking space, NBK is the only regional player than can claim to be truly international. It offers an exceptional breadth of products and expertise to clients in global locations, supported by unique insights into the Middle East and GCC markets that no other international bank can deliver.

The Private Banking Group's core objectives are to maintain its leadership position in the domestic market, remaining the bank of choice for Kuwaiti high net worth individuals (HNWIs), while continuing to expand its international presence. This growth will be coupled with a commitment to the existing portfolio of high quality products and the introduction of innovative solutions for clients seeking a wealth management provider that delivers beyond expectations.

Corporate Banking Group

Investment in Oil and Gas and infrastructure projects in Kuwait continued to be a key growth driver for the Corporate Banking business

The NBK Corporate Banking Group covers Domestic Corporate Banking, Trade Finance, Project Finance, Oil and Gas and Transaction Banking. The Group's main objectives are to act as the primary banker for leading local companies and to remain the bank of choice for foreign companies, continuing to serve at least 75% of them. It also aims to maintain a Trade Finance market share of over 30%. In achieving the above, the Corporate Banking Group continues to offer a wide range of services, expanding its coverage and broadening the range of products it offers.

NBK's Corporate Banking market share is over 25% of the non-retail lending space, a leadership position that continues to be unmatched in Kuwait. The Bank has a well-established track record in relationship management and its large team of experienced relationship officers is dedicated to meeting customers' needs across a range of products and platforms.

In 2017, the Corporate Banking Group's principal strategy was to focus on customer segments where it had less penetration, particularly in mid-market, with the aim of diversifying the Bank's customer base and servicing a growing segment of the corporate market. NBK continued to be active in delivering financing solutions for flagship mega infrastructure projects, developed in partnership with the Kuwait Government, for which the Bank typically supports the funding needs of corporate partners.

In 2017, the Corporate Banking Group sharpened its competitive edge by providing a superior service to that of its peers. This was achieved by delivering innovative solutions for automating systems and processes, which were a key part of the broader strategic program. Initiatives included the digitization of the customer on-boarding process, as well as the conception and development of an industry-leading automated cash management system, to be rolled out in 2018-2019. Other notable technical advances were made in Transaction Banking, along with a newly developed 'Trade Portal', which will become an integral part of NBK's wider smart banking development.

Investment in Oil and Gas and infrastructure projects in Kuwait continued to be a key growth driver for the Corporate Banking business. Major PPP and privatized initiatives have increased the need for financing and NBK is well placed to meet those requirements. Oil and Gas financing remained a critical business line, including direct financing for the Kuwait Petroleum Corporation (KPC) Group. NBK and the State of Kuwait continued to invest in both upstream and downstream projects, which performed well compared to their GCC neighbors. The Bank is in a strong position to continue lending to KPC Group on future projects. On the infrastructure side, PPP models for large-scale utilities, housing, educational and transport projects provided further opportunities for the Corporate Banking Group to participate.

NBK maintains highly specialized Project Finance teams in Kuwait. Project Finance offers the full range of financing, project bidding and support, loan structuring and distribution services to its client base. The team's integrated structure, which permits the seamless provision of services, is a critical factor in its success. Over the last few years, NBK has played a leading role in several large syndicated project financings. The Bank supported bids of most of the consortia for various PPP projects in Kuwait. Project Finance capabilities were clearly demonstrated during the year, as the consortia backed by NBK were declared as preferred bidders by the Kuwait Authority for Partnership Projects for several projects.

Flagship mega projects for which NBK has provided a leading financing and/or arranging role include:

* South Al Mutlaa City
* Clean Fuels Project
* LNG Import and Regasification Terminal
* Al Zour North IWPP
* Airport Expansion

In the domestic private sector, the Bank led the financing of new shopping centres, hotels and other Real Estate development projects. NBK was also the primary financier for customers in the food, leasing and automotive sectors.

Looking ahead, the Corporate Banking Group will continue to develop its e-channels and smart banking programs. Most of these are scheduled for completion in 2018-2019. It will continue to deliver on its core objectives of asset growth, bottom line improvements, increased profitability, increased liabilities, risk mitigation and the development of human capital. In terms of new opportunities, Oil and Gas and other mega projects will continue to be critical growth areas, while the business will maintain its philosophy that customers looking for a better price elsewhere will ultimately return to NBK for its added value in terms of skills, professionalism, knowledge of the market and exceptional level of service. On that basis, the Bank's Return on Capital remains the first priority for the business.

Treasury Group

On the liquidity management front, NBK's Treasury objectives for 2017 were to diversify the Bank's funding base and extend the duration of its liabilities

The Treasury Group's mission focuses on offering the best possible services to clients, whether external (institutions) or internal (units within NBK), while generating incremental profits within NBK's risk appetite. The Treasury team achieves its mission by focusing on bridging the 'aspirational gap' for five strategic pillars: pricing policy, products, funding profile, IT infrastructure and human capital.

Management of liquidity and interest rate risks remain a priority for the Treasury Group, especially within the rising interest rate environment. On the liquidity management front, NBK's Treasury objectives for 2017 were to diversify the Bank's funding base and extend the duration of its liabilities. This program was ultimately successful, with the issuance of five-year subordinated debt at much tighter spreads than those of NBK's regional competitors. Following the successful establishment of a Yankee certificate-of-deposit (CD) program at NBK New York in 2013, NBK International (London) in 2017 established a multi-currency CD program. The Bank also launched a series of new products for retail and corporate clients in Kuwait, including Three-Year, Four-Year and Five-Year Term Deposits; Partial Withdrawal Deposits; and Notice Accounts (35 Days, 65 Days and 95 Days).

In March 2017, the Kuwaiti Government successfully completed an international bond issue: one 5-Year USD 3.5 billion at 2.75% and 75bp above US Treasury; and one 10-Year USD 4.5 billion at 3.50% and 100bp above US Treasury. In May, NBK followed with a USD 750 million five-Year bond issue, as part of its USD 3 billion GMTN program. The issue was very well received by the market, with bids totalling USD 2.2 billion, or a 2.9 times oversubscription. Investors were attracted primarily from the US (57%) and MENA (26%), with Europe and Asia representing 13% and 4% respectively. The bond's yield was 2.86% or 100bp above mid-swaps and the proceeds from the issue have been used to improve the Bank's funding profile.

In the coming year, Treasury will continue to offer hedging solutions and investment products that meet the specific demands of internal and external clients. The Treasury Group aims to expand its liability product offering and will offer its electronic trading solution to a wider range of select clients. Continued upgrades to IT infrastructure, which commenced in 2017, will play an important role in supporting the business' operations, as well as helping to centralize Treasury Group activity. A Fund Transfer Pricing (FTP) enhancement program has also been established. This will be crucial to enabling the Bank to better price a variety of asset and liability products, drive business unit behavior and incentivize long-term funding.

International Banking Group (IBG)

The improved integration of global branches has facilitated cross-selling between locations

NBK's strong international presence is a key differentiator for the Bank, with the extension of its established MENA franchise enabling the provision of a more holistic service. Within the MENA region, NBK focuses on growing its business by attracting new Corporate and Private Banking customers. Beyond MENA, the Bank concentrates on serving the needs of regional Corporate and Private Banking customers that are active internationally, while developing business with international companies with business or trade linkage within NBK's MENA footprint.

In 2017, IBG successfully grew its Total Assets to KD 9.1 billion, an increase of 9.6% on 2016 (KD 8.3 billion). While asset growth was strong, the business maintained an ongoing commitment to asset quality and judicious growth in key markets. Total contribution to NBK Group Net Profit was 27.7%. IBG successfully expanded its footprint, establishing a new branch in Shanghai (China) and putting in place the infrastructure required for 2 new branches in Saudi Arabia (Riyadh and Eastern Province). These will be vital for NBK's objective of developing a stronger presence in the GCC's largest market.

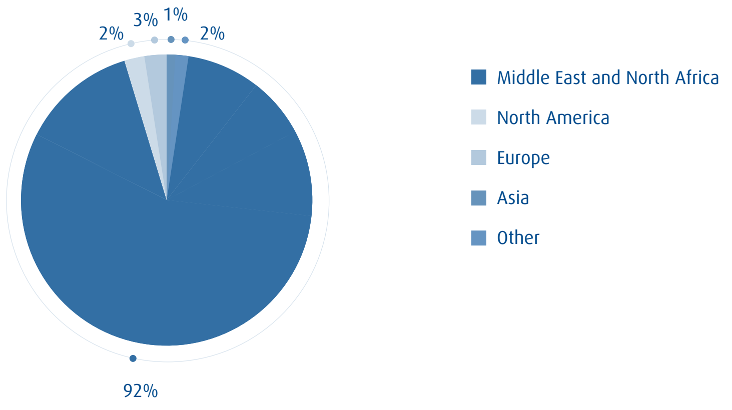
Integration was at the heart of IBG's strategy in 2017. This was a year for major operational improvements, which saw a standardization of the Bank's most important systems across markets, with a focus on IT, risk and compliance, and capital metrics. The improved integration of global branches has facilitated cross-selling between locations, which is now delivered more smoothly and systematically. The integration program has also ultimately delivered better synergy between global markets, an improved service to customers and more robust risk management oversight.

With NBK Group's risk appetite remaining fundamentally conservative, the Bank's international presence provided some relief from the growing pressure on banks in domestic and local markets. The diversification provided by IBG therefore continued to be an important factor in NBK's ongoing growth. In this respect, expansion in China was a particularly important step in 2017. China is a key source of contracting companies for some of Kuwait's most important mega projects. NBK's presence in Shanghai enables the Bank to provide financing for such companies.

NBK's principal strategic market remains the Middle East. Egypt, where the Bank has operated since 2007, now has 41 branches (the highest number outside Kuwait). IBG's operations in Egypt performed well in 2017, particularly in view of the devaluation of the Egyptian Pound. This was the result of a long-standing transformation strategy, that saw a comprehensive overhaul of operations across business segments. The timely transformation started ahead of the macroeconomic headwinds faced over the past years, enabling stronger and leaner management and control of the local book. A review and restructuring of the Bank's staff in Egypt also had a positive impact on operational efficiency and improved service levels.

Bahrain, in addition to New York, continued to be an

BREAKDOWN OF GROSS LOANS AND ADVANCES BY GEOGRAPHY



important Treasury hub for the Group and remains a leading source of liabilities in the region. The diversification benefit of operating large treasuries in several uncorrelated financial hubs is often critical in weathering various idiosyncratic funding environments in MENA and abroad.

In 2018, IBG will continue to strengthen the Bank's risk and liquidity positions across international markets, thereby safeguarding the stability and growth of the NBK Group. The introduction of IFRS 9 standards for financial instruments will be an important consideration to be addressed across geographies, while NBK will continue to address banking sector challenges by expanding and diversifying its presence in strategic markets, such as Egypt and Saudi Arabia.

NBK Capital

NBK Capital's Investment Banking unit advised on almost all of Kuwait's most significant Debt Capital Market (DCM) transactions

NBK Capital's primary business is Asset Management, which drives the unit's top-line growth. A range of in-house managed regional (MENA) products are offered to investors, covering all major asset classes in the GCC and Middle East. International investment products are offered on a co-managed basis with global partners, covering Real Estate, Direct Lending funds and other higher-liquidity products. NBK Capital's clients are typically Institutions and HNWIs, with the latter often serviced in partnership with the Private Banking Group. NBK Capital's AuM totalled just over USD 6 billion as at 31 December 2017.

During the year, NBK Capital's Investment Banking unit advised on almost all of Kuwait's most significant Debt Capital Market (DCM) transactions. These included the 2nd tranche of KNPC's latest greenfield project, a deal worth approximately USD 9 billion, as well as NBK's own GMTN issuance. In Equity Capital Markets (ECM), NBK Capital has positioned itself as an indispensable local conduit for cross-border and local transactions. As well as advising on cross-border M&A deals, NBK Capital was selected to lead a consortium to advise on the IPO of shares in the Al Zour North One power project, scheduled to list in 2018. Other important transactions included NBK Capital's successful exit from Study World Higher Education Services, which was the 7th successful realization of Mezzanine Fund 1, and the successful sale of secondary shares in education company HumanSoft. In general, NBK Capital continues to advise on several transactions related to the Kuwait Government's development plan.

NBK Capital's Brokerage business had a strong year, due to considerably higher trading volumes on the Kuwait Stock Exchange, in contrast to other GCC markets. Index value on the Kuwait Stock Exchange improved in 2017, driven by several high-profile deals related to large corporates such as Zain and Americana, as well as strong earnings recorded by the banks. Kuwait in general became an increasingly attractive equity market – compared to the UAE, Qatar and Saudi Arabia. The Brokerage business should continue to benefit and exploit opportunities relating to the inclusion of Kuwait in the FTSE Emerging Markets index.

Key innovations in the final quarter of 2017 included the roll-out of NBK Capital's automated wealth management product, labelled NBK Capital Smart Wealth. This aims to leverage technology to primarily serve the retail client segment by providing cost-effective international investment opportunities to retail investors through a technologically advanced platform.

Going forward, in addition to several new product launches within the Asset Management business and continued activity in Investment Banking and Brokerage, Saudi Arabia will be a key market for NBK Capital's expansion. This growth will be driven by the introduction of a hybrid Asset Management and Private Banking franchise in Riyadh and Jeddah, regulated by the CMA and tapping into the region's largest investor base.

IT and Operations

NBK customers continued to enjoy rapid growth in the availability of NFC (Near Field Communication) payment options

IT and Operations are the Bank's backbone and the mainstay of its institutional strength. It enables the Bank's day-to-day activities, facilitating the delivery of a truly customer-centric offer, as well as a commitment to regulatory compliance and the highest standards of Corporate Governance.

NBK strives to constantly improve the efficiency of its operations, by developing and establishing systems that meet the ever-changing requirements of a large financial institution. In 2017, we continued to enhance the performance of our core banking systems, with a focus on projects to enhance the Bank's middleware infrastructure. As part of NBK's Enterprise Service Bus (ESB) program, a raft of new or enhanced technologies were introduced to support higher levels of efficiency.

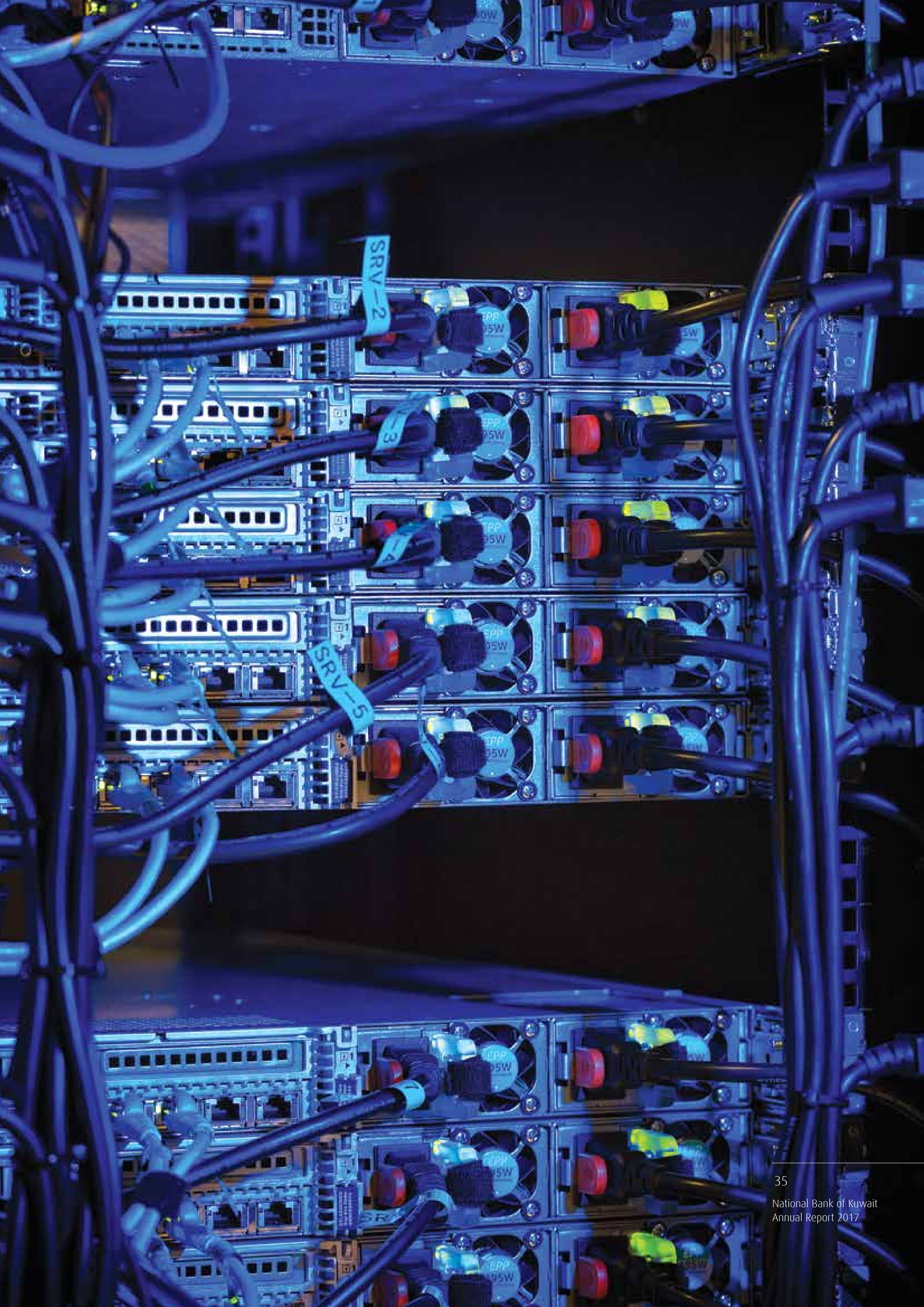
From an external perspective, key initiatives included a major upgrade of the NBK Online Banking platform, with a focus on improving experience for international customers. Measures to improve the maintenance and design of the Bank's website were also implemented. New features were added to the Bank's online banking channel, including online credit card PIN retrieval, customer information updates, the opening of savings accounts, and fixed and variable deposit accounts. Furthermore, customers are now able to view e-statements online, thereby reducing paper usage.

NBK customers continued to enjoy rapid growth in the availability of Near-Field Communication (NFC) payment options. NBK's 'Tap & Pay' platform has created a new generation of options for Consumer Banking customers, who now have access to contactless credit and debit cards, stick-on 'Tap & Pay' cards and wearable 'Tap & Pay' wristbands. This innovative approach to product development has been further supported by a 'mobile first' philosophy for the Bank's channels, which now include features such as a personal loan calculator, online exchange rate generator, SMS and miles subscription, online chat, customized e-ads, reload of prepaid cards, loan details and NBK brokerage accounts display.

Customers visiting NBK's digital and online touchpoints can open savings accounts, apply for prepaid cards or chat online with the customer service team. In 2017, the Bank tied up with Oxford University and Essex University in the UK to develop new systems and platforms that will improve digital banking programs and enhance customer experience.

The infrastructure that underpins the Bank's operations will soon include a state-of-the-art Tier 3 data centre (as per Uptime Institute grading). Currently under construction, it will be the only one of its kind in Kuwait and is expected to be operational by the beginning of 2019. In 2017, a major hardware overhaul also saw the replacement of aging equipment.

Cybersecurity is another major area of focus. The Bank is certified against the internationally recognized PCIDSS 3.2 standard and complies with Central Bank regulations pursuant in all the international markets it operates. Cybersecurity reviews are conducted monthly to identify and respond to threats as they emerge, with a wide range of front-line defenses in place to deal with potential security issues on a real-time basis. These state-of-the-art barriers enable the analysis of suspicious behavior before an attempted breach is carried out. In 2017, NBK introduced a centralized Security Operations Centre (SOC) and is in the process of onboarding all its international locations.


SRV-2
SRV-5

INVESTING IN PEOPLE

The Bank has a strong commitment to attracting, developing and retaining the highest-quality employees, thereby assuring its future success.

The Bank has a strong commitment to attracting, developing and retaining the highest-quality employees, thereby assuring its future success and ensuring a high-quality service is provided to customers of all types and in all locations. NBK's Human Resources strategy is to provide the training and development that its employees need to advance their careers, incentivizing them to succeed and to work towards a common goal.

Training and development highlights

Middle Management Program

The NBK Middle Management Program enables employees to develop the skills required to be better managers, while working more productively and effectively in their own roles. The program is run in partnership with Euromoney Training Solutions, with key topics including:

1. Developing and managing people and skills
2. Adaptive leadership
3. Conflict and change management
4. Effective communication skills
5. Performance management and talent retention

Credit and Relationship Management Training Program

The Credit and Relationship Management Training Program is run in collaboration with Moody's and was attended by 108 employees in 2017. Moody's Analytics is used to deliver the program, which is supported by soft and relationship-based skills training. The certification process sees candidates passing three distinct levels: Foundation, Intermediate and Advanced. Participants typically belong to the following business areas:

- Domestic Corporate Banking
- Risk Management
- Foreign Corporate and Trade Finance
- International Banking
- Consumer Banking

School of Trade Finance

In line with the Bank's commitment to continuous development of talent, NBK provided the School of Trade Finance initiative for 33 employees in 2017. The program is delivered jointly with Euromoney Learning Solutions, and covers seven core topics:

1. Fundamentals of Trade Finance
2. Collections
3. Letters of credit
4. Letters of guarantee
5. Standby credits
6. Structuring Trade Finance products
7. Compliance for letters of credit and letters of guarantee

Staff recognition

Recognizing our employees' efforts and achievements is as important as their training and development. A range of financial incentives is available to staff on a variable basis, usually related to sales, in the form of commission, or performance bonuses distributed for non-sales roles. A stock option program is available to senior employees (at General Manager level or above). This is offered on a discretionary basis, taking into account both performance and senior management review.

Our 'MVP Awards' program allows employees to vote for junior colleagues in the same division, directly recognizing the contribution made by a team's most valuable players. Votes are based on the employee's team spirit, engagement, effectiveness and positive impact on the division. Nominees must have been employed by NBK for at least 100 working days, have a record of strong personal performance. Successful nominees receive a certificate and prize from Executive Management at an annual ceremony.

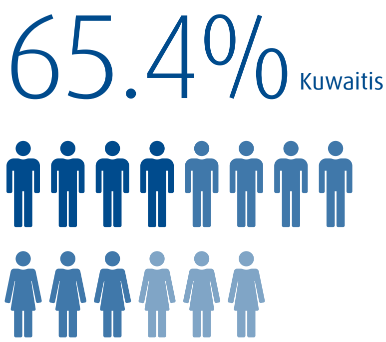
Instilling our core values

We strongly believe that our employees, at every level, should work according to a shared set of values. The 'I am NBK' campaign promotes this philosophy, encouraging staff to be mindful of NBK's values in all they say and do. The campaign encourages staff to take full ownership of their roles, thereby striving to exceed expectations.

The principal objective of 'I am NBK' is to promote emotional, rational and motivational engagement among employees, encouraging them to deliver exceptional service across the Bank, both internally and externally. The campaign's manual contains a set of eight principles that have their basis in NBK's underlying corporate culture:

- **Empathy:** My responsibility is to understand the problems you are facing and support you in finding a solution
- **Excellence:** I strive to deliver above your expectations
- **Accessibility & Availability:** We are wherever you are 24 hours a day locally, regionally & internationally
- **Communication:** I am honest and transparent in the feedback I give, and open towards any feedback I receive
- **Trust:** I am reliable and trustworthy throughout all my dealings, I keep your personal & confidential information safe and secure
- **Teamwork:** I add value and ensure to achieve collective goals by working with a diversified team
- **Consistency:** We are one bank with one voice and therefore I ensure to consistently offer the best service and product throughout all my professional dealings
- **Integrity & Respect:** My behavior reflects a culture built on integrity, respect, and pride in everything I do

As at 31 December 2017, NBK Group employed 6,058 people in MENA, Europe, Asia and North America. Across the Group, our employees are 66% male and 34% female, while in our domestic market of Kuwait we enjoy a nationalization percentage of 65.4%.



SUSTAINABILITY

The NBK sustainability model is based on six key areas of focus, enabling us to have a long-term and positive impact on the economy, society and environment.

The NBK sustainability model is based on six key areas of focus. These allow the Bank to contribute directly to the communities in which it operates, thereby enabling us to have a long-term and positive impact on the economy, society and environment. Our six Sustainability Focus Areas are defined as follows:

Contributing to economic development

As Kuwait's leading financial institution, NBK plays a crucial role in supporting the financing needs of the Kuwait government's most important infrastructure and development projects. These currently range from clean fuel facilities to petrochemical refineries and educational institutions, as part of the country's New Kuwait 2035 development program. We are proud of the role we play in supporting the delivery of these projects and have successfully positioned ourselves as the bank of choice for large corporates seeking public-private participation.

NBK SUSTAINABILITY MODEL

Serving customers

We have been ranked among the World's 50 Safest Banks for 12 consecutive times, consistently achieving customer satisfaction ratings above 90% across our branch network. We are proud of the service we offer our customers and the dedication we show is frequently and publicly recognized. Our approach is one of innovation in the development of our service offering, to provide synergies that deliver and exceed our customers' needs across the life cycle of the banking relationship and across business segments. We work hard to improve the accessibility of our branches to customers with special needs and continue to build on the number of branches that offer total accessibility.

Leading in Corporate Governance

NBK operates in accordance with a robust Corporate Governance Framework, with both Board and Management Committees meeting regularly to review and address the most important issues. Staff at different levels within the Bank also attend training, workshops and awareness sessions on governance-and compliance-related issues, ensuring that NBK is fully aligned with regulatory requirements – both of Kuwait and the international markets in which we operate.

Respecting and developing people

NBK Group employs 6,058 men and women worldwide. As described above, we have a flourishing training and development program for employees at every level, supporting the development of leadership and technical skills, anti-money laundering education and wider banking studies. The Bank's 'I am NBK' campaign instils employees with our eight core values, allowing them to take personal ownership of their work, thereby exceeding the expectations of both colleagues and customers alike.

Caring for our environment

In 2018, NBK will move into its new headquarters in Kuwait City. Designed by Foster + Partners, the building combines structural innovation with an efficient form, shielding offices from the extreme heat. Employing a range of measures to reduce water and energy consumption, the building is expected to achieve an internationally recognized LEED Gold rating for efficiency. Other environmental initiatives we are pursuing include energy conservation and reduced paper consumption – achieved in part through improved digital banking services – and electronic equipment recycling. All our investments in PPP projects require compliance with an Environmental Impact Assessment, a Social Impact Assessment and Equator Principles standards.

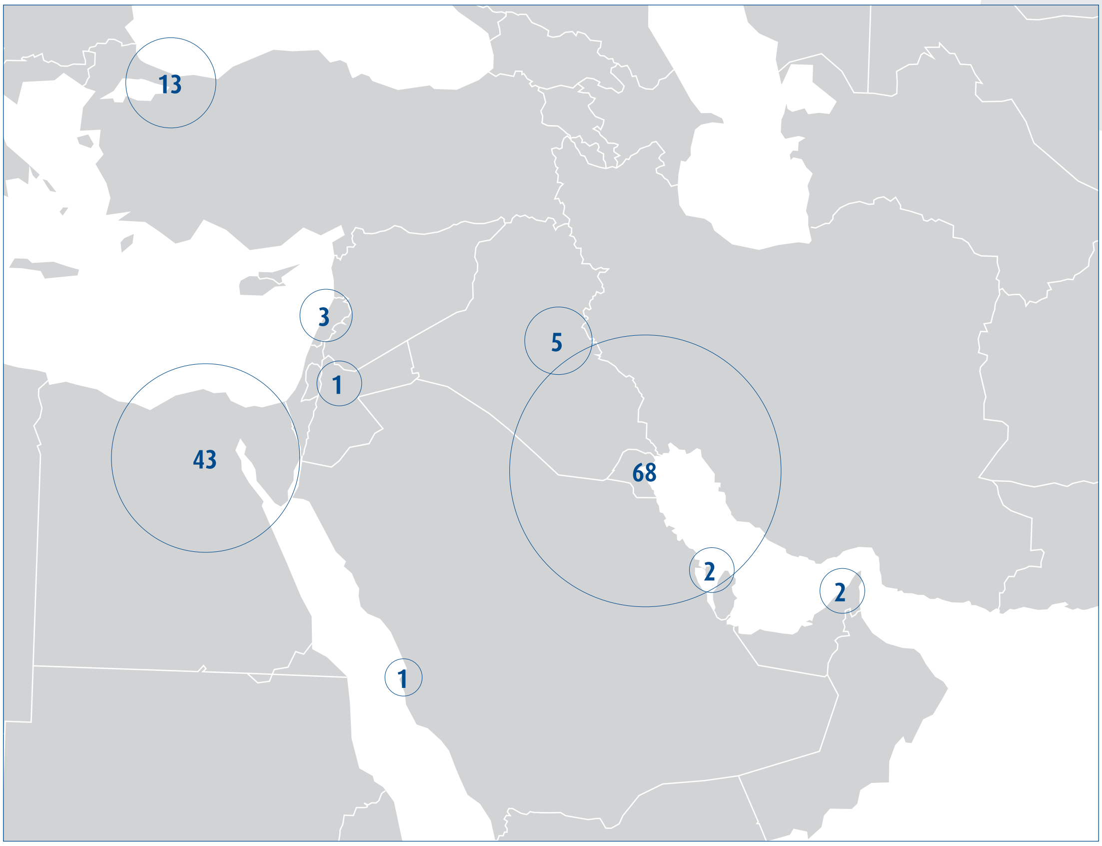
Giving back to our community

NBK's Corporate Social Responsibility (CSR) activities are formed around four pillars: Social Development, Children's Care, Health and Environmental Development. Our most important recent community contributions include continued investment in NBK Children's Hospital, consisting of Stem Cell Therapy Unit, Pediatric Hematology and Pediatric Oncology, the 'I HAVE A DREAM' initiative and the NBK Academy, which allows children and students from a wide age range to gain direct experience of – and guidance on – careers in banking. In the last two decades, NBK's social contributions have exceeded KD 170 million and we remain committed to directly contributing to the communities in which we work.

Detailed information on our Sustainability initiatives can be found in the 'NBK Sustainability Report 2017', published in conjunction with this Annual Report.

A GROWING FOOTPRINT

In 2017, NBK had 143 branches across its network, with one representative office becoming a branch in Shanghai (China) and two new branches on course to be opened in Riyadh and Dammam (Saudi Arabia) in 2018. The highest concentration of NBK branches is in its domestic market, Kuwait, where the Bank is present in 68 locations, including its Head Office.



NBK Group's operations span 15 global markets, with a focus on the MENA region.

MIDDLE EAST

Kuwait	**68** branches
Egypt	**43** branches
Turkey	**13** branches
Iraq	**5** branches
Lebanon	**3** branches
Bahrain	**2** branches
UAE	**2** branches
Jordan	**1** branch
Saudi Arabia	**1** branch

EUROPE

UK (London)	**2** branches
France (Paris)	**1** branch
Switzerland (Geneva)	**1** branch

ASIA

China (Shanghai)	**1** branch
Singapore	**1** branch

NORTH AMERICA

USA (New York)	**1** branch

GOVERNANCE

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

BOARD OF DIRECTORS

Mr Nasser Musaed Abdullah Al-Sayer
Group Chairman

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

Mr Ghassan Ahmed Saoud Al-Khaled
Vice-Chairman

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

Mr Hamad Abdul Aziz Al-Sager
Board Member

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

Mr Yacoub Yousef Al-Fulaij
Board Member

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

Mr Hamad Mohamed Al-Bahar
Board Member

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

Mr Muthana Mohamed Ahmed Al-Hamad
Board Member

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

Mr Haitham Sulaiman Hamoud Al-Khaled

Board Member

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

Mr Loay Jassim Al-Kharafi

Board Member

Mr Al-Kharafi has been a Board Member of NBK since 2011. He is also a Member of the Board Audit Committee and Board Risk Committee. Mr. Al-Kharafi served as Vice-Chairman of the Industrial Bank of Kuwait (IBK) from 1999 to 2003, and from 2005 to 2008. He was Chairman of the Board Audit Committee during the same period. Mr Al-Kharafi has held a number of advisory and commercial positions at the Al-Kharafi Group of companies, in addition to management of the Al-Kharafi law office and legal consulting. He has considerable experience in regulatory compliance and legal matters. Mr Al-Kharafi holds a bachelor of law degree from Kuwait University.

Mr Emad Mohamed Al-Bahar

Board Member

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

EXECUTIVE MANAGEMENT

Left to right: Mr Sulaiman Barrak Al-Marzouq, Mr Isam J. Al-Sager, Ms Shaikha K. Al-Bahar, Mr Salah Y. Al-Fulaij

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

Mr Al-Sager joined NBK in 1978, and has been the Group Chief Executive Officer since March 2014. He is a member of various Management Committees. Mr Al-Sager is Chairman of National Bank of Kuwait – Egypt. He 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. He holds a bachelor of science degree in business administration from California State Polytechnic University, USA.

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

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

Mr Salah Y. Al-Fulaij
(Chief Executive Officer – Kuwait)

Mr Al-Fulaij joined NBK in 1985 and is now the Chief Executive Officer – Kuwait. He is a member of various Management Committees. Mr Al-Fulaij serves on the board of NBK Capital and Watani Financial Brokerage Company. He was the Chief Executive Officer of NBK Capital from 2007 to 2014, and previously Group General Manager of Treasury and Investments Services. Mr Al Fulaij is a graduate of the University of Miami, where he received his bachelor's degree in industrial engineering and his MBA in business management. He has participated in a number of executive programmes at Harvard Business School, Stanford Graduate School of Business, and Duke University (USA).

Mr Sulaiman Barrak Al-Marzouq
(Deputy Chief Executive Officer – Kuwait & General Manager of Group Treasury)

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

Mr Georges Richani

(CEO International Banking Group)

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

Mr Jim Murphy

(Group Chief Financial Officer)

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

Mr Parkson Cheong

(Group Chief Risk Officer)

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

Mr Mustafa El-Gendi

(General Manager - Corporate Banking Group)

Mr El-Gendi joined NBK in 1979 and has been 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 areas of Credit and Corporate Banking Management. He holds a bachelor of science degree in accounting from Ain Shams University, Egypt and has attended numerous training courses and seminars at London Business School (UK) and Harvard University (USA).

Mr Pradeep Handa

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

Mr Handa joined NBK in 1980 and has been General Manager - Foreign Corporate, Oil and Trade Finance Group, since 2012. He is also a member of various Management Committees. Former appointments at NBK include Assistant General Manager, Executive Manager and Senior Manager at Corporate Banking Group - Kuwait. He has more than 30 years' experience in handling Foreign Corporate Banking and Oil and Trade Finance matters. Mr Handa holds a master's degree from the University of Delhi, India.

Dr. Soliman Abdel-Meguid

(General Counsel - Head of Legal Affairs Group)

Dr. Abdel-Meguid joined NBK in 2001, as General Counsel heading the Legal Affairs Group of the Bank. He started his career in the Egyptian judiciary system and teaching at various universities. He has since gained more than 32 years' experience of legal affairs at Kuwaiti banks. Dr. Abdel-Meguid holds a Ph.D. in Law, with distinction, from Cairo University (Egypt). He has been granted the Award of the Egyptian Society of International Law, and has authored several publications in the legal field.

Mr Malek Khalife

(General Manager - Private Banking Group)

Mr Khalife joined NBK in 2005 and has been General Manager, Private Banking Group – Kuwait since 2008. He is a Board Member of NBK Lebanon. He is also a member of various Management Committees. Mr Khalife's last tenure, prior to his current position, was as Director of the Private Banking Representative Office at American Express Bank Limited in Lebanon. He has over 32 years' experience of Private Banking and Financial Markets in the Middle East and Gulf region. Mr Khalife holds a master's degree in economic sciences from Saint Joseph University, Lebanon.

Mr Emad Al-Ablani

(General Manager – Group Human Resources)

Mr Al-Ablani joined NBK in March 2003 and was appointed as General Manager – Group Human Resources in 2014. He is also a member of various Management Committees. Former appointments at NBK include Deputy General Manager, Head of Human Resources – Kuwait and Assistant General Manager – Recruitment & HR Operations. He has more than 23 years' experience in Human Resources. Mr Al-Ablani holds an Executive Master's degree in Business Administration (EMBA), from the American University of Beirut (Lebanon) and a bachelor of arts degree in educational psychology from Kuwait University.

Mr Dimitrios Kokosioulis

(General Manager - IT & Operations Group)

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

Mr Carl Ainger

(Group Chief Internal Auditor)

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

Mr Suresh Bajpai

(General Manager – Consumer Banking Group)

Mr Bajpai joined NBK in 2016 as General Manager - Consumer Banking Group. He is also a member of various Management Committees. Former appointments include Head of Retail Banking Group, Managing Director and Global Head of Commercial Banking and Enterprise Payments, and Regional Director Customer Management for Doha Bank in Qatar and Citigroup in the UK and USA. He has extensive experience in Commercial and Retail Banking, Banking Payments (Digital and Mobile), Banking Products (Credit, Debit and Prepaid Cards), Credit and Risk. Mr Bajpai holds a master of business administration (MBA) degree from the Jamnalal Bajaj Institute of Management (India), as well as a bachelor of engineering in electronics from Bangalore University (India).

Dr. Elias Bikhazi

(Group Chief Economist)

Dr. 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 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 (Lebanon), and a master of arts and a philosophy doctorate, both in economics, from the University of Southern California (USA).


الوطني
NBK

CORPORATE GOVERNANCE FRAMEWORK

National Bank of Kuwait Group is aligned with the best international Corporate Governance practices and risk management, to protect stakeholders' rights. During 2017, the Group adhered to all the provisions and determinants of Central Bank of Kuwait instructions regarding the Corporate Governance rules and standards for Kuwaiti banks, issued in June 2012, as well as the regulatory instructions related to governance in Kuwait and those issued by other countries in which the Group's entities operate.

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

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

During 2017, the Group achieved a number of key accomplishments in the effective implementation of the Corporate Governance Framework. These are as follows:

- Reviewed and developed the governance policies and charters according to the regulatory instructions in Kuwait and the instructions issued by the regulatory authorities in countries where the Group operates
- Developed and implemented automated systems for compliance, operational risk, Foreign Account Tax Compliance Act (USA) and Anti Money Laundering/ Combating Financing of Terrorism
- Conducted an independent review and assessed the efficiency of implementing Corporate Governance at NBK subsidiaries by monitoring and supporting the governance units at these subsidiaries, which manage the affairs of the Board of Directors and their Committees
- Issued awareness publications on the implementation of Corporate Governance and Regulatory Compliance to all employees of the Group
- Developed and continually improved the Corporate Governance reporting systems between entities of the Group
- Fulfilled the Capital Markets Authority requirements of the Corporate Governance regulations for NBK and its subsidiaries (NBK Capital and Watani Financial Brokerage Company)

The Board and Committees' composition and duties

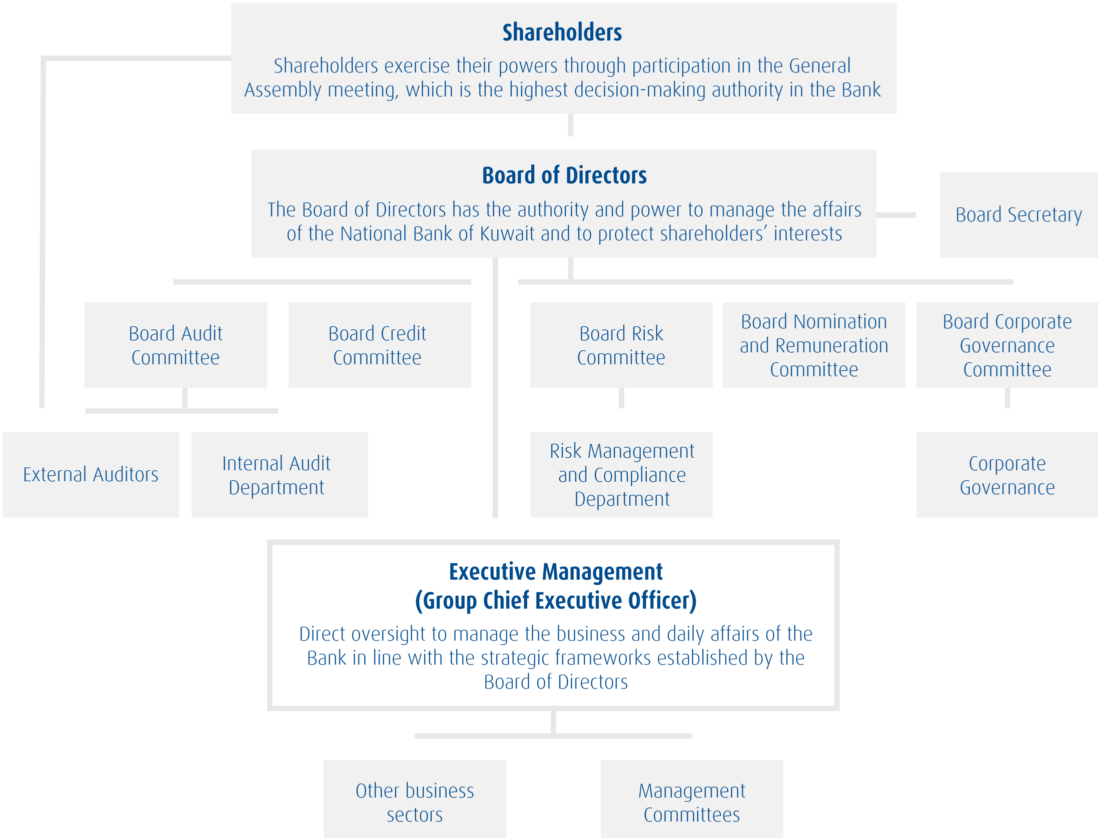
NBK Group's Board of Directors is composed of nine (9) Non-Executive Members representing the shareholders. The Board Members are elected and appointed by the General Assembly of the Bank, for three (3) years. The Board aims to strengthen the long-term success of the Group and to deliver sustainable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

The Board's structure is generally characterized by having the appropriate number of Members, diversity of professional experience, educational qualifications and broad knowledge of the banking and business sectors. Board Members collectively hold experience and knowledge in the areas of Accounting, Finance, Economics, Strategic Planning, Corporate Governance, Internal Control and Risk Management, in addition to outstanding experience in the local and regional business environment.

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

To comply with the supervisory regulations issued by Central Bank of Kuwait, in addition to the Group's effort to effectively implement the Corporate Governance Framework, the Group formed an appropriate number of Committees that are aligned with the size of the Group, the nature and complexity of its activities and the geographical distribution of the Group's entities. The Board of Directors formed 5 sub-committees to enhance the Board's effectiveness in overseeing important Group operations.

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



The Board and its Committees

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

GOVERNANCE

BOARD OF DIRECTORS AND COMMITTEE MEETINGS

The Board of Directors held 9 meetings during 2017. Minutes of all meetings have been documented and are included in the Bank's records.

The below table details the names of the Board of Directors, their Committee memberships and meetings.

The total number of meetings of the Board of Directors and its Committees was 70, in addition to the number of meetings attended by each Member during the year.

Board of Directors Members	Committee Membership	Board of Directors	Corporate Governance	Nomination and Remuneration	Risk	Audit	Credit
Mr Nasser Musaed Al-Sayer	* Chairman of Board of Directors * Chairman of Corporate Governance Committee	7	2				
Mr Ghassan Ahmed Al-Khalid	* Chairman of Nomination and Remuneration Committee * Chairman of Risk Committee	9		2	4		
Mr Hamad Abdul Aziz Al-Sager	* Chairman of Credit Committee * Member of Corporate Governance Committee	8	2				27
Mr Yacoub Yousef Al-Fulaij	* Member of Corporate Governance Committee * Member of Credit committee	7	2				32
Mr Hamad Mohammed Al-Bahar	* Chairman of Audit Committee * Member of Nomination and Remuneration Committee	8		2		5	
Mr Muthana Mohamed Al-Hamad	* Member of Corporate Governance Committee * Member of Nomination and Remuneration Committee * Member of Credit Committee	9	2	2			44
Mr Haitham Sulaiman Al-Khaled	* Member of Corporate Governance Committee * Member of Risk Committee * Member of Audit Committee	9	2		4	5	
Mr Loay Jassim Al-Kharafi	* Member of Risk Committee * Member of Audit Committee	6			4	4	
Mr Emad Mohamed Al Bahar	* Member of Nomination and Remuneration Committee * Member of Credit Committee	6		2			35
Total number of meetings		9	2	2	4	5	48

Meetings held by the Board of Directors and its Committees during 2017 were in compliance with Central Bank of Kuwait governance rules and standards and the Board and Committees' charters in terms of the number of meetings, periodicity, the quorum and the topics reviewed and discussed by Members.

CORPORATE GOVERNANCE FRAMEWORK IMPLEMENTATION

General overview

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

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

The following are the most important achievements of the Board of Directors and Committees during 2017.

Board of Directors' key achievements

- Discussed and approved the updated three-year strategy of the Group
- Reviewed and approved the audited financial statements of the Bank
- Discussed the risk appetite and its impact on the Group's strategy
- Reviewed the results of the Internal Capital Adequacy Assessment Process ("ICAAP"), financial stress testing as per the regulatory requirement Basel (III)
- Discussed and approved general and specific provisions for the local and international loan portfolio
- Reviewed and updated the authority matrix for the CEO and DCEO
- Reviewed the Board of Directors' structures within subsidiaries on an ongoing basis, ensuring their compliance with the regulatory requirements and the general policy of the Group's governance framework
- Approved the issuance of USD 750 million unsecured bonds as part of a global medium-term bond program of USD 3 billion
- Followed the progress of the Group's operations through regular meetings with Executive Management and discussed the results of the Group's business through periodic reports prepared by the Financial Group, which clarify the most important financial indicators of the Bank's budget and profits according to geographical distribution of branches and foreign subsidiaries
- Reviewed and evaluated the effectiveness of the Board and its Committees, in addition to conducting individual self-assessments of the Board and Committee Members
- Reviewed the remuneration framework, the mechanism of linking rewards to performance, the level of risk exposure and updated the remuneration policy at Group level
- Oversaw the implementation of the Corporate Governance Framework at Group level and ensured compliance with local regulations in the countries the Group operates in, that are in line with the Group's Corporate Governance Framework
- Reviewed and developed policies and charters of Corporate Governance at Group level, in order to be commensurate with the Group's organizational structure and to keep up with applicable international and leading Corporate Governance practices

- Conducted self-assessment for Corporate Governance implementation at Group level and identified the areas that need to be developed
- Reviewed the results of the annual independent evaluation of the Corporate Governance Framework, conducted by the Internal Audit Department, and highlighted the areas of the Framework that require improvement
- Reviewed the results of the annual independent evaluation of the Internal Control Review, for the Corporate Governance Framework, conducted by the external auditors
- Supervised the Corporate Governance offices and units in the Bank's subsidiaries, followed up their progress through periodic reports that were presented to the Board Corporate Governance Committee for review and discussion, and subsequently to the Board of Directors
- Approved the NBK capital increase by 5% as bonus shares
- Approved the establishment of Watani Wealth Management Company in the Kingdom of Saudi Arabia

Board Committees' key achievements

Corporate Governance Committee

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

- Reviewed the implementation of Corporate Governance in Kuwait and by the subsidiaries, while providing continuous support to subsidiaries
- Reviewed and amended Board and Committees' charters according to supervisory regulations issued in this regard and made recommendations to the Board of Directors
- Reviewed and discussed the results of the internal audit report on the annual evaluation of the Corporate Governance Framework, and level of compliance with regulators
- Reviewed and discussed the report and the results of the evaluation of internal control systems, and the adequacy of implementing the rules of corporate governance at Group level
- Reviewed and updated Corporate Governance policies, in line with the latest regulatory instructions, leading practices and made recommendations to the Board for approval
- Discussed related parties' transactions, conflict of interest reports and the effectiveness of existing mechanisms
- Supervised the progress of Corporate Governance implementation at Group level
- Reviewed and discussed the report prepared on the adequacy of the implementation of Corporate Governance at Group level

Nomination and Remuneration Committee

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

- Supervised the assessment of the Board of Directors' performance and the self-assessment of the Board Members
- Conducted the approved training plan for 2017 for Board Members, which covers special topics – Risk Management, Corporate Governance, IFRS9 and regulatory requirements
- Conducted a comprehensive assessment of the Board of Directors' and its Committees' performance, as well as the performance of each Board Member individually
- Reviewed the remuneration policy and presented it for approval to the Board of Directors
- Reviewed the rewards and incentives for 2017 based on the KPIs and risk indicators and put forward recommendations to the Board
- Reviewed the links between remuneration and the Group's long-term objectives
- Reviewed and discussed the succession plan prepared by the Group Human Resources and recommended it to the Board for approval
- Reviewed and discussed the Phantom Shares Plan for key personnel and made recommendations to the Board of Directors
- Reviewed and discussed the latest developments in the banking industry, the related reports in this regard and the latest related regulatory requirements

Audit Committee

The Committee met 5 times during the year and the following key duties were performed:

- Reviewed and approved the Group's internal audit annual plan for 2017 for Kuwait, overseas branches and subsidiaries, based on the risk assessment and audit focus areas. Also reviewed the internal audit policy and manual and presented them to the Board for approval
- Coordinated with external auditors, reviewed the interim and annual financial statements of the Group, discussed with external auditors the new methodology of preparing the independent auditors' report for the year and submitted recommendations to the Board of Directors
- Reviewed and discussed the internal audit summary and considered what has been achieved in the internal audit plan compared to performance during the previous year
- Discussed the results of the report of the annual internal controls review
- Reviewed the Committee charter and amendments and submitted recommendations to the Board of Directors
- Reviewed the efficiency and independence of the internal audit function, infrastructure and the overall annual assessment of the function's performance with the Group Chief Internal Auditor
- Discussed aspects of internal audit that relate to information technology and IT security
- Provided recommendations related to the external audit fees, with respect to the services provided
- Discussed external audit results related to the Internal Audit Department
- Evaluated the Group Chief Internal Auditor's performance and determined his remuneration
- Reviewed and discussed the internal audit reports for Kuwait, overseas branches and subsidiaries

Risk Committee

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

- Reviewed and discussed the strategy and challenges of Risk Management, the set of periodic risk management reports at Group level and the key risk indicators
- Reviewed and discussed the periodic market risk report, Internal Capital Adequacy Assessment Process ("ICAAP"), liquidity ratios, and the ratios related to stress testing and the methods with which they are dealt at Group level
- Reviewed and discussed the risk limit ratios, compared the ratios to the Group's approved risk appetite and the exposure levels of countries in which the Group operates, and discussed those ratios and the changes compared to previous periods
- Reviewed updates on overall economic situations and their impact at Group level
- Reviewed the reports of operational risk, market risk and compliance risk at Group level
- Reviewed and updated senior Credit Committee authorities and put forward recommendations to the Board for approval
- Reviewed periodic reports on the risks of information systems, operational risks, the results of the internal control systems report on regulatory compliance, anti-money laundering and financing of terrorism, and compliance with the regulatory requirements of the Foreign Account Tax Compliance Act (FATCA) at Group level
- Reviewed compliance policy, procedures and plan, the AML/CFT plan and self-assessment plan for operational risk
- Reviewed regulatory compliance remarks at Group and subsidiary level, through self-evaluation results as well as field visits and review processes
- Evaluated the Group Chief Risk Officer's performance and determined his remuneration
- Reviewed and updated the organizational structure of Group risk and made recommendations to be presented to the Board of Directors
- Reviewed the cybersecurity report, global risk and the future plan for updating the Bank's protection systems and continuing training for NBK staff
- Reviewed annual treasury limits and excess policy
- Reviewed and discussed the Credit Operation Department plan

Credit Committee

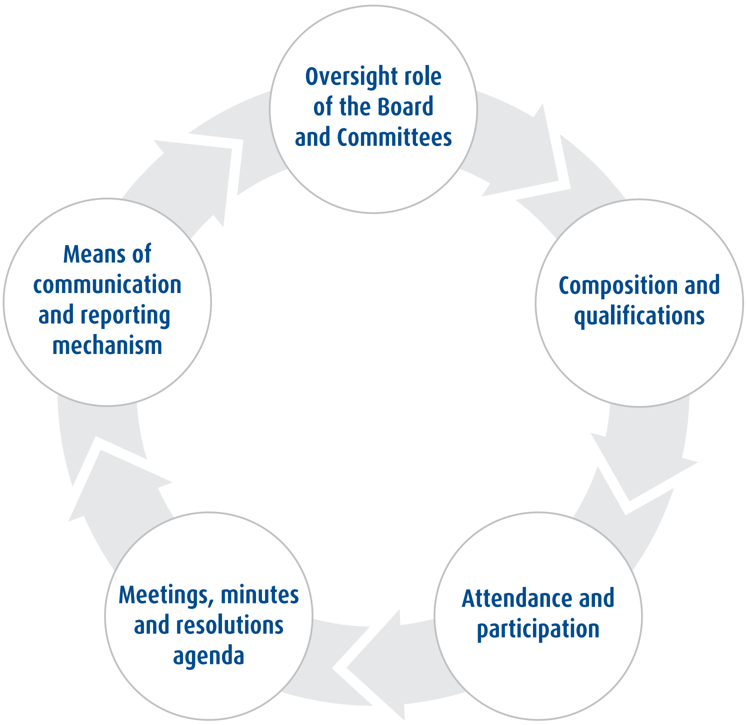
The Committee met 48 times during the year and the following key duties were performed:

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

Board of Directors self-assessment

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

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



Based on the evaluation results, the Committee presented its report to the Board in its meeting held in December 2017.

REMUNERATION POLICY AND FRAMEWORK

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

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

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

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

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

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

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

The Group applies a deferment approach of up to three years (final vesting of the variable component). Vesting of the variable component is subject to achieving long-term performance targets and risk materialization.

Clawback applies on the non-vested portions in case long-term targets are not met or risk materializes. The clawback mechanism is applicable on the Phantom Shares Plan component of variable compensation. The Phantom Shares Plan is available to a select number of qualified employees to benefit from this system and the clawback policy is applied to the element of variable remuneration.

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

Remuneration disclosures

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

The 5 senior executives who received the highest remuneration packages, including the Group Chief Financial Officer (CFO) in addition to Group Chief Internal Auditor (CIA) and Group Chief Risk Officer (CRO), received a Group compensation aggregating KD 7,802 thousand for the year ended December 2017.

The following table details the remuneration paid (KD'000) to staff categories:

Employee categories	Number of Employees	Fixed Remuneration	Variable Remuneration			Total
			Cash	Phantom Shares Plan	Other Performance Incentives	
Senior Management	67	9,349	7,186	1,778	523	18,836
Material Risk Takers	21	4,540	6,254	927	118	11,839
Financial and Risk Control	15	1,541	579	367	6	2,493

For disclosure purposes

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

INTERNAL CONTROL ADEQUACY REPORT

Board statement on adequacy of internal control systems

The Board strives consistently to ensure the adequacy and efficiency of the control systems required to protect the Group's operations, while 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 and Compliance functions are in place with sufficient authority, independence, resources and access to the business lines. The Board regards the Internal Audit function and external audit activities as integral parts of key control tools for independent review of information reported by Executive Management to the Board.

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

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

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

Review of the internal control system by an independent third party

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

A summary of the ICR report for the year ended 31 December 2016 was presented to the Board of Directors during 2017. The report did not highlight any significant issues.

INTERNAL CONTROL REVIEW BY EXTERNAL PARTY

The Board of Directors
National Bank of Kuwait S.A.K.
State of Kuwait

19 June 2017

Report on accounting and other records and Internal Control Systems

In accordance with our letter of engagement dated 20 March 2017, we have examined the accounting and other records and internal control systems at Kuwait, branches in Kingdom of Bahrain, Jordan, Kingdom of Saudi Arabia and United Arab Emirates ("UAE") and subsidiaries National Bank of Kuwait (Lebanon) SAL and National Bank of Egypt (together referred to as "the Group"), which were in existence during the year ended 31 December 2016. We covered all areas of the Group as follows:

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

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

National Bank of Kuwait (International) PLC, United Kingdom, National Bank of Kuwait, New York, SAK, 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 the Central Bank of Kuwait.

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

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

In our opinion, having regard to the nature and size of its operations, during the year ended 31 December 2016, the accounting and other records and internal controls systems, in the areas examined by us, were established and maintained satisfactorily in accordance with the requirements of the Manual of General Directives concerning Internal Control Reviews issued by the Central Bank of Kuwait on 14 November 1996, CBK instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwaiti Banks and the CBK instructions dated 23 July 2013 concerning Combating Money Laundering Operations and Financing of Terrorism with the exception of the matters set out in the report.

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

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

ETHICS AND PROFESSIONAL CONDUCT

Values and ethics

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

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

Ethics code

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

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

Conflict of interest

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

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

Confidentiality

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

During 2017, the Group continued to apply measures to maintain the confidentiality of information in accordance with policies and procedures and internal control systems, that require the preservation of confidentiality.

Whistle-blowing policy

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

STAKEHOLDERS' RIGHTS

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

Shareholders

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

The Public Institution for Social Security owns 5.53% of NBK Capital as of 31 December 2017.

Investor Relations

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

Customers

The Group has ensured, since inception, that it has established professional and behavioral rules, and provides qualified staff who can optimally serve customers. In addition, the Group continuously ensures that it follows regulatory instructions and is a pioneer in international practices in customer service and protection.

NBK has taken the necessary steps to implement the terms of the consumer protection instructions issued recently by the Central Bank of Kuwait, preparing what is required from a policy, before the Board, to enhance the understanding of transparency and disclosure in banking transactions provided by the Bank.

Employees

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

- Transparent remuneration and compensation structure
- Transparent working environment
- Contributing to employee talent management schemes
- Access to the whistle-blowing policy

Community (Corporate Social Responsibility)

The Group has maintained its progress in projects relating to Corporate Social Responsibility to foster a sustainable economic and social environment in the community, and regards this as a priority for the Bank. The Group discloses its relevant social activities on its website and in the form of a separate 'Corporate Social Responsibility Report 2017', published as an independent report.

GROUP RISK MANAGEMENT

Risk Management and Compliance structure

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

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

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

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

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

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

Risk Management strategy

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

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

Risk appetite

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

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

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

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

Risk Management Disclosures: 31 December 2017

I. Capital Adequacy

Introduction

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2005 Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). The CBK Basel framework consists of three Pillars. Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach". Pillar 2 pertains to the Supervisory Review Process and emphasises 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. Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

1. Regulatory Scope of Consolidation

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 for the year ended 31st December 2017.

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

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

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

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

2. Capital structure

The Group's regulatory capital comprises:

a) Common Equity Tier 1 (CET1) capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves, retained earnings and eligible non-controlling interests (net of Regulatory adjustments),
b) Additional Tier 1 (AT1) capital which consists of Perpetual Tier 1 Capital Securities classified as Equity (note 23 of the Group's consolidated financial statements) and certain additional eligible portion of non-controlling interests, and
c) Tier 2 (T2) capital which consists of Subordinated Tier 2 Bonds classified as Debt (note 18 of the Group's consolidated financial statements), the allowed portions of general provisions and certain additional eligible non-controlling interests.

The Bank's share capital as at 31 December 2017 comprised 5,917,447,518 issued and fully-paid-up equity shares (2016: 5,635,664,303).

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

Table 1 Regulatory Capital	31 December 2017	31 December 2016
Common Equity Tier 1	2,362,174	2,202,176
Additional Tier 1 Capital	253,048	247,904
Tier 1 Capital	**2,615,222**	**2,450,080**
Tier 2 Capital	337,052	323,472
Total Regulatory Capital	**2,952,274**	**2,773,552**

3. Capital Adequacy Ratio

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

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

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

Table 2 Minimum Capital Requirement*	CET1	Tier1	Total
31 December 2017**	11.5%	13.0%	15.0%
31 December 2016**	11.5%	13.0%	15.0%
31 December 2015	9.0%	10.5%	12.5%

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

From Year-end 2016 the minimum for the Kuwait Banking sector as a whole was raised to 13% from 12.5% and NBK, having been designated as a Domestic Systemically-Important Bank (D-SIB), is required to maintain an additional minimum capital of 2%. Countercyclical Capital Buffer has not been required for the period ended 31st December 2017 in the MCR (nor at 2016).

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

Table 3	CET1	Tier1	Total
Group for 31 December 2017	14.24%	15.76%	17.79%
Group for 31 December 2016	14.09%	15.67%	17.74%

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

Table 4	31 December 2017		
	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	17.6%	17.6%	17.6%
NBK (Lebanon) S.A.L. (Lebanon)	32.5%	32.5%	32.2%
NBK Banque Privee (Suisse) S.A. (Switzerland)	28.4%	48.2%	48.2%
Boubyan Bank K.S.C.P. (Kuwait)	15.0%	18.3%	19.4%

	Total
Credit Bank of Iraq S.A. (Iraq)	399.0%
NBK Egypt S.A.E. (Egypt)	18.2%

	31 December 2016		
	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	21.5%	21.5%	21.5%
NBK (Lebanon) S.A.L. (Lebanon)	36.2%	36.2%	36.2%
NBK Banque Privee (Suisse) S.A. (Switzerland)	21.0%	36.4%	36.4%
Boubyan Bank K.S.C.P. (Kuwait)	16.2%	20.2%	21.4%

	Total
Credit Bank of Iraq S.A. (Iraq)	357.0%
NBK Egypt S.A.E. (Egypt)	13.5%

All the banking subsidiaries within the Group are in compliance with the minimum capital requirements as applicable under their respective jurisdictions and have not reported any capital deficiencies. Other than restrictions over transfers to ensure minimum regulatory capital requirements are met, there exist no regulatory restrictions which constitute a material limitation on or impediment to 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 requirements for credit, market and operational risks are shown below. The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk-weighted, and capital charge is calculated, in accordance with CBK regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to CBK. The Capital charge in section 4.1, 4.2 and 4.3 below represent the minimum requirement for Kuwait Banking sector at 13%.

4.1. Credit risk

The total capital charge in respect of credit risk as at 31 December 2017 was KD 1,945,596 thousand (2016: KD 1,833,225 thousand) as detailed below:

Table 5	KD 000's					
	31 December 2017			31 December 2016		
	Gross credit exposure	Risk-weighted assets	Capital charge	Gross credit exposure	Risk-weighted assets	Capital charge
Cash	195,314	-	-	179,453	-	-
Claims on sovereigns	5,733,948	236,693	30,770	4,856,490	228,910	29,758
Claims on international organizations	72,467	-	-	49,281	-	-
Claims on public sector entities	826,901	37,156	4,830	497,215	31,552	4,102
Claims on multilateral development banks	28,316	-	-	73,779	-	-
Claims on banks	5,744,194	1,536,637	199,763	5,692,129	1,572,526	204,428
Claims on corporates	11,948,009	7,987,804	1,038,415	11,768,134	7,551,187	981,654
Regulatory retail exposure	5,030,418	4,357,250	566,442	4,681,819	4,087,273	531,346
Past due exposures	118,126	72,950	9,484	101,448	71,527	9,299
Other exposures	848,605	737,635	95,893	741,053	558,757*	72,638
Total	**30,546,298**	**14,966,126**	**1,945,596**	**28,640,801**	**14,101,732**	**1,833,225**

* Other exposures" above includes an amount of KD 344,846 thousand negative (2016: KD 415,558 thousand negative) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk-Weighted Assets, which is allowed in arriving at Tier 2 capital.

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

4.2. Market risk

The total capital charge in respect of market risk was KD 32,942 thousand (2016: KD 33,364 thousand) as detailed below:

Table 6	KD 000's	
	31 December 2017	31 December 2016
Interest rate risk	815	1,179
Foreign exchange risk	32,128	32,185
Total	**32,942**	**33,364**

4.3. Operational risk

The total capital charge in respect of operational risk was KD 178,383 thousand (2016: KD 165,482 thousand). This capital charge was computed by categorising the Group's activities into 8 business lines (as defined in the CBK Basel III framework) and multiplying the business line's three-year average gross income by a pre-defined beta factor.

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

The additional capital requirement in respect of NBK having been designated as a Domestic-Systemically Important Bank (D-SIB) of 2% as at 31 December 2017 amounts to KD 331,834 thousand (2016: KD 312,626 thousand)

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 organizational 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 the Group's risks.

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

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

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 organization.
- 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.

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:

- Credit risk in commercial and consumer lending and other asset exposures, such as collateral coverage ratio, limit utilization, 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 significant credit policies and the Group's corporate and consumer credit portfolios and advises the Board appropriately.

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

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

The Group Risk Management Committee, chaired by the Group CEO and comprising senior executives from business divisions and key operational/support functions, meets regularly to review salient risks throughout the Group, and advises the Board Risk Committee and the Board appropriately. These Committee meetings are led and conducted by Group Risk Management.

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 repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer-group.
- Internal credit-rating models are regularly reviewed by the Group risk management function in co-ordination with line management and the 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 Committees (Senior and Management)
  4. Management Credit Committee (for small- and medium-sized enterprises).

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- 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.

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 tandem with the Consumer Banking business.
- 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 Credit 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 and implementation of policies & procedures.
- All significant credit policies and amendments to policies are reviewed and approved annually by the Executive Committee and ratified by the Board. Within this framework, limits and approval authorities are exercised by the officers delegated with defined approval authorities.
- 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. These models are reviewed and refined continually.

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 utilization 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 regular formal monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles. Cross-border exposures are controlled by senior management in charge of relevant branches or subsidiaries and monitored by the central credit risk management function.

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 syndications, risk participation arrangements with other banks and sale of loans are common practices to manage the Group's exposures.

5.2.8 Management of credit collateral and valuation

The main types of collateral accepted by the Group include:

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 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:

Table 7	KD 000's					
	31 December 2017			31 December 2016		
	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees
Cash	195,314	-	-	179,453	-	-
Claims on sovereigns	5,733,948	-	-	4,856,490	-	-
Claims on international organizations	72,467	-	-	49,281	-	-
Claims on public sector entities	826,901	782	-	497,215	1,587	-
Claims on multilateral development banks	28,316	-	-	73,779	-	-
Claims on banks	5,744,194	-	1,573,097*	5,692,129	3,753	1,592,890*
Claims on corporates	11,948,009	2,091,934	-	11,768,134	2,529,420	-
Regulatory retail exposure	5,030,418	90,085	-	4,681,819	86,526	-
Past due exposures	118,126	14,128	-	101,448	12,345	-
Other exposures	848,605	-	-	741,053	-	-
Total	**30,546,298**	**2,196,929**	**1,573,097***	**28,640,801**	**2,633,631**	**1,592,890***

* "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 conversion and credit risk mitigation factors, respectively, are detailed below:

Table 8	KD 000's					
	31 December 2017			31 December 2016		
	Gross credit exposure	Funded exposure	Unfunded exposure	Gross credit exposure	Funded exposure	Unfunded exposure
Cash	195,314	195,314	-	179,453	179,453	-
Claims on sovereigns	5,733,948	5,701,498	32,450	4,856,490	4,854,263	2,226
Claims on international organizations	72,467	72,467	-	49,281	49,281	-
Claims on public sector entities	826,901	781,271	45,630	497,215	439,190	58,025
Claims on multilateral development banks	28,316	28,316	-	73,779	73,779	-
Claims on banks	5,744,194	3,869,721	1,874,473	5,692,129	3,747,587	1,944,542
Claims on corporates	11,948,009	9,338,193	2,609,816	11,768,134	9,337,102	2,431,033
Regulatory retail exposure	5,030,418	4,970,934	59,484	4,681,819	4,624,177	57,642
Past due exposures	118,126	118,126	-	101,448	101,448	-
Other exposures	848,605	848,605	-	741,053	741,053	-
Total	**30,546,298**	**25,924,445**	**4,621,853**	**28,640,801**	**24,147,333**	**4,493,468**

Table 9 Average Credit Exposures	KD 000's					
	31 December 2017			31 December 2016		
	Average credit exposure*	Funded exposure	Unfunded exposure	Average credit exposure*	Funded exposure	Unfunded exposure
Cash	201,732	201,732	-	177,998	177,998	-
Claims on sovereigns	5,262,922	5,238,324	24,598	5,113,987	5,111,751	2,236
Claims on international organizations	47,581	47,581	-	41,730	41,730	-
Claims on public sector entities	816,269	775,581	40,688	305,322	193,870	111,452
Claims on multilateral development banks	29,656	29,656	-	32,050	32,046	4
Claims on banks	5,947,959	4,008,024	1,939,935	5,656,183	3,836,087	1,820,096
Claims on corporates	11,900,728	9,428,383	2,472,345	12,019,552	9,497,928	2,521,624
Regulatory retail exposure	4,886,936	4,828,470	58,466	4,567,075	4,510,298	56,777
Past due exposures	114,260	114,260	-	78,477	78,477	-
Other exposures	738,531	738,531	-	777,557	777,557	-
Total	**29,946,574**	**25,410,542**	**4,536,032**	**28,769,931**	**24,257,742**	**4,512,189**

* Based on quarterly average balances

Table 10 Net Credit Exposures	KD 000's					
	31 December 2017			31 December 2016		
	Net credit exposure	Funded exposure	Unfunded exposure	Net credit exposure	Funded exposure	Unfunded exposure
Cash	195,314	195,314	-	179,453	179,453	-
Claims on sovereigns	5,709,350	5,701,498	7,853	4,856,481	4,854,263	2,218
Claims on international organizations	72,467	72,467	-	49,281	49,281	-
Claims on public sector entities	817,121	780,488	36,633	491,312	437,603	53,709
Claims on multilateral development banks	28,316	28,316	-	73,779	73,779	-
Claims on banks	4,834,813	3,869,721	965,092	4,730,978	3,743,833	987,145
Claims on corporates	8,608,003	7,316,476	1,291,527	8,098,022	6,863,129	1,234,893
Regulatory retail exposure	4,908,753	4,881,105	27,648	4,564,324	4,537,975	26,349
Past due exposures	103,997	103,997	-	89,103	89,103	-
Other exposures	848,605	848,605	-	741,053	741,053	-
Total	**26,126,741**	**23,797,989**	**2,328,752**	**23,873,786**	**21,569,472**	**2,304,314**

As at 31 December 2017, 41% (2016: 41%) of the Group's net credit risk exposure was rated by External Credit Assessment Institutions (ECAIs) recognised for the purpose, as detailed below:

Table 11 Net Credit Exposures	KD 000's					
	31 December 2017			31 December 2016		
	Net credit exposure	Rated exposure	Unrated exposure	Net credit exposure	Rated exposure	Unrated exposure
Cash	195,314	-	195,314	179,453	-	179,453
Claims on sovereigns	5,709,350	5,137,731	571,619	4,856,481	4,322,673	533,808
Claims on international organizations	72,467	-	72,467	49,281	-	49,281
Claims on public sector entities	817,121	5,061	812,060	491,312	-	491,312
Claims on multilateral development banks	28,316	13,339	14,977	73,779	15,777	58,002
Claims on banks	4,834,813	4,629,371	205,442	4,730,978	4,633,195	97,783
Claims on corporates	8,608,003	964,439	7,643,564	8,098,022	837,280	7,260,742
Regulatory retail exposure	4,908,753	-	4,908,753	4,564,324	-	4,564,324
Past due exposures	103,997	-	103,997	89,103	-	89,103
Other exposures	848,605	-	848,605	741,053	-	741,053
Total	**26,126,741**	**10,749,941**	**15,376,799**	**23,873,786**	**9,808,925**	**14,064,861**

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

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

Table 12	KD 000's					
31 December 2017	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	137,409	1,252	56,653	-	-	195,314
Claims on sovereigns	4,623,665	891,163	159,569	59,551	-	5,733,948
Claims on international organizations	-	-	-	72,467	-	72,467
Claims on public sector entities	816,779	-	10,122	-	-	826,901
Claims on multilateral development banks	28,316	-	-	-	-	28,316
Claims on banks	2,419,657	312,727	1,923,399	1,035,791	52,620	5,744,194
Claims on corporates	9,818,513	524,533	839,010	548,305	217,648	11,948,009
Regulatory retail exposure	5,023,857	359	5,742	3	457	5,030,418
Past due exposures	113,439	-	4,005	682	-	118,126
Other exposures	621,240	8,736	79,808	29,987	108,834	848,605
Total	23,602,873	1,738,770	3,078,308	1,746,786	379,559	30,546,298

	KD 000's					
31 December 2016	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	131,178	1,026	47,249	-	-	179,453
Claims on sovereigns	3,773,774	904,617	121,064	57,035	-	4,856,490
Claims on international organizations	-	-	-	49,281	-	49,281
Claims on public sector entities	497,215	-	-	-	-	497,215
Claims on multilateral development banks	73,779	-	-	-	-	73,779
Claims on banks	2,301,295	311,630	1,659,054	1,294,299	125,851	5,692,129
Claims on corporates	9,790,330	463,559	690,095	608,096	216,054	11,768,134
Regulatory retail exposure	4,676,664	299	4,008	-	848	4,681,819
Past due exposures	100,274	-	-	812	362	101,448
Other exposures	524,411	19,239	65,606	36,160	95,637	741,053
Total	21,868,920	1,700,370	2,587,076	2,045,683	438,752	28,640,801

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

Table 13	KD 000's			
31 December 2017	Up to 3 months	3-12 months	Over 1 year	Total
Cash	195,314	-	-	**195,314**
Claims on sovereigns	2,861,424	1,696,052	1,176,472	**5,733,948**
Claims on international organizations	72,467	-	-	**72,467**
Claims on public sector entities	238,729	483,830	104,342	**826,901**
Claims on multilateral development banks	-	-	28,316	**28,316**
Claims on banks	3,309,271	1,017,946	1,416,977	**5,744,194**
Claims on corporates	4,678,755	2,084,763	5,184,491	**11,948,009**
Regulatory retail exposure	220,718	432,924	4,376,776	**5,030,418**
Past due exposures	118,126	-	-	**118,126**
Other exposures	183,775	30,041	634,789	**848,605**
Total	**11,878,578**	**5,745,556**	**12,922,163**	**30,546,298**

	KD 000's			
31 December 2016	Up to 3 months	3-12 months	Over 1 year	Total
Cash	179,453	-	-	**179,453**
Claims on sovereigns	2,776,648	781,074	1,298,768	**4,856,490**
Claims on international organizations	49,281	-	-	**49,281**
Claims on public sector entities	56,979	37,257	402,979	**497,215**
Claims on multilateral development banks	45,613	-	28,166	**73,779**
Claims on banks	3,081,672	738,815	1,871,642	**5,692,129**
Claims on corporates	4,896,727	1,727,441	5,143,966	**11,768,134**
Regulatory retail exposure	219,532	413,262	4,049,025	**4,681,819**
Past due exposures	101,448	-	-	**101,448**
Other exposures	265,467	38,867	436,719	**741,053**
Total	**11,672,820**	**3,736,716**	**13,231,265**	**28,640,801**

5.2.10. “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 2017 was KD 214,092 thousand (2016: KD 183,005 thousand) against which a specific provision of KD 104,476 thousand (2016: KD 95,383 thousand) has been made, as detailed below:

Table 14		KD 000’s	
31 December 2017	Past due and impaired financing	Related specific provision	Specific provision written off, net of exchange movement
Claims on sovereigns	5	5	-
Claims on corporates	113,895	34,834	(216,055)
Regulatory retail exposure	100,192	69,637	(11,314)
Total	**214,092**	**104,476**	**(227,369)**

		KD 000’s	
31 December 2016	Past due and impaired financing	Related specific provision	Specific provision written off, net of exchange movement
Claims on sovereigns	5	5	-
Claims on corporates	93,028	34,376	(30,058)
Regulatory retail exposure	89,972	61,002	(41,926)
Total	**183,005**	**95,383**	**(71,984)**

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

Table 15	KD 000's				
31 December 2017	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	208,665	4,526	512	389	**214,092**
Specific provision	103,524	905	42	5	**104,476**

	KD 000's				
31 December 2016	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	179,289	23	3,325	368	**183,005**
Specific provision	92,550	23	2,805	5	**95,383**

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

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

The Group's total provision as at 31 December 2017 was KD 645,104 thousand (2016: KD 697,524 thousand) inclusive of a general provision of KD 534,632 thousand (2016: KD 595,312 thousand) as detailed below:

Table 16	KD 000's	
	31 December 2017	31 December 2016
Claims on sovereigns	1,920	150
Claims on banks	5,457	7,724
Claims on corporates	469,983	534,525
Regulatory retail exposure	57,272	52,913
Total	534,632	595,312

The total general provision above includes KD 28,745 thousand (2016: KD 28,444 thousand) relating to "non-cash" facilities in accordance with CBK regulations.

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

Table 17	KD 000's					
	Middle East and North Africa	North America	Europe	Asia	Others	Total
31 December 2017	493,390	3,347	5,034	1,635	2,481	**505,887**
31 December 2016	554,778	3,095	4,415	1,705	2,875	**566,868**

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

5.3 "Market" risk

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

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

- Implemented Market Risk Management Framework
- Well-defined processes and strong and effective controls
- Clear segregation of "front", "back" and 'middle' office duties
- Regular and effective monitoring and reporting of exposures and risk measures
- Regular monitoring of market prices and valuation of financial instruments
- Defined set of internal limits and regular reporting on the adherence to those limits
- Regular independent review of internal controls and limits
- Adequate systems and infrastructure implemented

5.3.1. Market-risk management framework

The market risk management framework governs the Group's trading and non-trading related market risk activities. Market risk stemming from trading activities is managed by the Group Treasurer. The management of market risk inherent within the Group's non-trading activities is the primary responsibility of the Group Asset and Liability Executive Committee (ALEC), supported by the regional Asset and Liability Committees. All activities giving rise to market risk are conducted within a structure of approved credit and position limits. Group Market Risk independently measures, monitors and reports on Bank's market risk exposures.

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

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

The interest rate risk in the "banking book" is managed through a "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 shows the impact in the banking book as follows:

Table 18	KD 000's			
	+ 5bp	-5bp	+10bp	-10bp
31 December 2017	2,333	(2,333)	4,666	(4,666)
31 December 2016 (restated)	2,153	(2,153)	4,306	(4,306)

Under the above assumptions the interest rates move by the same percentage across all maturities, all positions are held to maturity and no corrective action by management 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 analysis of the Group's total equity investment portfolio is as follows:

Table 19	KD 000's	
	31 December 2017	31 December 2016
Total Equity Investment	65,935	88,341
Of which Quoted Investments (%)	33.9%	42.0%
Cumulative realized gains from sale during year	3,291	540
Cumulative net unrealized gains recognized	18,317	20,378

Capital requirement of Equity investment portfolio categorized as:

Available for sale	8,554	13,287
Fair value through statement of income	452	448

All revaluation gains or losses during the year relating to equity investments were recorded in the consolidated statement of financial position. For additional details of the accounting policies related to the valuation of equity holdings, refer to notes 2.19 and 2.20 of the Group's consolidated financial statements.

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

The Group Risk Management function independently monitors Group market risk exposures, arising from Bank's trading activities, using the Value-at-Risk (VaR) methodology and other relevant risk measures.. This enables the Group to apply consistent and uniform risk measures at Group level and facilitates comparisons of market risk estimates, both over time and against daily trading results. The 'historical simulation' VaR is calculated using a 99% "confidence level" and a holding period of ten days in line with Basel Committee guidelines.

The VaR measure is supplemented with a "Stressed VaR" providing a basis for quantifying market risk under the various stress conditions based on observed historical and in-house developed scenarios.

In addition to VaR, the Group uses a structure of FX and Interest Rate limits to manage and control its market risk associated with trading activities.

5.3.4. Monitoring of counterparty credit risk

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

5.3.5. Counterparty Credit Risk

Assignment of credit limits for Counterparty Credit Exposures

Counterparty credit risk exposure arises from the risk that counterparties are unable to meet their payment obligations under derivative contracts. The allocation of

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credit limits for derivatives counterparties is provided by NBK's Institutional Banking Division taking into consideration counterparty credit profile, historical financial performance, geographical location, legal jurisdiction and other relevant factors. The credit limits are reviewed on an annual basis and credit exposure is regularly monitored and reported for all derivatives' counterparties.

Policies for securing collateral and credit reserves

In order to reduce counterparty credit risk, NBK selectively enters into Credit Support Annex (CSA) in line with the International Swaps and Derivatives Association, Inc. ("ISDA"), standards. NBK generally accepts primarily cash as collateral from its derivatives counterparties. The Bank has policies and procedures for reviewing the legal enforceability of credit support documents in accordance with applicable rules. Through the use of a collateral service agent, daily margining is performed with the appropriate counterparties. Daily valuations for qualified derivatives are compared to those reported by the counterparties. Any disagreement over the valuations is resolved directly with the counterparty.

Wrong-Way Risk

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

Additional Collateral Requirements Due to Credit Rating Downgrade

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

General Disclosure for Counterparty Credit Risk

Table 20	KD 000's	
Derivative Contracts	31 December 2017	31 December 2016
Gross Positive fair value	24,828	45,173
Counterparty netting benefit	(17,933)	(24,198)
Netted current credit exposure	6,895	20,975
Cash collateral (held by NBK)	(169)	(3,611)
Net exposure (after netting and collateral)	6,726	17,364

Exposure-at-Default Methodology

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

In addition, NBK calculates counterparty credit exposure using the Potential Future Exposure (PFE) measure.

NBK applies 'historical' simulation approach (at 99% confidence level) by projecting the potential values of relevant risk factors across the transactions' horizon, and then re-valuing derivatives transactions and counterparty credit exposures according to the projected risk factor.

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

Table 21	KD 000's	
	31 December 2017	31 December 2016
Counterparty credit risk (CEM method) for derivatives' counterparties	64,739	78,997
Counterparty credit risk (PFE method) for derivatives' counterparties	11,283	22,133

Notional value of credit derivatives transactions

NBK has no exposure to credit derivatives.

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

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 which will affect the ability to establish new relationships or services or to continue servicing existing relationships.

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

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

During the year, Assets under Management at the Group increased by 7.7% (2016: 7.3%) to reach KD 3,892 million on 31 December 2017 (2016: KD 3,614 million).

II. Composition of Capital

1. Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

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

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

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

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

The below table summarises the composition of capital and ratios:

Table 22	KD 000's	
	31 December 2017	31 December 2016
Common Equity Tier 1 capital	2,362,174	2,202,176
Tier 1 capital	2,615,222	2,450,080
Total capital	**2,952,274**	**2,773,552**
Total risk-weighted assets	**16,591,706**	**15,631,316**
Capital ratios and buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	14.2%	14.1%
Tier 1 (as percentage of risk-weighted assets)	15.8%	15.7%
Total capital (as percentage of risk-weighted assets)	17.8%	17.7%
National minimum		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.5%	9.5%
Tier 1 minimum ratio	11.0%	11.0%
Total capital minimum ratio excluding Countercyclical and D-SIB buffers	13.0%	13.0%
Bank minimum		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer and D-SIB buffer	11.5%	11.5%
Tier 1 minimum ratio	13.0%	13.0%
Total capital minimum ratio excluding Countercyclical Buffer	15.0%	15.0%

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

2. Reconciliation requirements

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

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

Table 23

Steps 1 and 2 of Reconciliation requirements KD 000's

Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31 December 2017	31 December 2016	
Assets			
Cash and short-term funds	2,743,640	2,743,640	
Central Bank of Kuwait bonds	655,591	655,591	
Kuwait Government treasury bonds	1,076,211	1,076,211	
Deposits with banks	2,488,188	2,488,188	
Loans, advances and Islamic financing to customers	14,502,609	14,502,609	
from which General Provisions(netted above) eligible for inclusion in Tier 2 capital	189,787	189,787	a
Investment securities	3,348,996	3,348,996	
Investment in associates	63,187	63,187	
of which goodwill deducted from CET1 Capital	7,864	7,864	b
Land, premises and equipment	324,277	324,277	
Goodwill and other intangible assets	581,906	581,906	
of which goodwill deducted from CET1 Capital	397,903	397,903	c
of which other intangibles deducted from CET1 Capital	184,003	184,003	d
Other assets	249,996	249,996	
Total assets	**26,034,601**	**26,034,601**	

Table 23

Steps 1 and 2 of Reconciliation requirements	KD 000's		
Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31st December 2017	31st December 2017	
Liabilities			
Due to banks and other financial institutions	7,469,303	7,469,303	
Customers deposits	13,779,607	13,779,607	
Certificates of deposit issued	490,835	490,835	
Global medium-term notes	221,173	221,173	
Subordinated Tier 2 bonds *Principal amount recognized in Tier 2 capital*	124,734 125,000	124,734 125,000	 e
Other liabilities	387,848	387,848	
Total liabilities	22,473,500	22,473,500	
Shareholders' equity			
Share capital	591,744	591,744	f
Proposed bonus shares	29,588	29,588	q
Statutory reserve	295,872	295,872	g
Share premium account	803,028	803,028	h
Treasury shares	(77,799)	(77,799)	i
Treasury shares reserve	13,994	13,994	j
Other Reserves	1,372,964	1,372,964	
of which Retained Earnings eligible as CET1 Capital	1,252,044	1,252,044	k
of which Proposed Dividend	174,493	174,493	
of which Others eligible as CET1 Capital	(53,573)	(53,573)	l
Equity attributable to shareholders of the Bank	**3,029,391**	**3,029,391**	
Perpetual Tier 1 Capital Securities	210,700	210,700	m
Non-controlling interests	321,010	321,010	
of which Limited Recognition eligible as CET1 Capital	97,046	97,046	n
of which Limited Recognition eligible as AT1 Capital	42,348	42,348	o
of which Limited Recognition eligible as Tier 2 Capital	22,265	22,265	p
Total equity	**3,561,101**	**3,561,101**	
Total liabilities and equity	**26,034,601**	**26,034,601**	

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

Table 24

Step 3 of Reconciliation requirements KD 000's

Relevant row number in Common Disclosure Template		Component of regulatory capital	Source based on reference letters of the balance sheet from Step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	591,744	f
2	Retained earnings	1,252,044	k
3	Accumulated other comprehensive income (and other reserves)	1,088,909	g+h+j+l+q
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	97,046	n
6	Common Equity Tier 1 capital before regulatory adjustments	3,029,743	
	Common Equity Tier 1 capital: regulatory adjustments		
8	Goodwill	(405,767)	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(184,003)	d
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(77,799)	i
28	Total regulatory adjustments to Common Equity Tier 1	(667,569)	
29	Common Equity Tier 1 capital (CET1)	**2,362,174**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	210,700	m
31	Of which: classified as equity under applicable accounting standards	210,700	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	42,348	o
36	Additional Tier 1 capital before regulatory adjustments	253,048	

Table 24

Step 3 of Reconciliation requirements KD 000's

Relevant row number in Common Disclosure Template		Component of regulatory capital	Source based on reference letters of the balance sheet from Step 2
	Additional Tier 1 capital: regulatory adjustments		
44	Additional Tier 1 capital (AT1)	**253,048**	
45	Tier 1 capital (T1 = CET1 + AT1)	**2,615,222**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000	e
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	22,265	q
50	General Provisions included in Tier 2 capital	189,787	a
51	Tier 2 capital before regulatory adjustments	337,052	
	Tier 2 capital: regulatory adjustments		
58	Tier 2 capital (T2)	**337,052**	
59	Total capital (TC = T1 + T2)	**2,952,274**	

III. Leverage

1. Leverage Ratio

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

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

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

The Leverage Ratio for the Group at consolidated level is:

Table 25 KD 000's

	31 December 2017	31 December 2016
Tier 1 capital	2,615,222	2,450,080
Total Exposures	28,394,001	26,510,797
Leverage Ratio	9.2%	9.2%

2. Leverage Ratio Exposures

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

Table 26	KD 000's	
Total Exposures	**31 December 2017**	**31 December 2016**
On-balance sheet exposures	25,444,831	23,608,041
Derivative exposures	112,890	116,184
Off-balance sheet items	2,836,280	2,786,572
Total exposures	**28,394,001**	**26,510,797**

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

3. Reconciliation

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

Summary comparison of accounting assets vs Leverage Ratio exposure measure

Table 27		
	Item	31 December 2017
1	Total consolidated assets as per published financial statements	26,034,601
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage Ratio exposure measure	
4	Adjustments for derivative financial instruments	112,890
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit-equivalent amounts of off-balance sheet exposures)	2,836,280
7	Other adjustments	(589,770)
8	**Leverage Ratio exposure**	**28,394,001**

IV. Remuneration Disclosures

1. Qualitative Information

a) Board of Directors, Board Nomination and Remuneration Committee

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

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

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

The key responsibilities of the Committee are summarised below:

a. Prepare the remuneration policy and submit the same to the Board for approval, the Board is responsible for monitoring the implementation of the policy.
b. Review the remuneration policy at least on an annual basis or at the request of the Board, and provide the Board with policy amendments or update suggestions.
c. Evaluate the sufficiency and effectiveness of the remuneration policy on a periodic basis to ensure the achievement of its declared objectives.
d. Make recommendations to the Board regarding the level and components of the remuneration of the Group CEO and his deputies, taking into consideration the total remuneration including salaries, bonuses and other incentives.
e. Give recommendations to the Board regarding the nomination for Board membership.
f. Assess the skills and competencies required to fulfil Board's duties, specifically to the issues related to the strategic objectives of the Group
g. Identify Board members qualified to fill vacancies on any Committee of the Board, and recommend the appointment of the identified person(s)to the relevant committee to the Board

During the year 2017 the Committee reviewed and updated the remuneration policy.

b) Remuneration Policy

NBK Group remuneration policy is developed and implemented at the Group level and covers NBK subsidiaries and foreign branches.

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

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

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

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

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

First Category: Senior Management

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

The number of persons in this category as of 31 December 2017 is 67 (2016: 70).

Second Category: Material Risk-Takers

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

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

The number of persons in this category as of 31 December 2017 is 21 (2016-21).

Third Category: Risk and Control Functions
This category includes the following functional heads, their deputies and assistants.

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

The number of persons in this category as of 31 December 2017 is 15 (2016:15).

c) Remuneration Structure and Components

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

The Group has two main remuneration components:

- Fixed remuneration:

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

Fixed remuneration includes:

1. Salaries
2. Benefits
3. Other cash allowances

These payments are fixed and do not vary with performance.

- Variable Remuneration (performance-based remuneration):

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

Variable remuneration includes:

1. Cash bonus.
2. Deferred cash
3. Equity shares as per phantom shares plan*.

These payments are not fixed and are linked to performance.

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

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

The deferred cash and phantom shares plan components of the variable remuneration pool are availed selectively to certain Eligible Employees.

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

d) Risk-Based Remuneration Approach

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

The overall variable remuneration pool is determined using a multi-year performance assessment which takes account of relevant risk metrics. The metrics used to determine the pool are linked with performance and key risk indicators; the key risk indicators are designed and

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

customised for each core business function and they are in line with the Group's overall risk strategy.

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

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

e) An Overview on the Key Performance Indicators

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

Examples of Group- level KPIs:

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

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

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

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

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

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

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

f) Remuneration Adjustments

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

The Group remuneration deferment policy ensures an appropriate portion of the variable remuneration of senior employees (including those deemed to have a material impact on the risk profile of the organization) is deferred. The deferment of variable remuneration applies to the deferred cash and phantom shares plan.

The Group applies a deferment approach of up to three years and final vesting of these variable components is subject to 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 materialises. The claw-back mechanism is applicable on the deferred cash and phantom shares plan.

This deferred variable remuneration is governed as follows:

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

2. Quantitative Information

1. During the year, the Board Nomination and Remuneration Committee met two times. The total remuneration paid to the Committee members is Nil.
2. The number of persons (Senior Management and Material Risk-Takers) eligible for variable remuneration is 68 persons and they represent 3.0% of the overall NBK total staff number eligible for variable remuneration for 2017.
3. The total number of persons (Senior Management and Material Risk-Takers) is 68 persons. Their total remuneration for 2017 is KD 18,921 thousand
4. The number of employees who received sign-on awards during the year is Nil.
5. The total amount of end-of-service benefit paid during 2017 is KD 997 thousand, this is related to 8 persons (Senior Management and Material Risk-Takers).

Senior Management

Table 28

Total salaries and remuneration granted during reported period	Unrestricted (KD 000's)	Deferred (KD 000's)
Fixed remuneration:		
- Cash	9,349	Nil
- Phantom Shares	Nil	Nil
Variable remuneration:		
- Cash	7,186	
- Phantom Shares	-	1,778
- Others (Note 1)	523	Nil

Material Risk-Takers

Table 29

Total salaries and remuneration granted during reported period	Unrestricted (KD 000's)	Deferred (KD 000's)
Fixed remuneration:		
- Cash	4,540	Nil
- Phantom Shares	Nil	Nil
Variable remuneration:		
- Cash	6,250	4
- Phantom Shares	-	927
- Others (Note 1)	118	Nil

Financial and Risk Control

Table 30

Total salaries and remuneration granted during reported period	Unrestricted (KD 000's)	Deferred (KD 000's)
Fixed remuneration:		
- Cash	1,541	Nil
- Phantom Shares	Nil	Nil
Variable remuneration:		
- Cash	570	9
- Phantom Shares	-	367
- Others (Note 1)	6	Nil

Note 1: This consists of other performance incentives.

Total remuneration paid as per employee categories

Table 31

Employees category	Number of employees in this category	Grand Total remuneration fixed and variable granted during the reported period (KD 000's)
Senior Management	67	18,836
Material Risk-Takers	21	11,839
Financial and Risk Control	15	2,493

V. Appendices

1. Regulatory Capital Composition: Common Disclosure Template

Table 32

Row number	Common Equity Tier 1 capital: instruments and reserves	KD 000's
1	Directly issued qualifying common share capital plus related stock surplus	591,744
2	Retained earnings	1,252,044
3	Accumulated other comprehensive income (and other reserves)	1,088,909
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	97,046
6	Common Equity Tier 1 capital before regulatory adjustments	3,029,743
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	(405,767)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(184,003)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash flow hedge reserve	
12	Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	
13	Securitization gain on sale	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(77,799)
17	Reciprocal cross holdings in common equity of banks, Fis and insurance entities	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold of Bank's CET1 capital)	
20	Mortgage servicing rights (amount above 10% threshold of Bank's CET1 capital)	

Row number	Common Equity Tier 1 capital: instruments and reserves	KD 000's
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	-
23	Of which: significant investments in the common stock of financials	
24	Of which: mortgage servicing rights	
25	Of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	Total regulatory adjustments to Common Equity Tier 1	(667,569)
29	Common Equity Tier 1 capital (CET1)	2,362,174
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	210,700
31	Of which: classified as equity under applicable accounting standards	210,700
32	Of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase-out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	42,348
35	Of which: instruments issued by subsidiaries subject to phase-out	-
36	Additional Tier 1 capital before regulatory adjustments	253,048
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	253,048
45	Tier 1 capital (T1 = CET1 + AT1)	2,615,222

Row number	Tier 2 capital: instruments and provisions	KD 000's
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000
47	Directly issued capital instruments subject to phase-out from Tier 2	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	22,265
49	Of which: instruments issued by subsidiaries subject to phase out	-
50	General Provisions included in Tier 2 capital	189,787
51	Tier 2 capital before regulatory adjustments	337,052
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	
53	Reciprocal cross-holdings in Tier 2 instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	337,052
59	Total capital (TC = T1 + T2)	2,952,274
60	Total risk-weighted assets	16,591,706
	Capital ratios and buffers	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	14.2%
62	Tier 1 (as percentage of risk-weighted assets)	15.8%
63	Total capital (as percentage of risk-weighted assets)	17.8%
64	Institution-specific buffer requirement (minimum CET1 requirement plus (a) Capital Conservation Buffer plus (b) Countercyclical Buffer requirements plus (c) D-SIB buffer requirement expressed as a percentage of risk-weighted assets)	11.5%
65	Of which: (a) capital conservation buffer requirement	2.5%
66	Of which: (b) bank specific countercyclical buffer requirement	-
67	Of which: (c) DSIB buffer requirement	2.0%
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	7.2%

Row number	National minimum	KD 000's
69	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.5%
70	Tier 1 minimum ratio	11.0%
71	Total capital minimum ratio excluding Counter-cyclical and D-SIB buffers	13.0%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	28,777
73	Significant investments in the common stock of financial entities	54,237
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	534,633
77	Cap on inclusion of allowances in Tier 2 under standardized approach	189,787
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap on inclusion of allowances in Tier 2 under internal ratings-based approach	

2. Regulatory Capital: Main Features Template

The Bank's share capital as at 31 December 2017 comprised 5,917,447,518 issued and fully paid-up equity shares (Note 20 of the Group's consolidated financial statements) and is eligible as Common Equity Tier 1 Capital at Group and solo level.

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

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

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

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

3. Leverage Ratio: Common Disclosure Template

Table 33

	Item	KD 000's
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	26,034,601
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(589,770)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1-2)**	**25,444,831**
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	24,826
5	Add-on amounts for PFE associated with all derivatives transactions	88,064
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4-10)**	**112,890**
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12-15)**	**-**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	10,442,519
18	(Adjustments for conversion to credit equivalent amounts)	(7,606,239)
19	**Off-balance sheet items (sum of lines 17-18)**	**2,836,280**
20	**Tier 1 capital**	**2,615,222**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**28,394,001**
22	**Basel III Leverage Ratio**	**9.2%**

GLOSSARY OF TERMS

Term	Definition
Additional Tier 1 capital	Additional Tier 1 capital is a Basel III-defined concept and consists of high-quality capital. It essentially includes providing a permanent and unrestricted commitment of funds, is freely available to absorb losses at the point of non-viability, ranks behind the claims of depositors and other more senior creditors in the event of a wind-up, and provides for fully discretionary capital distributions.
Basel II	Refers to the "Rules and Regulations Concerning Capital Adequacy Standard" issued by Central Bank of Kuwait Circular number 2/BS/184/2005 dated 21 December 2005, as amended.
Basel III	Refers to the "Capital Adequacy Ratio Basel III for conventional banks" regulations issued by Central Bank of Kuwait Circular number 2/RB, RBA/A336/2015 dated 24 June 2015.
Capital Conservation Buffer	A Capital Conservation buffer of 2.5% (expressed as a percentage of risk-weighted assets) has been subsumed in the Minimum Common Equity Tier 1 Capital requirement level.
Countercyclical Buffer	A Countercyclical buffer requirement that varies from 0% to 2.5% which, when triggered as a requirement at the discretion of Central Bank of Kuwait, is required to be met from Common Equity Tier 1 capital.
Common Equity Tier 1 capital	Common Equity Tier 1 capital is the highest quality of capital available reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It essentially includes ordinary share capital, retained earnings and reserves less prescribed deductions.
Domestic Systemically Important Bank Buffer (D-SIB)	A Domestic Systemically Important Bank Buffer that varies from 0.5% to 2% required to be met in the form of Common Equity Tier 1 capital which will be determined at the level of each bank identified as systemically important by Central Bank of Kuwait on an annual basis.
External Credit Assessment Institution (ECAI)	An External Credit Assessment Institution (ECAI) as recognized by Central Bank of Kuwait from time to time for the purposes of the assigning risk-weights to obligors under the Standardized Approach.
Significant investments	Significant investments in capital of banking, financial and insurance entities are those where the Bank owns more than 10% of the issued common share capital of the issuing entity or where the entity is an affiliate of the Bank.
Tier 2 capital	Tier 2 capital consists of eligible capital instruments that provide an unrestricted commitment of funds for a defined period that is available to absorb losses at the point of non-viability, subordinated to claims of depositors in the event of wind-up. Limited recognition of general provisions held against future, presently unidentifiable losses are eligible for inclusion in Tier 2 capital.

FINANCIAL STATEMENTS

National Bank of Kuwait's Board of Directors' Report, Independent Auditors' Report and consolidated financial statements for the year ended 31 December 2017.


48.259 99.131 63.032 49.798 11.422
44.489 19.548 29.431 76.498 17.653
6.129 45.111 72.036 38.743 16.565 30.932

BOARD OF DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of National Bank of Kuwait SAKP ("the Bank") and its subsidiaries (collectively "the Group") for the year ended 31 December 2017.

2017 Financial Performance

The Group reported a net profit after non-controlling interests of KD 322.4 million compared to KD 295.2 million for 2016, an increase of 9.2%. Operating profit amounted to KD 557.2 million as compared to KD 493.3 million in 2016, an increase of 13%.

Net interest income and net income from Islamic financing at KD 629 million reflects a 10.4% increase on 2016 (KD 569.7 million). Net fees and commissions at KD 138.6 million reflects a 4.3% increase on 2016 (KD 132.8 million). Net investment income amounted to KD 19.8 million as compared to KD 6.4 million in 2016. Net gains from dealing in foreign currencies amounted to KD 33.7 million in 2017 as compared to KD 35.4m in 2016.

Operating expenses amounted to KD 265.4 million as compared to KD 252 million in 2016. The cost to income ratio for 2017 improved to 32.3% as compared to 33.8% in 2016.

Provision charge for credit losses and impairment losses amounted to KD 188.2 million as compared to KD 152.3 million in 2016.

The return on average equity at 10.8% in 2017 compared to 10.2% in 2016.

2017 Balance Sheet

Total assets of the Group grew to KD 26,034.6 million from KD 24,238.8 million at the end of 2016, an increase of 7.4%. Loans, advances and Islamic financing to customers grew by KD 891.1 million to KD 14,502.6 million, an increase of 6.5%. Investment securities grew by KD 170.5 million to KD 3,349 million, an increase of 5.4%. Investment in Central Bank of Kuwait bonds and Kuwait Government treasury bonds together grew by KD 489.8 million to KD 1,731.8 million, an increase of 39.4%.

The Group maintained a strong liquidity position with cash, short term funds, Central Bank of Kuwait bonds and Kuwait Government treasury bonds amounting to KD 4,475 million at the year end. Deposits with banks amounted to KD 2,488.2 million at the year end.

The Group's general provisions in respect of on-balance sheet credit facilities amounted to KD 505.9 million at the year end as compared to KD 566.9 million in 2016, whilst specific provisions amounted to KD 109.6 million at the year end compared to KD 101.4 million in 2016. The Group operates a conservative credit policy with a balanced diversification across all business sectors and geographical areas. Loan collateral profiles and values are continually monitored to ensure that optimum protection is afforded to the Group at all times.

Customer deposits grew by KD 1,171.5 million to KD 13,779.6 million at the year end, an increase of 9.3%. The Group benefits from a loyal Kuwaiti customer base whose deposits remain a continuing source of stable funding. Due to banks and financial institutions increased by KD 121.5 million to KD 7,469.3 million. Certificates of Deposit issued increased by KD 74.8 million, to KD 490.8 million. During the year the Bank issued Global Medium Term Notes amounting to KD 221.2 million.

Cash and non-cash credit facilities provided by the Bank to members of the Board of Directors and to related parties amounted to KD 146.9 million at the year end against collateral of KD 278.5 million. Deposits of Board members and related parties were KD 37.2 million. Loans and facilities to the Group's Executive Management amounted to KD 2.8 million whilst deposits from the Group's Executive Management amounted to KD 3.8 million.

Equity

Total equity attributable to the shareholders of the Bank after deducting the proposed cash dividend of KD 174.5 million amounted to KD 2,854.9 million, as compared to KD 2,718.4 million at the end of 2016.

The Basel III capital adequacy ratio was 17.8% at the year end (2016: 17.7%) as compared to the CBK prescribed regulatory minimum of 15% (2016: 15%). The leverage ratio was 9.2% at the year end (2016: 9.2%) as compared to the CBK prescribed regulatory minimum of 3%.

Capital Market Authority Requirements

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

The Bank maintains a record for reporting the Bank's (including its subsidiaries and associates) shares owned and any changes in ownership by the members of the Board of Directors, Executive Management, General Managers, Deputy General Managers and Assistant General Managers (or their spouses or first degree relatives) to the Capital Market Authority and Stock Exchange.

Bonus Shares, Dividends and Proposed Appropriations

Net profit for the year was principally allocated as follows:

1. KD 174.5 million to the dividend account for the distribution of a cash dividend of 30 fils per share (30 fils in 2016) subject to the approval of shareholders at the annual general meeting.
2. KD 29.6 million to the share capital account to cover the issuance of bonus shares equal to 5% of share capital at the end of 2017 (5% for 2016) (equivalent to 295,872,375 shares with a nominal value of 100 fils per share) subject to the approval of shareholders at the annual general meeting.
3. KD 14.1 million to the statutory reserve account to increase the balance to the minimum requirement of 50% of share capital.
4. KD 15.2 million to interest and profit payment towards perpetual Tier 1 Capital Securities and Perpetual Tier 1 Sukuk by a subsidiary
5. KD 89 million to retained earnings.

Important Financial Indicators

KD million	2017	2016	2015
Total assets	26,034.6	24,238.8	23,597.6
Loans, advances and Islamic financing to customers	14,502.6	13,611.5	13,551.0
Customer deposits	13,779.6	12,608.1	12,059.2
Total operating income	822.7	745.3	728.8
Profit attributable to shareholders of the Bank	322.4	295.2	282.2

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

We have identified the following key audit matters:

a) Impairment of loans, advances and Islamic financing to customers

Impairment of loans, advances and Islamic financing to customers is a highly subjective area due to the level of judgements applied by the management in determining provisions which are dependent on the credit risk related to the loans, advances and Islamic financing to customers. Certain judgements applied by the management in accounting for impairment of loans, advances and Islamic financing to customers include the identification of impairment events, the valuation of collaterals and assessment of customers that may default, and the future cash flows of loans, advances and Islamic financing to customers granted.

Due to the significance of loans, advances and Islamic financing to customers and the related estimation uncertainty, this is considered a key audit matter. The basis of the impairment provision policy is presented in the accounting policies and in Note 12 to the consolidated financial statements.

Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans, advances and Islamic financing to customers and the impairment provisioning process, to validate the operating effectiveness of the key controls in place which identify the impaired loans, advances and Islamic financing to customers and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operating effectively.

In addition to testing the key controls, we selected samples of loans, advances and Islamic financing to customers outstanding as at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore, whether there was a requirement to calculate an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing loans, advances and Islamic financing to customers, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing loans, advances and Islamic financing to customers, we assessed whether the borrowers exhibit any possible default risk that may affect the repayment abilities.

b) Impairment of goodwill and other intangible assets

The Group has goodwill and other intangible assets with carrying value of KD 581,906 thousand as at 31 December 2017. The impairment tests of goodwill and other intangible assets performed by the management are significant to our audit because the assessment of the recoverable amount of goodwill and other intangible assets under the value-in-use basis is complex and requires considerable judgments on the part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the banking sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill and other intangible assets as a key audit matter.

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

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

c) Valuation of derivative financial instruments

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

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

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

d) Valuation and impairment of investment securities

Investment securities are primarily comprised of portfolios of debt and equity investments. These instruments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. The valuation is performed by the Group using a fair value hierarchy:

- Level 1 are valuations based on quoted prices (unadjusted) in active markets
- Level 2 are valuations based on other than quoted prices included within level 1, which are observable either directly or indirectly
- Level 3 are valuations based on unobservable inputs for the asset

The valuation of investment securities is inherently subjective, most predominantly for the instruments classified under level 2 and level 3 since these are valued using inputs other than quoted prices in an active market. Key inputs used in the valuation of individual level 2 and level 3 investments are expected cash flows, risk free rates and credit spreads. In addition, the Group determines whether objective evidence of impairment exists for individual investments. In cases where impairment exists, the difference between amortised cost and fair value is transferred from other comprehensive income to the consolidated statement of income. Given the inherent subjectivity in the valuation of the instruments classified under level 2 and level 3 and the determination of impairment, we determined this to be a key audit matter. The investment securities classified under level 2 and level 3 amount to KD 1,153,378 thousand and KD 79,864 thousand respectively as at 31 December 2017.

Our audit procedures comprised, amongst others, an assessment of the methodology and the appropriateness of the valuation models and inputs used to value the investment securities. Further, we used our internal valuation specialists to assess the valuation of all individual investments available for sale, and to assess whether the valuations performed by the Group were within a pre-defined tolerable differences threshold. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data. We also evaluated the Group's assessment whether objective evidence of impairment exists for individual investments. Additionally, we assessed the adequacy of the fair value disclosures in Note 25 to the consolidated financial statements.

Other Information Included in the Annual Report of the Group for the Year Ended 31 December 2017

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2017, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2017 after the date of our auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organization of banking business, and its related regulations during the year ended 31 December 2017 that might have had a material effect on the business of the Bank or on its financial position.

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

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

8 January 2018
Kuwait

CONSOLIDATED FINANCIAL STATEMENTS

Notes To The Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 KD 000's	2016 KD 000's	2017 USD 000's	2016 USD 000's
Interest income	4	742,616	665,263	2,461,031	2,204,682
Interest expense	5	223,762	189,653	741,548	628,510
Net interest income		518,854	475,610	1,719,483	1,576,172
Murabaha and other Islamic financing income		155,903	128,000	516,663	424,192
Finance cost and Distribution to depositors		45,793	33,873	151,758	112,255
Net income from Islamic financing		110,110	94,127	364,905	311,937
Net interest income and net income from Islamic financing		628,964	569,737	2,084,388	1,888,109
Net fees and commissions	6	138,556	132,826	459,175	440,186
Net investment income	7	19,818	6,398	65,677	21,203
Net gains from dealing in foreign currencies		33,735	35,391	111,798	117,286
Other operating income		1,600	957	5,302	3,171
Non-interest income		193,709	175,572	641,952	581,846
Net operating income		822,673	745,309	2,726,340	2,469,955
Staff expenses		154,472	143,844	511,920	476,699
Other administrative expenses		92,731	87,435	307,311	289,760
Depreciation of premises and equipment		15,121	16,380	50,111	54,283
Amortisation of intangible assets	15	3,121	4,362	10,343	14,456
Operating expenses		265,445	252,021	879,685	835,198
Operating profit before provision for credit losses and impairment losses		557,228	493,288	1,846,655	1,634,757
Provision charge for credit losses and impairment losses	8	188,219	152,317	623,759	504,779
Operating profit before taxation		369,009	340,971	1,222,896	1,129,978
Taxation	9	26,704	28,811	88,497	95,479
Profit for the year		342,305	312,160	1,134,399	1,034,499
Attributable to:					
Shareholders of the Bank		322,362	295,178	1,068,308	978,220
Non-controlling interests		19,943	16,982	66,091	56,279
		342,305	312,160	1,134,399	1,034,499
Basic earnings per share attributable to shareholders of the Bank	10	53 fils	49 fils	18 Cents	16 Cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 KD 000's	2016 KD 000's	2017 USD 000's	2016 USD 000's
Profit for the year	342,305	312,160	1,134,399	1,034,499
Other comprehensive income:				
Investments available for sale:				
Net change in fair value	13,633	14,689	45,179	48,679
Net transfer to consolidated statement of income	(13,450)	4,713	(44,573)	15,619
	183	19,402	606	64,298
Share of other comprehensive income of associates	246	7	815	23
Exchange differences on translation of foreign operations	2,919	(159,012)	9,674	(526,966)
Other comprehensive income (loss) for the year reclassifiable to consolidated statement of income in subsequent years	3,348	(139,603)	11,095	(462,645)
Total comprehensive income for the year	345,653	172,557	1,145,494	571,854
Attributable to:				
Shareholders of the Bank	326,144	156,661	1,080,842	519,175
Non-controlling interests	19,509	15,896	64,652	52,679
	345,653	172,557	1,145,494	571,854

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 KD 000's	2016 KD 000's	2017 USD 000's	2016 USD 000's
Assets					
Cash and short term funds	11	2,743,640	2,686,963	9,092,428	8,904,600
Central Bank of Kuwait bonds	13	655,591	748,889	2,172,630	2,481,819
Kuwait Government treasury bonds	13	1,076,211	493,101	3,566,565	1,634,137
Deposits with banks		2,488,188	2,407,915	8,245,859	7,979,834
Loans, advances and Islamic financing to customers	12	14,502,609	13,611,491	48,061,670	45,108,504
Investment securities	13	3,348,996	3,178,450	11,098,578	10,533,389
Investment in associates	14	63,187	73,644	209,402	244,056
Land, premises and equipment		324,277	255,086	1,074,655	845,355
Goodwill and other intangible assets	15	581,906	581,840	1,928,437	1,928,219
Other assets	16	249,996	201,415	828,487	667,490
Total assets		26,034,601	24,238,794	86,278,711	80,327,403
Liabilities					
Due to banks and other financial institutions		7,469,303	7,347,803	24,753,282	24,350,631
Customer deposits		13,779,607	12,608,092	45,665,640	41,783,238
Certificates of deposit issued		490,835	415,989	1,626,628	1,378,588
Global medium term notes	17	221,173	-	732,968	-
Subordinated Tier 2 bonds	18	124,734	124,700	413,369	413,256
Other liabilities	19	387,848	337,478	1,285,329	1,118,403
Total liabilities		22,473,500	20,834,062	74,477,216	69,044,116
Equity					
Share capital	20	591,744	563,566	1,961,041	1,867,659
Proposed bonus shares	21	29,588	28,178	98,055	93,382
Statutory reserve	20	295,872	281,783	980,520	933,829
Share premium account	20	803,028	803,028	2,661,236	2,661,236
Treasury shares	20	(77,799)	(77,799)	(257,826)	(257,826)
Treasury share reserve	20	13,994	13,994	46,376	46,376
Other reserves	20	1,372,964	1,271,813	4,550,005	4,214,790
Equity attributable to shareholders of the Bank		3,029,391	2,884,563	10,039,407	9,559,446
Perpetual Tier 1 Capital Securities	22	210,700	210,700	698,260	698,260
Non-controlling interests	23	321,010	309,469	1,063,828	1,025,581
Total equity		3,561,101	3,404,732	11,801,495	11,283,287
Total liabilities and equity		26,034,601	24,238,794	86,278,711	80,327,403

Nasser Musaed Abdulla Al-Sayer
Chairman

Isam J. Al Sager
Group Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 KD 000's	2016 KD 000's	2017 USD 000's	2016 USD 000's
Operating activities					
Profit for the year		342,305	312,160	1,134,399	1,034,499
Adjustments for:					
Net investment income	7	(19,818)	(6,398)	(65,677)	(21,203)
Depreciation of premises and equipment		15,121	16,380	50,111	54,283
Amortisation of intangible assets	15	3,121	4,362	10,343	14,456
Provision charge for credit losses and impairment losses	8	188,219	152,317	623,759	504,779
Share based payment reserve		358	491	1,186	1,627
Taxation	9	26,704	28,811	88,497	95,479
Operating profit before changes in operating assets and liabilities		556,010	508,123	1,842,618	1,683,920
Changes in operating assets and liabilities:					
Central Bank of Kuwait bonds		93,298	55,041	309,190	182,406
Kuwait Government treasury bonds		(583,110)	(113,049)	(1,932,427)	(374,645)
Deposits with banks		(80,273)	(1,026,578)	(266,025)	(3,402,081)
Loans, advances and Islamic financing to customers		(1,065,748)	(349,165)	(3,531,891)	(1,157,133)
Other assets		(48,581)	(7,390)	(160,998)	(24,490)
Due to banks and other financial institutions		121,500	107,697	402,651	356,908
Customer deposits		1,171,515	911,541	3,882,403	3,020,848
Certificates of deposit issued		74,846	(239,268)	248,040	(792,935)
Other liabilities		45,472	31,467	150,694	104,282
Tax paid		(28,133)	(28,775)	(93,233)	(95,360)
Net cash from (used in) operating activities		256,796	(150,356)	851,022	(498,280)
Investing activities					
Purchase of investment securities		(1,782,370)	(2,110,056)	(5,906,777)	(6,992,729)
Proceeds from sale/redemption of investment securities		1,627,148	1,467,493	5,392,371	4,863,274
Dividend income	7	3,143	3,065	10,416	10,157
Dividend from associates		34	414	113	1,372
Proceeds from sale of land, premises and equipment		4,970	4,188	16,471	13,879
Purchase of land, premises and equipment		(89,282)	(54,021)	(295,881)	(179,025)
Change in effective holding in subsidiaries		(707)	-	(2,343)	-
Net cash used in investing activities		(237,064)	(688,917)	(785,630)	(2,283,072)
Financing activities					
Net proceeds from issuance of Global medium term notes	17	225,880	-	748,567	-
Proceeds from issuance of right shares	20(a)	-	137,584	-	455,954
Net proceeds from issue of Perpetual Tier 1 Sukuk by a subsidiary	23	-	74,738	-	247,682
Dividends paid		(166,184)	(148,443)	(550,734)	(491,940)
Interest paid on Perpetual Tier 1 Capital Securities		(12,232)	(12,146)	(40,537)	(40,252)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary		(5,119)	(2,573)	(16,964)	(8,527)
Dividends paid by a subsidiary to non-controlling interests		(5,400)	(4,295)	(17,896)	(14,234)
Net cash from financing activities		36,945	44,865	122,436	148,683
Increase (decrease) in cash and short term funds		56,677	(794,408)	187,828	(2,632,669)
Cash and short term funds at the beginning of the year		2,686,963	3,481,371	8,904,600	11,537,269
Cash and short term funds at the end of the year	11	2,743,640	2,686,963	9,092,428	8,904,600

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 20e)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	Total equity
At 1 January 2017	563,566	28,178	281,783	803,028	(77,799)	13,994	1,271,813	2,884,563	210,700	309,469	3,404,732
Profit for the year	-	-	-	-	-	-	322,362	322,362	-	19,943	342,305
Other comprehensive income (loss)	-	-	-	-	-	-	3,782	3,782	-	(434)	3,348
Total comprehensive income	-	-	-	-	-	-	326,144	326,144	-	19,509	345,653
Transfer to statutory reserve (Note 20b)	-	-	14,089	-	-	-	(14,089)	-	-	-	-
Issue of bonus shares (Note 20a)	28,178	(28,178)	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	(166,184)	(166,184)	-	-	(166,184)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(12,232)	(12,232)	-	-	(12,232)
Share based payment in a subsidiary	-	-	-	-	-	-	209	209	-	149	358
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(5,400)	(5,400)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(2,989)	(2,989)	-	(2,130)	(5,119)
Proposed bonus shares (Note 21)	-	29,588	-	-	-	-	(29,588)	-	-	-	-
Change in effective holding in subsidiaries	-	-	-	-	-	-	(120)	(120)	-	(587)	(707)
At 31 December 2017	591,744	29,588	295,872	803,028	(77,799)	13,994	1,372,964	3,029,391	210,700	321,010	3,561,101

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

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 20e)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	Total equity
At 1 January 2016	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	2,755,939	210,700	224,485	3,191,124
Profit for the year	-	-	-	-	-	-	295,178	295,178	-	16,982	312,160
Other comprehensive loss	-	-	-	-	-	-	(138,517)	(138,517)	-	(1,086)	(139,603)
Total comprehensive income	-	-	-	-	-	-	156,661	156,661	-	15,896	172,557
Transfer to statutory reserve (Note 20b)	-	-	29,797	-	-	-	(29,797)	-	-	-	-
Issue of bonus shares (Note 20a)	25,198	(25,198)	-	-	-	-	-	-	-	-	-
Issue of rights shares (Note 20a)	34,396	-	-	103,188	-	-	-	137,584	-	-	137,584
Dividends paid	-	-	-	-	-	-	(148,443)	(148,443)	-	-	(148,443)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(12,146)	(12,146)	-	-	(12,146)
Transfer to cash settled share based compensation	-	-	-	-	-	-	(2,418)	(2,418)	-	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	-	-	287	287	-	204	491
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	(4,295)
Issue of Perpetual Tier 1 Sukuk by a subsidiary (Note 23)	-	-	-	-	-	-	-	-	-	75,388	75,388
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(379)	(379)	-	(271)	(650)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(1,503)	(1,503)	-	(1,070)	(2,573)
Proposed bonus shares (Note 21)	-	28,178	-	-	-	-	(28,178)	-	-	-	-
Other movements	-	-	-	-	-	-	(1,019)	(1,019)	-	(868)	(1,887)
At 31 December 2016	563,566	28,178	281,783	803,028	(77,799)	13,994	1,271,813	2,884,563	210,700	309,469	3,404,732

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 8 January 2018. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) except for International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement', requirement for a collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

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

2.2 Changes in accounting policies

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

Standards issued but not yet effective:

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

IFRS 9: Financial Instruments

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

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

a. Classification and measurement

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

Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a

a. Classification and measurement (continued)

non-trading equity instrument, irrevocably elect to designate the instrument as fair value through other comprehensive income, with no subsequent recycling to consolidated statement of income. This designation is also available to non-trading equity instrument holdings on date of transition.

The adoption of this standard will have an impact on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities.

b. Hedge accounting

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

c. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment are intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Group has completed the development and testing of operating models and methodologies for the calculation of ECL. The Group has also performed parallel runs during the year to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The Group continues to revise, refine and validate the impairment models and related process controls in advance of 31 March 2018 reporting.

d. Transition impact:

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

The Group will determine the potential impact of the expected provision for credit losses in accordance with IFRS 9 during the period ending 31 March 2018. The Group shall abide by CBK regulations in this regard.

e. Financial instruments: disclosures (IFRS 7)

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.2 Changes in accounting policies (continued)

IFRS 15: Revenue from Contracts with customers

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

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainity of revenue and corresponding cashflows with customers. The Group has assessed the impact of IFRS 15. Based on the assessment, adoption of IFRS 15 is not expected to have any material effect on the Group's consolidated financial statements.

IFRS 16: Leases

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

2.3 Basis of consolidation

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

a. Subsidiaries

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

b. Non-controlling interest

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

c. Associates

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3 Basis of consolidation (continued)
c. Associates (continued)

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

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

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

Translation gains or losses on non-monetary items carried at fair value are recognised in other comprehensive income as part of the fair value adjustment on investment securities available for sale, unless the non-monetary item is part of an effective hedging strategy.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Murabaha and other Islamic financing income

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

2.7 Fees and commissions income

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

2.8 Dividend income

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

2.9 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

a. Assets carried at amortised cost

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income. In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

b. Assets classified as available for sale

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

2.10 Impairment of non-financial assets

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

2.11 Share based compensation

Equity settled share based compensation

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

Cash settled share based compensation

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

2.12 Post employment benefits

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

2.13 Taxation

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

2.14 Recognition of financial assets and financial liabilities

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

2.15 Cash and short term funds

Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days.

2.16 Deposits with banks

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

2.17 Loans and advances to customers

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.17 Loans and advances to customers (continued)

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

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

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

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

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

c. Leased assets - the Group as a lessor
Leases are classified as finance leases whenever the terms of the lease transer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortised cost net of provision for impairment.

2.19 Financial investments
The Group classifies its financial investments in the following categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through statement of income

All investments with the exception of investments at fair value through statement of income are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs. Premiums and discounts on financial investments (excluding those carried at fair value through statement of income) are amortised using the effective yield method and taken to interest income.

Held to maturity
Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost, less provision for impairment in value, if any. The losses arising from impairment of such investments are recognised in the consolidated statement of income. The interest income from debt securities classified as held to maturity is recorded in interest income.

2.19 Financial investments (continued)

Available for sale
Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as fair value through statement of income, held to maturity, or loans and advances. After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in the consolidated statement of income for the period. In case of a reversal of previously recognised impairment losses for equity investments, such changes will not be recognised in the current consolidated statement of income but will be recorded as an increase in the reserve for cumulative changes in fair values. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through consolidated statement of income. The portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated statement of income. The interest income from debt securities classified as available for sale is recorded in interest income and the dividend income from equities is recorded in dividend income.

Investments carried at fair value through statement of income
Investments are classified as "investments carried at fair value through statement of income" if they are held for trading or, upon initial recognition, are designated as fair value through statement of income. Investments are classified as held for trading when they are acquired for the purpose of selling or repurchase in the near term with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Investments are designated as fair value through statement of income if the fair value of the investment can be reliably measured and the classification as fair value through statement of income is as per the documented strategy of the Group. Investments classified as "investments carried at fair value through statement of income" are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income. Any dividend income of equities classified as 'investments carried at fair value through the statement of income' is recorded as part of 'dividend income'.

Reclassification of financial investments
Available for sale investments are reclassified to held to maturity investments only in certain limited circumstances as a result of change in intention when there is an ability to hold till maturity. Upon such reclassification, the fair value on the date of reclassification becomes the new amortised cost of such investments. Any difference between the new amortised cost and the maturity amount are amortised to consolidated statement of income over the remaining life of the investments using effective interest method. The amount of gain or loss previously recognised in other comprehensive income are also amortised to consolidated statement of income over the remaining life of the investments using effective interest method.

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

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

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

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

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

2.21 Repurchase and resale agreements

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

2.22 Offsetting of financial assets and liabilities

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

2.23 Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

2.24 Derivative financial instruments

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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

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

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

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

2.25 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

2.26 Investment properties

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

2.27 Land, premises and equipment

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

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

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and equipments on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of premises and equipments are as follows:

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

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

2.28 Business combinations

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

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

2.29 Goodwill and intangible assets

a. Goodwill

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

b. Intangible assets

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

2.30 Property acquired on settlement of debt

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

2.31 Due to Banks and Financial Institutions, Customer Deposits & Certificates of deposit issued

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

2.32 Islamic customer deposits

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

Investment accounts

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

Non-investment accounts

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

2.33 Subordinated Tier 2 Bonds and Global Medium Term Notes

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.34 Financial guarantees

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

2.35 Treasury shares

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

2.36 Fiduciary assets

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

2.37 Significant accounting judgements and estimates

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

Accounting Judgements

Impairment of available for sale equity investments

The Group treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Classification of investments

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

Estimation uncertainty and assumptions

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

Impairment of goodwill

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.37 Significant accounting judgements and estimates (continued)

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

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

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

Share based payments
The Group measures the share based payments to employees by reference to the fair value of the relevant equity instruments. Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in Note 24.

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

2.38 Basis of Translation
The United States dollar amounts in the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows represent supplementary information and have been translated at a rate of KD 0.30175 per USD which represents the mid-market rate at 31 December 2017.

3 SEGMENTAL ANALYSIS

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

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

3 SEGMENTAL ANALYSIS (continued)

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

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

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

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

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

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

2017	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net interest income and net income from Islamic financing	194,710	143,346	352	110,110	36,635	143,811	628,964
Net operating income	259,192	189,278	27,300	129,928	36,387	180,588	822,673
Profit (loss) for the year	149,360	110,605	14,662	47,672	(74,689)	94,695	342,305
Total assets	4,398,466	5,199,932	125,946	3,970,396	3,251,132	9,088,729	26,034,601
Total liabilities	4,603,968	2,526,691	73,609	3,518,039	1,620,005	10,131,188	22,473,500

2016	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net interest income and net income from Islamic financing	181,803	126,768	162	94,127	17,958	148,919	569,737
Net operating income	242,059	170,785	23,339	106,997	15,414	186,715	745,309
Profit (loss) for the year	139,493	137,400	12,146	41,301	(118,138)	99,958	312,160
Total assets	4,218,253	5,380,784	107,767	3,481,807	2,754,535	8,295,648	24,238,794
Total liabilities	4,171,318	2,287,130	47,754	3,058,654	2,048,908	9,220,298	20,834,062

3 SEGMENTAL ANALYSIS (continued)

Geographic information

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

Net operating income	2017 KD 000's	2016 KD 000's
Kuwait	642,085	558,594
Other Middle East and North Africa	129,582	138,474
Europe	28,710	25,398
Others	22,296	22,843
	822,673	745,309

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

Non-current assets	2017 KD 000's	2016 KD 000's
Kuwait	960,011	857,613
Other Middle East and North Africa	23,397	24,269
Europe	9,586	1,112
Others	623	444
	993,617	883,438

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

4 INTEREST INCOME

	2017 KD 000's	2016 KD 000's
Deposits with banks	57,624	38,910
Loans and advances to customers	534,490	490,903
Debt investment securities	122,481	121,705
Kuwait Government treasury bonds and CBK bonds	28,021	13,745
	742,616	665,263

5 INTEREST EXPENSE

	2017 KD 000's	2016 KD 000's
Due to banks and other financial institutions	86,576	68,320
Customer deposits	120,738	110,782
Certificates of deposit issued	7,103	4,637
Global Medium Term Notes	3,180	-
Subordinated Tier 2 bonds	6,165	5,914
	223,762	189,653

6 NET FEES AND COMMISSIONS

	2017 KD 000's	2016 KD 000's
Fees and commissions income	167,697	159,584
Fees and commissions related expenses	(29,141)	(26,758)
Net fees and commissions	138,556	132,826

Fees and commissions income includes asset management fees of KD 30,926 thousand (2016: KD 29,551 thousand) earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

7 NET INVESTMENT INCOME

	2017 KD 000's	2016 KD 000's
Net realised gains on available for sale investments	13,968	4,314
Net gains from investments carried at fair value through statement of income	1,050	822
Dividend income	3,143	3,065
Share of results of associates	1,016	(1,289)
Net gains (losses) from investment properties	641	(514)
	19,818	6,398

8 PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2017 KD 000's	2016 KD 000's
Provision charge for credit losses (Note 12)	174,951	125,683
Impairment losses on investment securities	518	9,027
Impairment losses on associates (Note 14)	12,750	12,165
Impairment losses on intangible assets (Note 15)	-	5,442
	188,219	152,317

9 TAXATION

	2017 KD 000's	2016 KD 000's
National labour support tax	8,176	7,263
Zakat	3,566	3,243
Contribution to Kuwait Foundation for the Advancement of Sciences	2,955	2,520
Overseas tax	12,007	15,785
	26,704	28,811

10 EARNINGS PER SHARE

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

	2017 KD 000's	2016 KD 000's
Profit for the year attributable to shareholders of the Bank	322,362	295,178
Less: Interest paid on Perpetual Tier 1 Capital Securities	(12,232)	(12,146)
Less: Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary attributable to shareholders of the Bank	(2,989)	(1,503)
	307,141	281,529
Weighted average number of shares outstanding during the year net of treasury shares (thousands)	5,816,429	5,717,886
Basic earnings per share	53 fils	49 fils

Earnings per share calculations for 2016 have been adjusted to take account of the bonus shares issued in 2017.

11 CASH AND SHORT TERM FUNDS

	2017 KD 000's	2016 KD 000's
Cash on hand	195,249	179,298
Current account with other banks	1,264,834	1,140,983
Money at call	183,985	260,366
Balances with the Central Bank of Kuwait	84,207	190,830
Deposits and Murabaha with banks maturing within seven days	1,015,365	915,486
	2,743,640	2,686,963

12 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2017	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Corporate	9,006,588	294,887	409,750	170,231	244,556	10,126,012
Retail	4,989,797	134	2,179	-	-	4,992,110
Loans, advances and Islamic financing to customers	13,996,385	295,021	411,929	170,231	244,556	15,118,122
Provision for credit losses						(615,513)
						14,502,609

2016	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Corporate	8,572,654	271,989	344,561	179,112	294,360	9,662,676
Retail	4,613,908	119	3,042	-	-	4,617,069
Loans, advances and Islamic financing to customers	13,186,562	272,108	347,603	179,112	294,360	14,279,745
Provision for credit losses						(668,254)
						13,611,491

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

Provisions for credit losses on cash facilities are as follows:

	Specific		General		Total	
	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Balance at beginning of the year	101,386	142,972	566,868	469,917	668,254	612,889
Provided during the year	89,809	30,398	84,821	96,951	174,630	127,349
Transfer	145,800	-	(145,800)	-	-	-
Amounts written off net of exchange movements	(227,369)	(71,984)	(2)	-	(227,371)	(71,984)
Balance at end of the year	109,626	101,386	505,887	566,868	615,513	668,254

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

	Corporate		Retail		Total	
	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Balance at beginning of the year	44,248	60,431	57,138	82,541	101,386	142,972
Provided during the year	69,495	14,153	20,314	16,245	89,809	30,398
Transfer	145,800	-	-	-	145,800	-
Amounts written off net of exchange movements	(216,055)	(30,336)	(11,314)	(41,648)	(227,369)	(71,984)
Balance at end of the year	43,488	44,248	66,138	57,138	109,626	101,386

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

	Specific		General		Total	
	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Cash facilities	89,809	30,398	84,821	96,951	174,630	127,349
Non cash facilities	20	(1,763)	301	97	321	(1,666)
Provision charge for credit losses	89,829	28,635	85,122	97,048	174,951	125,683

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

The available provision on non-cash facilities of KD 29,591 thousand (2016: KD 29,270 thousand) is included under other liabilities (Note 19).

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

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

	2017 KD 000's	2016 KD 000's
Loans, advances and Islamic financing to customers	214,092	183,005
Provisions	104,476	95,383

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2017 amounts to KD 85,643 thousand (2016: KD 63,838 thousand). The collateral consists of cash, securities, bank guarantees and properties.

13 FINANCIAL INVESTMENTS

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

2017	Held to maturity KD 000's	Available for sale KD 000's	Fair value through statement of income KD 000's	Total KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	138,493	1,745,472	-	1,883,965
Debt securities - Non Government	-	1,217,376	-	1,217,376
Equities	-	62,458	3,477	65,935
Other investments	-	145,789	35,931	181,720
	138,493	3,171,095	39,408	3,348,996
Central Bank of Kuwait bonds	655,591	-	-	655,591
Kuwait Government treasury bonds	919,218	156,993	-	1,076,211
	1,713,302	3,328,088	39,408	5,080,798

2016	Held to maturity KD 000's	Available for sale KD 000's	Fair value through statement of income KD 000's	Total KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	170,958	1,538,535	-	1,709,493
Debt securities - Non Government	-	1,172,713	-	1,172,713
Equities	-	85,354	2,987	88,341
Other investments	-	159,288	48,615	207,903
	170,958	2,955,890	51,602	3,178,450
Central Bank of Kuwait bonds	748,889	-	-	748,889
Kuwait Government treasury bonds	493,101	-	-	493,101
	1,412,948	2,955,890	51,602	4,420,440

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 495 thousand (2016: KD 563 thousand), which are recorded at cost since fair value cannot be reliably estimated.

An impairment loss of KD 518 thousand (2016: KD 9,027 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

14 INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2017 KD 000's	2016 KD 000's
Bank Syariah Muamalat Indonesia T.B.K.	20,326	31,150
Bank of London and the Middle East	31,777	29,564
Turkish Bank A.S.	4,762	4,884
United Capital Bank	2,784	4,581
Others	3,538	3,465
	63,187	73,644

	Country of incorporation	Principal business	% Effective ownership	
			2017	2016
Bank Syariah Muamalat Indonesia T.B.K.	Indonesia	Banking	30.5	30.5
Bank of London and the Middle East	United Kingdom	Banking	26.4	26.4
Turkish Bank A.S.	Turkey	Banking	34.3	34.3
United Capital Bank	Sudan	Banking	21.7	21.7

During the year the Group received dividend amounting to KD 34 thousand from associates (2016: KD 414 thousand).

During the year the Group provided KD 12,750 thousand (2016: KD 12,165 thousand) by way of impairment in respect of its associates, primarily consisting of KD 10,836 thousand (2016: KD 12,165 thousand) in respect of Bank Syariah Muamalat Indonesia T.B.K. The impairment in respect of Bank Syariah Muamalat Indonesia T.B.K. is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using market mutiples.

15 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill KD 000's	Intangible Assets KD 000's	Total KD 000's
Cost			
At 1 January 2017	**394,814**	**217,659**	**612,473**
Exchange rate adjustments	**3,089**	**766**	**3,855**
At 31 December 2017	**397,903**	**218,425**	**616,328**
Accumulated amortisation & impairment			
At 1 January 2017	**-**	**30,633**	**30,633**
Amortisation charge for the year	**-**	**3,121**	**3,121**
Exchange rate adjustments	**-**	**668**	**668**
At 31 December 2017	**-**	**34,422**	**34,422**
Net book value			
At 31 December 2017	**397,903**	**184,003**	**581,906**

	Goodwill KD 000's	Intangible Assets KD 000's	Total KD 000's
Cost			
At 1 January 2016	474,174	241,326	715,500
Exchange rate adjustments	(79,360)	(23,667)	(103,027)
At 31 December 2016	394,814	217,659	612,473
Accumulated amortisation & impairment			
At 1 January 2016	-	37,906	37,906
Amortisation charge for the year	-	4,362	4,362
Impairment charge for the year	-	5,442	5,442
Exchange rate adjustments	-	(17,077)	(17,077)
At 31 December 2016	-	30,633	30,633
Net book value			
At 31 December 2016	394,814	187,026	581,840

Net book value of goodwill as at 31 December 2017 includes KD 334,531 thousand (2016: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 60,483 thousand (2016: KD 57,341 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,889 thousand (2016: KD 2,942 thousand) in respect of Credit Bank of Iraq S.A.

15 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Net book value of intangible assets as at 31 December 2017 includes banking licences and brand amounting to KD 161,163 thousand (2016: KD 162,232 thousand), customer relationships and core deposits amounting to KD 16,130 thousand (2016: KD 17,923 thousand) and brokerage licences amounting to KD 6,710 thousand (2016: KD 6,871 thousand). Intangible assets with indefinite useful life amounts to KD 165,333 thousand (2016: KD 165,494 thousand). Intangible assets with definite useful life amounting to KD 18,670 thousand (2016: KD 21,532 thousand) are amortised over a period of 5 to 15 years.

Impairment testing for goodwill and intangible assets with indefinite useful life

The carrying value of goodwill and intangible assets with indefinite useful life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill or intangible assets might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations unless fair value based on an active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows are then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

Recoverable amount of goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of Boubyan Bank K.S.C.P. is allocated to a single CGU which consists of identifiable net assets including intangible assets of Boubyan Bank K.S.C.P. A discount rate of 8.75% (2016: 9.25%) and a terminal growth rate of 3.25% (2016: 3.25%) are used to estimate the recoverable amount of this cash generating unit. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 17% (2016: 18%) and a terminal growth rate of 5% (2016: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 9.25% (2016: 10%) and terminal growth rate of 3% (2016: 3%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin. Based on such analysis, there are no indications that goodwill or intangible assets with indefinite useful life are impaired.

16 OTHER ASSETS

	2017 KD 000's	2016 KD 000's
Interest receivable	78,303	56,683
Positive fair value of derivatives (Note 28)	27,680	45,183
Sundry debtors and prepayments	39,586	41,675
Investment properties	53,572	24,680
Properties acquired on settlement of debts	33,862	21,832
Others	16,993	11,362
	249,996	201,415

17 GLOBAL MEDIUM TERM NOTES

During the year, the Bank established a USD 3 billion Global medium term note programme ("GMTN programme"). On 30 May 2017, the Bank issued senior unsecured notes amounting to USD 750,000 thousand due in May 2022 under the GMTN programme through a wholly owned special purpose vehicle. These notes were issued at 99.491 per cent of nominal value and carry a fixed interest rate of 2.75% per annum payable semi-annually in arrears.

18 SUBORDINATED TIER 2 BONDS

On 18 November 2015, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD 125,000 thousand with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 4.75% per annum, payable semi-annually in arrears, for the first five years and will be reset for the subsequent period at the rate of 2.75% over the CBK Discount Rate (on the fifth year anniversary of date of issuance). Floating rate bonds carry an interest rate of 2.50% per annum over the Central Bank of Kuwait discount rate, reset semi-annually, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds and payable semi-annually in arrears. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions and regulatory approvals.

19 OTHER LIABILITIES

	2017 KD 000's	2016 KD 000's
Interest payable	97,852	74,144
Income received in advance	35,082	28,808
Taxation	19,176	20,605
Provision on non-cash facilities (Note 12)	29,591	29,270
Accrued expenses	36,645	32,367
Negative fair value of derivatives (Note 28)	54,123	42,550
Post employment benefit	34,114	30,653
Others	81,265	79,081
	387,848	337,478

Post Employment Benefit

The present value of defined benefit obligation was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation are a discount rate of 5%, future salary increases in line with expected consumer price inflation and appropriate mortality and disability rates.

20 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises of 6,000,000,000 (2016: 6,000,000,000) shares of KD 0.100 each.

	2017 KD 000's	2016 KD 000's
Issued and fully paid in cash:		
5,917,447,518 (2016 : 5,635,664,303) shares of KD 0.100 each	591,744	563,566

Annual General Assembly meeting of the shareholders held on 11 March 2017 approved an increase of KD 28,178,321.500 in the issued and fully paid share capital of the Bank by issuing 281,783,215 bonus shares representing 5% of the share capital. The issued and fully paid up share capital increased from KD 563,566,430.300 to KD 591,744,751.800 and the change in share capital was recorded in the commercial register on 19 March 2017.

20 SHARE CAPITAL AND RESERVES (continued)

a) Share capital (continued)

The movement in ordinary shares in issue during the year was as follows:

	2017	2016
Number of shares in issue as at 1 January	5,635,664,303	5,039,717,687
Bonus issue	281,783,215	251,985,884
Rights issue	-	343,960,732
Number of shares in issue as at 31 December	5,917,447,518	5,635,664,303

b) Statutory reserve

The Board of Directors recommended a transfer of KD 14,089 thousand (2016: KD 29,797 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

c) Share premium account

The balance in the share premium account is not available for distribution.

d) Treasury shares and Treasury share reserve

The Bank held the following treasury shares at the year end:

	2017	2016
Number of treasury shares	101,018,981	96,208,554
Treasury shares as a percentage of total shares in issue	1.7%	1.7%
Cost of treasury shares (KD thousand)	77,799	77,799
Market value of treasury shares (KD thousand)	73,542	62,536
Weighted average market value per treasury share (fils)	718	643

Movement in treasury shares was as follows:

	No. of shares	
	2017	2016
Balance as at 1 January	96,208,554	91,626,899
Bonus issue	4,810,427	4,581,344
Purchases	-	311
Balance as at 31 December	101,018,981	96,208,554

20 SHARE CAPITAL AND RESERVES (continued)

d) Treasury shares and Treasury share reserve (continued)

The balance in the treasury share reserve account is not available for distribution. Further, an amount equal to the cost of treasury shares is not available for distribution from general reserve throughout the holding period of these treasury shares.

e) Other reserves

							KD 000's
	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
At 1 January 2017	117,058	1,163,193	(237,915)	49,121	14,172	166,184	**1,271,813**
Profit for the year	-	322,362	-	-	-	-	**322,362**
Other comprehensive income	-	-	3,424	358	-	-	**3,782**
Total comprehensive income	**-**	**322,362**	**3,424**	**358**	**-**	**-**	**326,144**
Transfer to statutory reserve (Note 20b)	-	(14,089)	-	-	-	-	**(14,089)**
Dividends paid	-	-	-	-	-	(166,184)	**(166,184)**
Interest paid on perpetual Tier 1 Capital Securities	-	(12,232)	-	-	-	-	**(12,232)**
Share based payment in a subsidiary	-	-	-	-	209	-	**209**
Profit distribution on perpetual Tier 1 Sukuk by a subsidiary	-	(2,989)	-	-	-	-	**(2,989)**
Proposed bonus shares (Note 21)	-	(29,588)	-	-	-	-	**(29,588)**
Proposed cash dividend 30 fils per share (Note 21)	-	(174,493)	-	-	-	174,493	**-**
Change in effective holding in subsidiaries	-	(120)	-	-	-	-	**(120)**
At 31 December 2017	**117,058**	**1,252,044**	**(234,491)**	**49,479**	**14,381**	**174,493**	**1,372,964**

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20 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

							KD 000's
	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the year	-	295,178	-	-	-	-	295,178
Other comprehensive (loss) income	-	-	(158,166)	19,649	-	-	(138,517)
Total comprehensive income (loss)	**-**	**295,178**	**(158,166)**	**19,649**	**-**	**-**	156,661
Transfer to statutory reserve (Note 20b)	-	(29,797)	-	-	-	-	(29,797)
Dividends paid	-	-	-	-	-	(148,443)	(148,443)
Interest paid on perpetual Tier 1 Capital Securities	-	(12,146)	-	-	-	-	(12,146)
Transfer to cash settled share based compensation	-	-	-	-	(2,418)	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	287	-	287
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	(379)	-	-	-	-	(379)
Profit distribution on perpetual Tier 1 Sukuk by a subsidiary	-	(1,503)	-	-	-	-	(1,503)
Proposed bonus shares (Note 21)	-	(28,178)	-	-	-	-	(28,178)
Proposed cash dividend 30 fils per share (Note 21)	-	(166,184)	-	-	-	166,184	-
Other movements	-	(1,019)	-	-	-	-	(1,019)
At 31 December 2016	**117,058**	**1,163,193**	**(237,915)**	**49,121**	**14,172**	**166,184**	1,271,813

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable, except for the amount equivalent to the cost of treasury shares.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

21 PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 30 fils per share (2016: 30 fils per share) and bonus shares of 5% (2016: 5%) on outstanding shares as at 31 December 2017. The cash dividend and bonus shares, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

22 PERPETUAL TIER 1 CAPITAL SECURITIES

In April 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Capital Securities"), through a wholly owned special purpose vehicle, amounting to USD 700,000 thousand which are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. The Capital Securities are subordinated, unsecured and carry an interest rate of 5.75% per annum, payable semi-annually in arrears, until the first call date in April 2021. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date in April 2021 and on every interest payment date thereafter, subject to certain conditions.

23 NON-CONTROLLING INTERESTS

During 2015, Boubyan Bank K.S.C.P. (Boubyan Bank), a subsidiary of the Bank, issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250,000 thousand. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Boubyan Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Boubyan Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Dollar Mid Swap Rate plus initial margin of 5.588% per annum. At the issuer's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default. The Group did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non-controlling interest in the consolidated statement of financial position.

24 SHARE BASED PAYMENT

The Bank operates a cash settled share based compensation plan and granted options to its senior executives. These options vest if the employees remain in service for a period of three years and will be settled by cash payment determined based on the market value of the Bank's equity shares on vesting date.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.663 (2016: KD 0.612) as at the end of the year. The significant inputs into the model were a share price of KD 0.728 (2016: KD 0.660) at the measurement date, a standard deviation of expected share price returns of 25.27% (2016: 20.40%), option life disclosed above and annual risk free interest rate of 2.75% (2016: 2.5%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

24 SHARE BASED PAYMENT (continued)

The following table shows the movement in number of share options during the year:

	2017	2016
	No. of share options	No. of share options
Outstanding at 1 January	**6,051,992**	5,637,743
Granted during the year	**3,237,108**	2,197,905
Exercised during the year	**(2,091,184)**	(1,556,637)
Lapsed during the year	**(245,557)**	(227,019)
Outstanding at 31 December	**6,952,359**	6,051,992

Boubyan Bank K.S.C.P. operates an equity settled share based compensation plan and granted share options to its senior executives.

The expense accrued on account of share based compensation plans for the year amounts to KD 1,909 thousand (2016: KD 1,693 thousand) and is included under staff expenses.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuation techniques include discounted cash flow models, comparison with similar instruments for which market observable prices exist, recent transaction information and net asset values. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

2017	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	2,074,930	1,030,534	14,377	3,119,841
Equities and other investments	58,829	122,844	65,487	247,160
	2,133,759	1,153,378	79,864	3,367,001
Derivative financial instruments (Note 28)	-	(26,443)	-	(26,443)

2016	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	1,756,896	939,587	14,765	2,711,248
Equities and other investments	91,489	132,410	71,782	295,681
	1,848,385	1,071,997	86,547	3,006,929
Derivative financial instruments (Note 28)	-	2,633	-	2,633

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

	At 1 January 2017 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 31 December 2017 KD 000's	Net gains in the consolidated statement of income KD 000's
Debt securities	14,765	-	-	(377)	(11)	14,377	999
Equities and other investments	71,782	4,010	1,732	(11,420)	(617)	65,487	6,679
	86,547	4,010	1,732	(11,797)	(628)	79,864	7,678

	At 1 January 2016 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 31 December 2016 KD 000's	Net gains in the consolidated statement of income KD 000's
Debt securities	31,686	-	14,000	(30,929)	8	14,765	989
Equities and other investments	79,904	(9,677)	9,950	(8,771)	376	71,782	4,616
	111,590	(9,677)	23,950	(39,700)	384	86,547	5,605

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Debt securities included in this category consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow method using credit spread of 4% (2016: 4%). Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

26 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	Country of incorporation	Principal business	% Effective ownership	
			2017	2016
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	58.4	58.4
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	98.5	98.5
Watani Investment Company K.S.C. (Closed)	Kuwait	Investment Company	99.9	99.9
National Bank of Kuwait (International) plc	United Kingdom	Banking	100.0	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	100.0	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	85.5	85.5
Credit Bank of Iraq S.A.	Iraq	Banking	84.3	84.3
National Investors Group Holdings Limited	Cayman Islands	Investment Company	100.0	100.0
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	93.3	93.3

At 31 December 2017, 38.1% (2016: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in note 32.

26 SUBSIDIARIES (continued)

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2017 KD 000's	2016 KD 000's
Accumulated balances of non-controlling interest	304,112	293,211
Profit attributable to non-controlling interest	19,137	16,527

Summarised financial information of Boubyan Bank K.S.C.P. is as follows:

Summarised financial information	2017 KD 000's	2016 KD 000's
Assets	3,970,396	3,481,807
Liabilities	3,518,039	3,058,654
Net operating income	125,567	103,303
Results for the year	47,672	41,301
Other comprehensive loss for the year	(17)	(297)

Summarised cash flow information	2017 KD 000's	2016 KD 000's
Operating cash flow	175,392	(390,909)
Investing cash flow	(112,571)	(47,840)
Financing cash flow	(18,824)	60,870

27 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:

	2017 KD 000's	2016 KD 000's
Acceptances	144,001	115,668
Letters of credit	328,943	319,459
Guarantees	3,755,718	3,638,537
	4,228,662	4,073,664

Irrevocable commitments to extend credit amount to KD 713,129 thousand (31 December 2016: KD 786,888 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

27 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 60,019 thousand (31 December 2016: KD 105,426 thousand).

28 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to interest rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counterparties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Group exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity.

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

28 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2017			2016		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	20,989	37,845	1,947,427	25,992	30,117	1,376,449
Interest rate swaps (others)	962	926	91,050	1,450	1,404	84,811
Forward foreign exchange contracts	5,729	15,352	2,171,714	17,741	11,029	2,094,223
	27,680	54,123	4,210,191	45,183	42,550	3,555,483

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2017 is negative KD 16,856 thousand (2016: negative KD 4,125 thousand). Gain on the hedged fixed income financial assets amounted to KD 41,534 thousand (2016: KD 26,805 thousand).

29 RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		Number of related parties			
	2017	2016	2017	2016	2017 KD 000's	2016 KD 000's
Board Members						
Loans (secured)	3	4	15	16	125,328	155,598
Contingent liabilities	-	-	12	13	21,508	20,981
Credit cards	7	6	12	10	66	99
Deposits	9	8	69	67	37,184	32,090
Collateral against credit facilities	3	4	14	14	278,512	288,898
Interest and fee income					5,864	7,586
Interest expense					100	43
Purchase of equipment and other expenses					23	23

29 RELATED PARTY TRANSACTIONS (continued)

	Number of Board Members or Executive Officers		Number of related parties			
	2017	2016	2017	2016	2017 KD 000's	2016 KD 000's
Executive Officers						
Loans	4	3	6	3	2,795	2,702
Contingent liabilities	4	5	-	-	2	2
Credit cards	12	12	2	2	47	38
Deposits	13	13	31	33	3,782	2,910
Interest and fee income					100	90
Interest expense					5	-

Details of compensation to key management personnel are as follows:

	2017 KD 000's	2016 KD 000's
Salaries and other short term benefits	10,048	9,462
Post-employment benefits	517	514
Share based compensation	707	475
	11,272	10,451

Board members do not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

30 RISK MANAGEMENT

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

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

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

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

30 RISK MANAGEMENT (continued)

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

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

30.1 Credit risk

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

All significant policies relating to credit risks are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

30.1.1 Maximum exposure to credit risk

An analysis of loans, advances and Islamic facilities to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements, is as follows:

	2017		2016	
	Gross exposure KD 000's	Net exposure KD 000's	Gross exposure KD 000's	Net exposure KD 000's
Loans, advances and Islamic financing to customers	14,502,609	9,815,314	13,611,491	9,063,108
Contingent liabilities	4,228,662	4,020,092	4,073,664	3,939,330

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

30.1.2 Risk concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2017 is 17% (2016: 16%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

2017 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	2,674,244	1,085,400	992,856	284,079	-	5,036,579
Central Bank of Kuwait bonds	655,591	-	-	-	-	655,591
Kuwait Government treasury bonds	1,076,211	-	-	-	-	1,076,211
Loans, advances and Islamic financing to customers	13,394,320	291,674	405,990	168,554	242,071	14,502,609
Held to maturity investments	123,234	-	-	15,259	-	138,493
Available for sale investments	2,287,985	44,212	107,725	502,753	20,173	2,962,848
Other assets	123,877	2,486	31,569	3,227	1,403	162,562
	20,335,462	1,423,772	1,538,140	973,872	263,647	24,534,893
Commitments and contingent liabilities (Note 27)	2,458,973	307,776	1,358,135	767,990	48,917	4,941,791
	22,794,435	1,731,548	2,896,275	1,741,862	312,564	29,476,684

30 RISK MANAGEMENT (continued)
30.1 Credit risk (continued)
30.1.2 Risk concentration of the maximum exposure to credit risk (continued)

2016 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	2,770,929	1,087,006	656,737	400,908	-	4,915,580
Central Bank of Kuwait bonds	748,889	-	-	-	-	748,889
Kuwait Government treasury bonds	493,101	-	-	-	-	493,101
Loans, advances and Islamic financing to customers	12,533,231	269,013	343,165	174,628	291,454	13,611,491
Held to maturity investments	158,504	-	-	12,454	-	170,958
Available for sale investments	1,890,777	52,668	175,575	555,225	37,003	2,711,248
Other assets	104,006	6,836	40,895	1,978	1,188	154,903
	18,699,437	1,415,523	1,216,372	1,145,193	329,645	22,806,170
Commitments and contingent liabilities (Note 27)	2,432,241	256,158	1,256,892	900,991	14,270	4,860,552
	21,131,678	1,671,681	2,473,264	2,046,184	343,915	27,666,722

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2017 KD 000's	2016 KD 000's
Industry sector		
Trading	**2,300,304**	2,267,746
Manufacturing	**2,224,598**	1,748,147
Banks and other financial institutions	**9,224,294**	9,137,352
Construction	**1,308,088**	1,304,291
Real Estate	**3,078,956**	2,947,829
Retail	**4,869,811**	4,507,414
Government	**3,318,470**	2,485,983
Others	**3,152,163**	3,267,960
	29,476,684	27,666,722

30.1.3 Credit quality per class of financial assets

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

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

2017	Neither past due nor impaired			
	High KD 000's	Standard KD 000's	Past due or impaired KD 000's	Total KD 000's
Balances and short term deposits with banks	2,548,391	-	-	2,548,391
Central Bank of Kuwait bonds	655,591	-	-	655,591
Kuwait Government treasury bonds	1,076,211	-	-	1,076,211
Deposits with banks	2,299,426	188,762	-	2,488,188
Loans, advances and Islamic financing to customers	13,154,016	1,644,268	319,838	15,118,122
Held to maturity investments	15,258	123,235	-	138,493
Available for sale investments	1,822,560	1,140,288	-	2,962,848
	21,571,453	3,096,553	319,838	24,987,844

2016	Neither past due nor impaired			
	High KD 000's	Standard KD 000's	Past due or impaired KD 000's	Total KD 000's
Balances and short term deposits with banks	2,507,665	-	-	2,507,665
Central Bank of Kuwait bonds	748,889	-	-	748,889
Kuwait Government treasury bonds	493,101	-	-	493,101
Deposits with banks	2,230,960	176,955	-	2,407,915
Loans, advances and Islamic financing to customers	11,626,334	2,381,425	271,986	14,279,745
Held to maturity investments	12,454	158,504	-	170,958
Available for sale investments	2,255,252	455,996	-	2,711,248
	19,874,655	3,172,880	271,986	23,319,521

30 RISK MANAGEMENT (continued)
30.1 Credit risk (continued)

30.1.4 Ageing analysis of past due or impaired loans, advances and islamic financing to customers

	Corporate		Retail		Total	
2017	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's
Up to 30 days	30,092	1,678	41,061	-	71,153	1,678
31-60 days	6,551	158	18,252	-	24,803	158
61-90 days	7,018	-	2,772	-	9,790	-
91-180 days	-	42,882	-	23,794	-	66,676
More than 180 days	-	73,915	-	71,665	-	145,580
	43,661	118,633	62,085	95,459	105,746	214,092

	Corporate		Retail		Total	
2016	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's
Up to 30 days	4,500	2,793	36,541	-	41,041	2,793
31-60 days	13,261	-	16,983	-	30,244	-
61-90 days	15,078	-	2,618	-	17,696	-
91-180 days	-	37,984	-	20,138	-	58,122
More than 180 days	-	58,673	-	63,417	-	122,090
	32,839	99,450	56,142	83,555	88,981	183,005

Of the aggregate amount of gross past due or impaired loans, advances and Islamic financing to customers, the fair value of collateral that the Group held as at 31 December 2017 was KD 91,283 thousand (2016: KD 75,586 thousand).

30 RISK MANAGEMENT (continued)

30.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2017	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Assets				
Cash and deposits with banks	5,007,709	169,660	54,459	5,231,828
Central Bank of Kuwait bonds	429,162	226,429	-	655,591
Kuwait Government treasury bonds	54,833	145,648	875,730	1,076,211
Loans, advances and Islamic financing to customers	4,490,941	1,775,826	8,235,842	14,502,609
Held to maturity investments	43,812	56,556	38,125	138,493
Available for sale investments	603,357	211,760	2,355,978	3,171,095
Investments carried at fair value through statement of income	39,408	-	-	39,408
Investment in associates	-	-	63,187	63,187
Land, premises and equipment	-	-	324,277	324,277
Goodwill and other intangible assets	-	-	581,906	581,906
Other assets	104,922	35,773	109,301	249,996
	10,774,144	2,621,652	12,638,805	26,034,601
Liabilities and equity				
Due to banks and other financial institutions	5,158,633	1,604,734	705,936	7,469,303
Customer deposits	11,338,972	1,936,062	504,573	13,779,607
Certificates of deposit issued	394,749	91,559	4,527	490,835
Global medium term notes	-	-	221,173	221,173
Subordinated Tier 2 bonds	-	-	124,734	124,734
Other liabilities	285,280	449	102,119	387,848
Share capital and reserves	-	-	2,854,898	2,854,898
Proposed cash dividend	174,493	-	-	174,493
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	321,010	321,010
	17,352,127	3,632,804	5,049,670	26,034,601

30 **RISK MANAGEMENT** (continued)
30.2 **Liquidity risk** (continued)

2016	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Assets				
Cash and deposits with banks	4,782,330	258,957	53,591	5,094,878
Central Bank of Kuwait bonds	544,722	204,167	-	748,889
Kuwait Government treasury bonds	66,871	144,012	282,218	493,101
Loans, advances and Islamic financing to customers	4,489,373	1,567,813	7,554,305	13,611,491
Held to maturity investments	23,184	86,692	61,082	170,958
Available for sale investments	456,395	412,713	2,086,782	2,955,890
Investments carried at fair value through statement of income	51,602	-	-	51,602
Investment in associates	-	-	73,644	73,644
Land, premises and equipment	-	-	255,086	255,086
Goodwill and other intangible assets	-	-	581,840	581,840
Other assets	91,726	35,682	74,007	201,415
	10,506,203	2,710,036	11,022,555	24,238,794
Liabilities and equity				
Due to banks and other financial institutions	4,985,624	1,509,419	852,760	7,347,803
Customer deposits	10,420,857	1,810,620	376,615	12,608,092
Certificates of deposit issued	281,566	134,423	-	415,989
Subordinated Tier 2 bonds	-	-	124,700	124,700
Other liabilities	244,557	1,834	91,087	337,478
Share capital and reserves	-	-	2,718,379	2,718,379
Proposed cash dividend	166,184	-	-	166,184
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	309,469	309,469
	16,098,788	3,456,296	4,683,710	24,238,794

30 RISK MANAGEMENT (continued)
30.2 Liquidity risk (continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

2017	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Financial Liabilities				
Due to banks and other financial institutions	5,159,461	1,620,848	738,165	7,518,474
Customer deposits	11,354,114	1,973,989	561,704	13,889,807
Certificates of deposit issued	395,310	92,708	4,742	492,760
Global medium term notes	-	6,224	247,939	254,163
Subordinated Tier 2 bonds	-	6,250	168,048	174,298
	16,908,885	3,700,019	1,720,598	22,329,502
Contingent liabilities and commitments				
Contingent liabilities	870,969	1,130,897	2,226,796	4,228,662
Irrevocable commitments	118,216	140,253	454,660	713,129
	989,185	1,271,150	2,681,456	4,941,791
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	1,595,679	460,016	197,832	2,253,527
Contractual amounts receivable	1,597,771	458,247	196,146	2,252,164

2016	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Financial Liabilities				
Due to banks and other financial institutions	4,998,573	1,527,916	886,416	7,412,905
Customer deposits	10,431,268	1,837,137	408,186	12,676,591
Certificates of deposit issued	282,388	134,913	-	417,301
Subordinated Tier 2 bonds	-	6,035	173,065	179,100
	15,712,229	3,506,001	1,467,667	20,685,897
Contingent liabilities and commitments				
Contingent liabilities	817,517	1,065,384	2,190,763	4,073,664
Irrevocable commitments	82,921	309,724	394,243	786,888
	900,438	1,375,108	2,585,006	4,860,552
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	1,807,064	235,010	135,040	2,177,114
Contractual amounts receivable	1,804,471	235,471	145,539	2,185,481

30.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

30.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and most exposures arising on medium term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board of Directors and adjusted where necessary, to reflect the changing market conditions.

Interest rate sensitivity

Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity on equity is the impact arising from changes in interest rate on fair value of available for sale investments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

		2017		2016	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
Currency	Movement in Basis points				
KWD	+25	7,729	-	7,534	-
USD	+25	728	(69)	632	(114)
EUR	+25	1,930	-	915	(5)
GBP	+25	1,029	-	827	-
EGP	+25	328	-	298	-

30.3.2 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. In general assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

30 RISK MANAGEMENT (continued)
30.3 Market risk (continued)
30.3.2 Foreign exchange risk (continued)

The table below analyses the effect on profit of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase.

		2017	2016
Currency	% Change in currency rate	Effect on profit KD 000's	Effect on profit KD 000's
USD	+5	181	(412)
GBP	+5	(2)	40
EUR	+5	34	214
EGP	+5	(181)	(127)
Other	+5	(53)	(42)

30.3.3 Equity price risk
Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through statement of income) and on equity (as a result of change in the fair value of equity investments held as available for sale) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2017		2016	
Market indices	% Change in equity price	Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
Kuwait stock exchange	+5	-	219	-	949
Saudi stock exchange	+5	-	512	-	475
UAE stock indices	+5	-	264	-	309

30.4 Operational risk
Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

31 CAPITAL

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are, also, governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2017 KD 000's	2016 KD 000's
Risk Weighted Assets	16,591,706	15,631,316
Capital required	2,488,756	2,344,697
Capital available		
Common Equity Tier 1 capital	2,362,174	2,202,176
Additional Tier 1 capital	253,048	247,904
Tier 1 capital	2,615,222	2,450,080
Tier 2 capital	337,052	323,472
Total capital	2,952,274	2,773,552
Common Equity Tier 1 capital adequacy ratio	14.2%	14.1%
Tier 1 capital adequacy ratio	15.8%	15.7%
Total capital adequacy ratio	17.8%	17.7%

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/342/2014 dated 21 October 2014 is shown below:

	2017 KD 000's	2016 KD 000's
Tier 1 capital	2,615,222	2,450,080
Total exposures	28,394,001	26,510,797
Leverage ratio	9.2%	9.2%

32 FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2017, funds under management were KD 3,892 million (2016: KD 3,614 million).

GROUP DIRECTORY

Head Office

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P.O.Box: 95, Safat
13001 Kuwait
Tel: +965 2242 2011
Fax: +965 2243 1888

Consumer Banking Group

Retail Banking
Ext: 3034
Fax: 2241 6738

Domestic Branches
Ext: 2592
Fax: 2246 7929

Alternative Channels
Ext: 3393
Fax: 2246 7929

Direct Sales
Ext: 5003
Fax: 2259 5522

Consumer Lending
Ext: 3171
Fax: 2224 6865

Marketing
Ext: 3036
Fax: 2259 5679

Consumer Credit Collection
Ext: 2181
Fax: 2259 5671

Private Banking Group
Ext: 2226
Fax: 2241 8415 or
2224 6619

Domestic Corporate Banking
Ext: 2116
Fax: 2224 6643

Foreign Corporate, Oil and Trade Finance Group
Ext: 2307
Fax: 2242 6813

Treasury Group
Ext: 3566
Fax: 2241 9720

Credit Risk Management Group
Ext: 2417
Fax: 2246 4162

Economic Research Group
Ext: 5364
Fax: 2224 6973

Legal Affairs Group
Ext: 3091
Fax: 2244 5098

Human Resources
Ext: 5162
Fax: 2244 3250

International Banking Group

Regional Institutional Banking
Ext: 5328
Fax: 2224 6977

Please refer to international network for a complete listing

Operations Group
Ext: 3060
Fax: 2245 9233

Information Technology Group
Ext: 2711
Fax: 2245 9233

Group Financial Control
Ext: 3009
Fax: 2242 2730

International Legal Affairs
Ext: 2065
Fax: 2243 6208

Executive Office
Ext: 2230
Fax: 2246 2469

Public Relations
Ext: 3166
Fax: 2259 5804

Media Relations
Ext: 2259 2789
Fax: 2246 2469

Advertising
Ext: 2665
Fax: 2259 5805

Group Internal Audit
Ext: 5400
Fax: 2243 3835

LOCAL BRANCHES

Ahmadi
Ahmed Al-Jaber
Airport
Ali Sabah Al-Salem
Al Hamra Tower
Al Rihab
Al Tadhamoun (Farwaniya)
Andalus
Ardiya
Arraya 2
Avenues
Bayan
Camp Arifjan
Cinema Al-Salmiya
Dahyat Abdullah Al-Salem
Daiyah
Dasma
Doha
Fahad Al-Salem
Fahaheel
Fahaheel Al Sahely
Faiha
Farwaniya

Fintas
Ghazali
Grand Avenues
Hadiya
Hawalli
Kheitan
Jabriya
Jahra
Jahra Commercial Branch
Jleeb Al-Shuyoukh
Kaifan
Kuwait National Petroleum Company
Kuwait Oil Company
Kuwait Petroleum
Corporation
Ministries Complex
Mishref
MTC Headquarters
Mubarak Al-Kabeer
Nuzha
Othman
Qadisiya
Qurain

Qurtuba
Ras Al-Salmiya
Rawdha
Riqqa
Rumaithiya
Saad Al-Abdullah
Sabah Al-Nasser
Sabah Al-Salem
Sabahiya
Sabhan
Salmiya
Salwa
Shamiah
Sharq
Shuwaikh
Shuwaikh Medical
Social Security (PIFSS)
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South Surra
Surra
Watya
Yarmouk

Head Office Tel.: 2242 2011

Call Center Tel.: 1801801

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